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<td>Kuah, Adrian W. J</td>
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Economic Policymaking and the Pursuit of Happiness

By Adrian W. J. Kuah

Synopsis

Economic policymakers have traditionally used GDP figures to evaluate both the performance of the economy as well as the efficacy of their policies. Alternative and broader economic measures that incorporate well-being, or happiness, suggest that the focus on GDP figures and the resulting pursuit of narrowly defined economic growth has led to a neglect of broader societal well-being.

Commentary

A RECENT WEALTH Report put out by Citi Private Bank and Knight Frank placed Singapore at the top of the Gross Domestic Product (GDP) per capita charts in 2010 at close to US$57,000. Is this an accurate reflection of the prosperity and progress of the country? Or should it arouse suspicion that it is missing the bigger picture of the nation’s happiness?

There have been a long line of calls for a move beyond GDP figures and to incorporate more subjective well-being, or happiness, measures into the mainstream of economic policy making. The latest was made by Ben Bernanke, Chairman of the US Federal Reserve Board, in a speech to the International Association for Research in Income and Wealth on 6 August 2012 in Cambridge, Massachusetts.

He remarked that if the main goal of economics is to understand and promote well-being, then economic measurements must surely encompass indicators of well-being and its determinants. He noted the failure of conventional economic indicators, chiefly GDP figures, to meaningfully convey the trauma that recent economic crises have had on individuals, families and societies.

Chairman Bernanke’s remarks were met with generally positive reactions, and no shortage of bemusement. Positive, because the post-Great Recession world is one that is deeply disenchanted with conventional approaches to economics; bemusement, because ‘happiness’, that elusive and intangible quality, is surely no practical guide nor proper goal for the serious policymaker. Or is it?

Lest we forget, happiness lies at the heart of many a statement of national aspirations and ethos. The United States Declaration of Independence puts it front and centre: “…that all men are created equal, that they are endowed by their Creator with certain inalienable Rights, that among these are Life, Liberty and the pursuit of Happiness.” And closer to home, the Singapore National Pledge ends with “…so as to achieve happiness, prosperity and progress for our nation.”

Lies, Damned Lies, and Statistics
That happiness should be a component of the bigger economic calculus can be traced to the Kingdom of Bhutan in the 1970s eschewing GDP statistics in favour of a Gross National Happiness figure, an aggregation of economic, social, cultural and environmental indices. No longer a quaint idea, an economics of happiness is now emerging in various policymaking circles.

The UK’s Office of National Statistics, for example, has an ongoing programme to develop new ways of measuring national well-being which incorporates quality of life, environmental and sustainability issues, and broad-based economic performance. A policymaking heavyweight like Ben Bernanke throwing his heft behind the concept of ‘the happiness economy’ amidst current global and domestic economic turmoil reveals the limitations of current economic measures and practices.

The drive to go beyond GDP speaks not only of the deficiencies of such sweeping, obfuscating figures, but also reflects the rise of new drivers of socio-economic growth that are simply not captured by a macroeconomic statistic. Aggregate statistics can paint a picture, in broad brushstrokes, of a recovering economy, while leaving untold the many difficulties that individuals and households continue to suffer long after the so-called recovery is in place. Furthermore, it is becoming clear that the major problems of the last 20 years, such as the real drops in living standards, the rising income inequality, eroding societal infrastructure and national competitiveness, in fact make a mockery of the conventional market measures that policymakers and the wider public have been using to track their progress.

Alternatives “Beyond GDP”: What to Count?

There is clearly a need for metrics that go beyond GDP that will allow policymakers to understand and address issues such as the distribution of income and benefits within society, the demand for natural resources that are highly prone to market failures, and non-market sectors such as education and health that are the critical foundations of the knowledge economy.

There is no shortage of alternative measures: the Genuine Progress Indicator, developed by environmental economists, incorporates factors such as crime rates, social equality, levels of volunteerism, environmental renewability, leisure time, all of which affect individual and societal well-being. Another measure is the Happy Planet Index, developed by the New Economics Foundation, which accounts for life satisfaction and life expectancy, as well as the ecological footprint of trying to maximise both.

The existence of so many competing approaches shows how difficult it is to measure happiness. However, saying that something is difficult to measure is not the same as saying it cannot be measured, and is certainly not a valid reason to not try. Given the challenge of trying to balance the various determinants of well-being, any practical policy-relevant measure will likely take the form of a matrix or report card, with a number of irreducible categories along with an overall average mark, rather than the single, unambiguous GDP metric that policymakers are more accustomed to.

In Singapore, given how the post-independence economic discourse has moved from growth to development, from standard of living to quality of life, taking on board holistic, extra-economic metrics of progress has never been more critical. This is especially so when Singapore’s knowledge economy is underpinned by human capital, itself driven by non-market goods such as education, liveability and health.

To be fair, this shift away from GDP figures and growth rates has been occurring for some time, best illustrated in how the National Day Rally speech has evolved from an annual economic update to a broader state-of-the-nation address highlighting achievements ranging from sports, business, cultural, academic and so on. In fact, this modest-though-crucial acknowledgement that extra-economic issues are as salient, if not more so, than economic ones can be traced to the 1999 Singapore 21 Vision report that called on Singaporeans to make “Singapore, our best home”.

The economy will continue to remain important. These, after all, are bread and butter issues for policymakers and the public alike. But if notions of well-being and happiness are important, along with associated ideas of connectedness, sustainability, liveability and life satisfaction, then policymakers need to stop fixating on the hard figures of GDP, and start using more broad-based measures to guide policies, even though such measures are messier and more problematic. For a start, where would Singapore stand in the Gross National Happiness index?

Adrian W. J. Kuah is an Assistant Professor at the S. Rajaratnam School of International Studies, Nanyang Technological University.