WELLBEING AND POLICY

EXECUTIVE SUMMARY

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Gross Domestic Product (GDP) – the total monetary value of the goods and services we produce – is deeply entrenched as the prime measure of a country's progress. But a growing band of political leaders (including the German Chancellor, Angela Merkel; the British Prime Minister, David Cameron; and the former French President, Nicolas Sarkozy) have recognised its inadequacies. Not only does GDP fail to reflect the distribution of income, it omits intangibles, or feelings, that are not easily reducible to monetary values. There is growing recognition that the measures of a country's progress need to include the wellbeing of its citizens.

This report looks at how we can make this happen. It lays out the case for using wellbeing as the overall measure of prosperity, and therefore as the yardstick for public policy. We start by defining wellbeing, then we look at how to measure it, and explore the factors that affect it. This leads to the heart of the report: the ways in which understanding of wellbeing can improve public policy.

Wellbeing is a subjective personal experience, but it can be measured. We consider three main measures:

- How do you feel (i.e. how *happy* are you)?
- How do you evaluate your life (i.e. how *satisfied* are you with your life)?
- Do you feel your life is *worthwhile* (i.e. the so-called eudaimonic measure)?

We discuss these measures in chapters 1 and 2. Our conclusion is that, in general, the second question (relating to satisfaction) produces the results most relevant to policy evaluation.

How should that evaluation be carried out? The current system is based on a monetary cost-benefit analysis (CBA). It is assumed that market prices indicate the worth of goods and services, at the margin, and so using market prices to add up costs and benefits works well. Political leaders, of course, will always temper this analysis with their own judgements of electoral appeal, or 'feelgood factor', but the process is not helped by the weaknesses in the basic CBA.

Besides ignoring distributional issues, which need to be added in separately, such an approach has difficulty with goods and services that do not have market prices, or whose prices do not appropriately reflect the broader value which people ascribe to them. There are many examples in policy areas such as health, social care, law and order, and income distribution.

This is one reason why the state is so heavily involved in such areas, as here it is not always possible to make a well-informed choice in a well-functioning market. They are areas where policy has to be directed at things that just happen to you – for example, falling ill, getting robbed – or where it is easy to make bad choices, be it out of a lack of information or in response to behavioural influences. So in pursuit of policies to promote wellbeing, researchers are collaborating to build models that reflect the way people *actually* behave, rather than how the traditional models *assume* they behave.

To assess the success of such policies we need to measure changes in wellbeing. Such measures are far from perfect; they need to be collected and analysed carefully. The OECD provides guidance for national statistical authorities on how to measure positive and negative feelings, life satisfaction, and eudaimonia, enabling them to produce comparable data.

Once we have defined wellbeing and measured it, we move on – in chapter 3 – to the main economic, social, and personal drivers. Research suggests that income, education, and work are the key *economic* drivers. The psychological effects of unemployment are a major source of misery; and measures of deprivation that focus only on income miss a lot. Family life, community life, values, and the environment are the crucial *social* determinants. On this score, governments need to concentrate on building trust between people, preventing corruption, and protecting freedom. Health is the main *personal* factor: mental health emerges as a crucial determinant of life satisfaction, and research indicates bigger differences between people with good and bad health than between rich and poor.

Designing policies to enhance social and personal wellbeing is a new field, but the innovation of basing appraisal on changes in wellbeing, rather than income, is spreading rapidly. It does not, of course, make all of the questions encountered in traditional CBA irrelevant. For example, should we value an extra unit of wellbeing to be worth as much to someone already experiencing a high level of wellbeing as to someone who has low initial wellbeing? Chapter 4 offers some answers to these questions, but much more work is needed. If governments start using wellbeing analysis more often, this will stimulate research. More experimentation in the design of policies would help inform us on what works and what doesn't.

Nevertheless, it is possible to make progress now. Chapter 5 looks at strong determinants of wellbeing and discusses a range of possible public policies. It looks in particular at four areas: mental health and character building; community; income and work; and governance. The conclusion is that we should treat mental ill health as professionally as physical ill health, support parents, and build character and resilience in schools. At the community level, we should promote volunteering and giving, address loneliness, and create a built environment that is sociable and green. As well as promoting economic growth, we should aim to reduce unemployment through active welfare policies and encourage businesses to promote wellbeing at work. We should treat citizens with respect and empower them more.

Our final recommendation in this report is simple: we should measure wellbeing more often and do so comprehensively, making the data accessible. This would help governments improve policies, companies raise productivity, and people live more satisfying lives.

FURTHER INFORMATION

The report *Wellbeing and Policy* is available at:
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