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This volume reflects on different perspectives on the economic aspects of wellbeing. Debates and discussions on how we both measure the progress of society and understand what we as human beings value the most in our lives are nothing new. We have pondered these questions since the very dawn of time, but with comparatively little discussion of the interaction between economics and wellbeing until the latter half of the twentieth century.

The approach to economics set out by the Scottish philosopher and economist Adam Smith in *The wealth of nations* set the tone for much of the discourse on economics over the next two centuries (Smith, 1776/1977). Progress in society would be best achieved through economic growth brought about by ever more efficient production processes, with free and open markets governing the supply and demand for goods and services. The population would maximize their satisfaction and enjoyment of life in such a society. Dissenting views using alternative ways of organizing the means of production and distributing resources, most notably those based on some of the ideas first set out in *Das Kapital* (Marx, 1867), were often seen to be failed experiments that caused stagnant levels of economic growth and were mainly used by authoritarian regimes, which entailed the restriction of many individual freedoms.

As Laura Stoll illustrates in her chapter looking at the history of wellbeing research from the time of Socrates, Plato, and Aristotle to the present day,







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although economists such as Francis Edgeworth expressed an interest in trying to develop machines to measure levels of happiness or other forms of subjective wellbeing (Edgeworth, 1881), this line of inquiry was condemned by neoclassical economists and not pursued in mainstream economics for many years. Doubting that income and happiness were close correlates was deemed to constitute an important challenge to traditional economics (Stutzer & Frey, 2012).

The interest of economists in wellbeing research only really reemerged in the 1970s; Stoll highlights comments made by then U.S. presidential candidate Robert Kennedy in 1968 as a catalyst, questioning the value of conventional measurement of economic output through gross national product or gross domestic product (GDP) as satisfactory measures of “everything that makes life worthwhile.” Kennedy questioned the merits of all economic growth, recognizing that growth could be achieved through negative actions such as pollution and other destruction of the natural environment or engagement in unhealthy behaviors such as smoking.



Kennedy himself was probably influenced by the economist J. K. Galbraith, who had acted as an advisor to his brother President John F. Kennedy. Galbraith was well known for his book *The affluent society*, which a decade earlier had also questioned the value of GDP because of its failure to look at other aspects of personal and societal wellbeing (Galbraith, 1958). Another economist to question the status quo in the early 1970s, Ernst F. Schumacher, developed a set of principles that he termed “Buddhist Economics,” in which he challenged the conventional wisdom of the pursuit of economic growth, again questioning the impact of growth and its importance to our wellbeing in his seminal work *Small is beautiful: A study of economics as if people mattered* (Schumacher, 1973).



Most famously, Richard Easterlin was able to make use of social indicator research data in the United States to observe that, despite rising GDP per capita, average happiness in the United States rose through the late 1950s and then fell for the following 20 years, returning to near its 1946 level by 1970 (Easterlin, 1974). This so-called ‘Easterlin Paradox’ has been at the root of much subsequent work in the economic literature on what is as often referred to as the economics of happiness or the economics of wellbeing (Layard, 2005).


Today, the focus in economics is still very much on measurement issues: just what exactly constitutes wellbeing and do we need to go beyond conventional economic measures that use GDP as a primary indicator of




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social progress as well as economic performance? In 2008 the French government under President Sarkozy asked Joseph Stiglitz (President of the Commission), Amartya Sen (Advisor) and Jean Paul Fitoussi (Coordinator) to establish an international Commission on the Measurement of Economic Performance and Social Progress (Stiglitz, Sen, & Fitoussi, 2010). It recognized wellbeing to be multidimensional, including issues of income and wealth, the level of insecurity in our lives, including in our economic and health status, the strength of social networks, political accountability and democracy, quality of education, employment status and the environment in which we all live.

In the United Kingdom, following a request from Prime Minister David Cameron (Cameron, 2010), the Office of National Statistics embarked on a program to “develop and publish an accepted and trusted set of national statistics that helps people to understand and monitor national wellbeing” (Beaumont, 2012). The first set of data looking at aspects of wellbeing in the UK was published in 2012, with work continuing to further develop indicators (Self, Thomas, & Randall, 2012). This includes traditional economic indicators, supplemented by many of the same broad indicators of wellbeing suggested in the Stiglitz Commission’s report.



Much of this volume is thus concerned with the issue of the measurement of wellbeing. Brendan Kennelly in his chapter reviews the fundamental relationship between income and subjective wellbeing, looking at some of the more serious methodological issues in the latter’s measurement. He suggests that there have been some significant flaws in the measurement of subjective wellbeing over time that challenge the validity of responses to population surveys. As he notes, 43% of people in a poll in the United States in 1970 described themselves as very happy, the highest possible response available on the survey. But what could they then say the following year, or 5 years later, if they were asked again about their happiness and regarded themselves as even happier?



He also notes that people in higher income countries generally evaluate their lives in a more positive way than people in poorer countries, yet that relationship does not hold for measures of experienced wellbeing. He is in agreement with American economists Deaton and Stone who argue that a measure of hedonic wellbeing that shows that the average European is worse off than the average person from Mozambique, Sudan, or Rwanda is basically meaningless (Deaton & Stone, 2013). He concludes that the balance of recent evidence suggests that, on average, more income is better for individuals and that great caution should be exercised before income




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measures are replaced or even complemented by measures of subjective wellbeing for policy purposes.

Lars Osberg and Andrew Sharpe describe their Index of Economic Wellbeing and how it can be used to look at cross-country changes in wellbeing following the onset of the global economic crisis in 2008. Their measure of wellbeing focuses on economic dimensions of wellbeing and does not look at more subjective issues, or what they call quality of life issues. They make the point that “there is more to economic wellbeing than GDP per capita, and it is useful to have better measures of the economic wellbeing of society because better measurement may help guide better decisions” (Osberg & Sharpe, 2005).

Their measure considers issues of income, but also issues to do with the distribution of income in society, accumulated stocks of wealth after taking account of the negative impacts of wealth generation to the environment, and economic security, including financial risk due to poor health. They find that the global recession of 2008 had very different impacts in different countries and that economic security for populations plays a key role in protecting them from the greatest negative impacts on their wellbeing. This, potentially, has important policy implications. They identify Finland and Norway as two nations that do well in insulating their citizens against the hazards of the business cycle, for any given size of business cycle shock.



Arthur Grimes and colleagues compile and compare a range of alternative measures of wellbeing including: material measures (e.g., GDP per capita), surveyed measures (e.g., life satisfaction) and composite measures (e.g., on ecological sustainability and development) covering a range of countries. They argue that revealed preference indicators such as migration choices—where the choices are made so as to improve life outcomes now and into the future—are also objective indicators of wellbeing. They then test the predictive power of wellbeing measures against net migration patterns over a 50-year timespan. They conclude that material wellbeing such as GDP, while being an important predictor of migration, is an insufficient index for measuring aggregate wellbeing for potential migrants. A broader measure of life satisfaction must also be included in the definition of aggregate wellbeing for these individuals.



An important policy implication of their empirical analysis is that increases in income may sometimes come at the cost of decreases in other aspects of life satisfaction. This means that economic studies that look at the case for different policy actions need to include a monetary valuation of life satisfaction in their calculations for cost–benefit analyses and not focus



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solely on material issues. While income does improve wellbeing, their analysis indicates that it should not be the sole basis for assessing the merits of alternative public policies.

Making the Economic Case for Investing in Wellbeing

Thinking further about policy implications, much of the current research on economics and wellbeing has focused on its measurement rather than on how we can use this information to change and improve society. It is not enough to know what factors contribute to wellbeing, we then need to carefully evaluate the cost-effectiveness of actions to promote better wellbeing in society. This economic case for investing in measures to improve wellbeing forms a major component of the volume. Different actions across the life course are considered.

Much of this case for action looks at issues affecting mental wellbeing, which Richard Layard in his chapter contends is the biggest single influence on life satisfaction, with mental health status 8 years earlier a more powerful explanatory factor than current income. Layard demonstrates that our state of mental health also affects earnings and educational success, but, most strikingly, affects employment and physical health. He notes that in high-income countries mental health problems are the main illness of working age—amounting to 40% of all illness under 65.

Cost-effective interventions to treat mental health problems do exist, but it remains the case, even in high-income countries, that only between a quarter and a third of all people who could benefit from mental health services actually receive treatments (Demyttenaere et al., 2004). Layard argues that psychological therapies such as cognitive behavioral therapy would, if more widely available, pay for themselves in savings on benefits and lost taxes.

It has been argued that actions to promote wellbeing in the early years of life will generate the greatest economic returns on investment (Heckman, 2006). In Chapter 8, McDaid and colleagues look in detail at the economic arguments for investing in measures to promote and protect the wellbeing of young people. The strength of the economic case in this area has benefited greatly from the availability of cohort studies that have followed groups of children over many decades. These studies consistently indicate that there can be many adverse health, social, and economic consequences in adulthood of poor wellbeing in childhood. Highly cost-effective actions not







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only to protect psychological wellbeing, but also to address overweight and obesity and reduce risks from alcohol, smoking, and sexual behavior, were highlighted. In addition, there is compelling evidence, largely from a U.S. context, suggesting that investing in preschool educational interventions can generate positive returns on investment by the time that children reach adulthood (Nores & Barnett, 2010).

Another key area where there is a good economic case for promoting wellbeing is in the workplace. Effective prevention of excess psychosocial stress, as well as promotion of mental wellbeing and investment in return to work activities can all contribute to better outcomes for business. Not only can rates of poor functioning at work, as well as absenteeism and withdrawal from work, be reduced, but a healthy workplace environment can foster creativity and innovation (Robertson & Cooper, 2011; Wang & Samson, 2009). McDaid and Park indicate in Chapter 9 of this volume that not only is there a business case for workplace health promotion, but that there are other additional benefits including reduced use of health-care services and less need to claim long-term disability benefits as a result of work-related mental health problems. Healthy workplaces should not be the preserve of large companies and major public sector organizations; but financial and regulatory incentives may be needed to stimulate investment in workplace health promotion in small enterprises, particularly in contexts where health-care costs are not paid for by employers.



Turning to the wellbeing of older people, many societies do not put enough value on the wisdom and benefits of age, instead having very negative conceptions of aging. A not often reported statistic is that, even beyond official retirement age (in countries where this concept still exists), older people make a positive net economic contribution to the economy, even when their higher rates of disability and health problems are taken into account.



Promoting wellbeing is integral to a healthy aging process and cost-effective measures to tackle risk factors to wellbeing such as social and geographical isolation, bereavement, poor lifestyle behaviors and loss of role are identified in the chapter by Park and colleagues. The importance of prioritizing actions to promote the health of older people will become ever more acute given changing population demographics in many high-income countries and a growing recognition of the importance of protecting the health of older workers, as well as the countless millions of older people who are providing care and support not only for spouses but also for other groups such as their grandchildren. The cost to any policy maker of having



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to substitute professional carers for informal family carers should also be a powerful incentive for investing in measures to protect wellbeing at older ages.

We have already highlighted how Osberg and Sharpe in this volume have looked at impacts of the current economic downturn on wellbeing in many nations. We can also learn much at individual country level about the impacts on health and wellbeing behaviors in times of austerity and uncertainty. Perhaps no other country was as affected by the 2008 economic crisis as Iceland. Tinna Laufey Ásgeirsdóttir and colleagues were able to use longitudinal survey data that include pre- and post-reports from the same individuals on a range of health-compromising and health-promoting behaviors. They found that the crisis led to significant reductions in some poor behaviors, including smoking and drinking alcohol and sugary drinks, but also a decrease in the consumption of fruit and vegetables. Because of the small size of the population, as well as its concentration around the capital city Reykjavik, it was possible to control for many confounding factors in this analysis, helping to better identify factors that contributed to health behavior change. Reduction in disposable income and dramatic increases in the price of some goods were found to be key variables.



Having a better understanding of how economic shocks, whether boom or bust, impact on health and wellbeing is important to making contingency plans for any future adverse events. McDaid and Wahlbeck explore some of the potential economic consequences of these economic shocks and look at what is known about the effectiveness and cost of actions to alleviate some of the potential risk factors to mental health and wellbeing. A better understanding of local context, as in the Icelandic case, is critical. The magnitude of adverse events and the populations most affected can vary considerably. The chapter stresses that the promotion and protection of mental wellbeing cannot be achieved by the health sector alone. The determinants of mental wellbeing often lie outside of the remits of the health system and all sectors of society have to be involved in its promotion and protection.

We can see from contributions here that research on economics and wellbeing has moved on considerably in the last quarter millennium and there is nothing to suggest that interest is going to wane any time in the near future. Traditional economic measures of growth, while far from being defunct, need to be supplemented with other ways of measuring and putting an economic value on the different dimensions of wellbeing. Care must however be taken in the development of these measures. Policy

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makers also need to carefully consider how they will best make use of new approaches to wellbeing measurement so as to better evaluate what works best to promote wellbeing, at what cost, and in what context.

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