

Do traditional measures of economic performance really satisfy the needs of citizens for a better society?

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Abstract

Purpose-To present a reasoned critique of traditional measurements of wellbeing in society and offer alternative measurements for the increasingly more global economy of today

Design- Analysis of theories of growth and measurement.

Findings- Traditional growth measures leave out many important factors which are increasingly more important to citizens including health, education and whether improvements in wellbeing can continue in the longer term.

Originality-Highlights the limitations of the concept of growth with regards to the desires of citizens.

Keywords Growth , Happiness, Wellbeing of Citizens

Paper type Viewpoint

Much has been written on the benefits to be achieved from expanding wealth and prosperity. Increasingly though we wish to compare ourselves with other countries using other factors as well as income and wealth. We need to question what are our human needs and how would we measure this in the advancing times of globalisation where more data is now available? .This article will draw on theories of consumption and evaluate traditional economic goals. It will then draw on what Development Economists and social policy theorists advocate and then provide available new and exciting data that needs to be taken into account from these multidisciplinary areas in order to establish our current needs in society.

Traditionally economists assumed there is a need for us to maximise our profits and utility .Profit can be maximised to the point where our marginal costs ie the cost of producing one extra unit are equal to marginal revenue, the money received from producing one extra unit. Theorists including Cyert 1963 have shown that managers have other goals other than profit maximisation and these could be managerial prestige or maximising the size and influence of a company .Davis 2007 has gone further to suggest that what we really require from society is respect from our peers as well as making enough money to survive and attain a certain standard of living.

Coalition theory suggests that objectives of firms often involve striking a balance between the various political players in the board room. Often this results in achieving a consensus where balanced growth becomes the main objective for business and society. There may therefore be lessons to be learnt from behavioural theory in pinpointing the needs of a society.

Further limitations to using traditional measures of growth

There are also further limitations of using growth as a variable for happiness. Growth is a measure of output and when this is increasing it is assumed by economists that everyone will feel better off in a particular society, government will be able to spend more, people will have the income to consume and invest more. For example an average figure will hide the extremes, this is illustrated in the case of China where growth is around 10% according to the World in 2010 though in some parts of China growth may take place at 20% but in other regions there will be no growth at all.

There may also be inaccuracy in data collection due to problems of double counting and corruption. There have also been a number of revised GDP economic forecasts for the UK economy. According to The Times April 2010 the GDP forecast for the UK on the last quarter was revised upwards from 0.1 to 0.4%. Indeed corruption indices are now compiled on a countrywide perspective to give us further insight into the limitations of country specific data.. To ease some of these concerns GDP per head has also been introduced as a measure so as to reflect the fact that although some countries have high growth rates today such as China, they are starting from a much

lower base than Western countries and the catch up phase may take many years. Also it is important to be aware of currency values and how cost of living varies across countries. In poorer countries often goods may be cheaper as a result of taxation or variations on the costs of employing people. Often new measures are considered to measure standards of living and local prices, for example the cost of buying a Mac Donalds Big Mac is sometimes used as a proxy measure.

In other ways Economic welfare is a limited measure of happiness and wellbeing in that it leaves out such factors of life expectancy and education levels of the population. It has also been suggested by the New Economics Foundation that maximising productivity and output may not be the best thing for society. If for example people only worked for 21 hours a week there would be a large fall in unemployment and people could do more worthwhile tasks according to the study. However output still needs to rise to achieve growth and improved national wealth and income regardless of whether more or less people are actually working. It has also been shown that higher growth can often lead to higher accommodation cost and overcrowding as well as increased stress levels. More growth and further globalisation also lead to increased pollution, increase in people trafficking and child labour as well as an increase in pollution levels. The banking crisis also has its origins in the increased level of globalisation activities. Stiglitz 2010 argues for more regulation in view of the expanding globalisation process.

More recently data has come available on other factors influencing society to counteract the above problems. There has firstly been the introduction of the human development index. This was introduced by the United Nations in 1990. This index

combines adult literacy and life expectancy with income levels to give a better indicator of human development than conventional GDP and helps to disguise extremes which may be more incorporated in GDP figures. Education has become a fundamental component of government policy and is seen as key to economic development in human capital theory and the work of Porter 1998. Education has also helped more women to enter the world of work and in Countries such as the UK there are more numbers of women entering higher education than men. Greater equality in the work place has also been championed by the European Union and USA and is becoming much more important on a global basis as the World draws in greater amounts of skill into economic development.

There are further factors that may influence the happiness of individuals choosing to live in a country. It could be the ratio of male to female as well as the infrastructure available. In addition society is also interested in freedom of speech. Population growth is also useful to know to help with future planning and estimate whether the government and business can provide enough investment to cope with population changes. Most people on average only change jobs every seven years so some planning may be necessary to ensure people feel comfortable with the standard of living provided.

Recent useful measurements of wellbeing

There are also a variety of other factors that people consider with regards to their wellbeing. For example expatriates have stated that one of the important pull factors for living in Hong Kong has been the low level of crime according to Segal 1997. Data is now also compiled on drug and alcohol use to help explore this factor further.

In some ways however it is difficult to measure happiness since different people may give varying values for the factors considered. Indeed future research could find an average figure for these factors across a sample of people to help provide future insights into the subject.

Economists have also been concerned with the study of the broad aggregates, unemployment, inflation, government deficits as well as levels of growth. Inflation figures help to give an indication of stability of prices within the economy, this helps us understand whether growth is sustainable in the long run. Higher inflation is often associated with higher growth according to Sloman 2008. During periods of rising output there is more pressure on finding the resources for achieving these results. More recently government has exerted a more favourable control over inflation and this has occurred globally. Reduced trade union power and the forces of global competition have drastically reduced wage inflation according to Floyd 2006. There have also been many documented problems of inflation measurement, for example the consumer price index measure takes out house prices whereas the retail price measure allows for inclusion. There have been further concerns over the weightings given to the prices of various goods. In a similar way it is important to understand the budget balance in order to see how sustainable growth may be. For example, if there is high borrowing for some time government may lose credibility, this will then lead to

government having to borrow at higher rates of interest. Consequently increased flows of money will be required to pay for higher interest rates and the more money in the economy may lead to a decrease in desire of people to purchase the currency and currency value will then fall. With a falling currency it becomes more costly for society to buy imported goods and therefore standards of living will then fall. It is therefore important to point out the links between macroeconomic variables and the necessity to use monetary and fiscal policy in order to achieve favourable economic data. Currency fluctuations can easily change levels of GDP and wealth for example in 2008 the value of the Pound fell by almost 20% placing the UK behind France and Germany in terms of GDP per head in a very short period of time .It is therefore important to look at both medium and long term statistics when measuring wellbeing.

In addition data is now provided on competitiveness and government efficiency.

However there are problems of measuring efficiency in services and government provision, for example numbers of patients treated in hospitals may be a poor measure if the quality of service is poor and people have to return to hospital at a later date. Le Grand 2006 goes further in suggesting that health provision varies across region as well as country and to some extent people may experience a post code lottery and therefore not always achieve an adequate standard of service. In addition with more private care being now provided one might also question how their motives may vary from traditional government providers.

McManus 1999 has also showed the difficulty in measuring the efficiency of greater service activity evident today in the economy and performance indicators are not always without bias.

Data has also become available on currency values and budget spending .This then helps us to understand the numerous factors that influence our wellbeing. To reflect the true level of happiness in society it is necessary to draw on this variety wide of informative data suggested in this paper. Indeed many countries may have important pull factors but these need to be off set by the various drawbacks associated with living in a particular country. The following examples may be useful in illustrating the point.

Many countries including USA, Singapore and Hong Kong offer low taxes according to Backman 2006. This may provide a good incentive to work there. However costs of housing may be high in some cases and also education and health may be provided less than in Europe. Higher taxes in Europe may therefore not always be seen as a drawback for some citizens .Employment figures provide a further an important indication of happiness. Unemployment of less than 5% of those able and willing to work is the main goal of most governments. However this figure may hide such factors as those in part time work or education and in some cases the figures may seem misleading.

Conclusion

It can be shown that there are many factors that influence the well being of the population. Table one helps to show the important factors that need to be considered in addition to general levels of growth. The countries include a sample of emerging market and developed countries. This helps provide information on current trends and desires as wealth and high levels of growth focuses more towards the East. Sweden has also been included since it has often been shown to be a country with favourable levels of income and welfare provision. These factors have been considered throughout the paper. GDP per head is an important measure and will continue to be so in making monetary comparisons. However, we also cover the human development index in the table to recognize the importance of skills and education so widely spoken by politicians these days. Sweden seems to appear favourable in this measure combining a highly skilled labour force with good social provision. Canada has a similar profile in this respect. However as other countries catch up in terms of growth and move up the value chain Sweden's position may be challenged. Health spending again in a similar way is often an issue where general elections are fought on and the importance to the population needs to be reflected on in compiling new methods of measuring contentment in society. Healthcare expenditure in USA is higher than most countries though many other countries including Sweden and Japan spend less and have a higher life expectancy. This may be due to poor diet and the need for healthcare reform in the USA. Also income inequality may have an influence on this partly reflected by the lower levels of taxation in USA compared to European countries. As has been shown though the population are now looking for efficiency in

government spending and are demanding good standards of service across all regions of the country, performance indicators can help to achieve this to some extent but also have limitations. Public sector theorists such as Musgrave 1980 have also shown that as the public sector has grown the population expects more services to be offered and often see provision such as child benefits and pensions as continuous. The current economic crisis is proving very difficult for governments to trim welfare and they are hoping on continued growth to pay for provision.

These factors also figure extremely high on government expenditure. Also knowledge of the level of crime is important to convince people that the system is safe and viable in the long term. Finally it is also important to consider population growth. Again this needs to be taken into account in order to convince people that happiness can be maintained in the longer term and it also helps in the planning of individual budgeting. Such rich data is now becoming available and needs to be more widely used in order to understand the importance what makes society better off. Indeed the process of globalisation has influenced society greatly and made people start to reevaluate what is important to them in society .While the factors considered in this paper we feel to be realistic in today's society there are some limitations. Future generations are likely to have different value systems so there may be a time to reevaluate the issue again. .It is also likely that data available may further improve as has been shown in this paper and further adjustments to the measures may be required. There is further potential for looking at the significance of other cultural factors and their influence on wellbeing as shown in the work of Hofstede 1994 . Finally it is important to state that not all people act rationally and value factors in the same way.

Table 1 Measures of Wellbeing

Country	Healthcare Spending	GDP Per Head	Crime	Human Development Index	Population Growth
USA	15%	\$43700	3246	95	395
UK	8%	\$39700	<25	94.6	67.1
China	4.7%	\$2000		77.7	1392
Germany	10.7%	\$35000	< 25	93.5	78.8
Japan	8.2%	\$34000	<25	95.3	112
Sweden	9.2%	\$42180	<25	95.6	

Note 1 population for Japan 128million , China 1323million UK 60million USA 301 million Germany 82.7 million (figures from 2006)

Note 2

GDP per head based on 2008 figures

Health spending %of GDP

Crime includes number of people on death row in 2008

Human Development Index 2008 includes GDP per head

combined with adult literacy and life expectancy

Population Growth Millions by 2050

Note 3 Source all figures from Pocket World in Figures 2009, The Economist

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