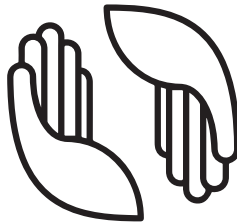


## Wellbeing Economics



# Wellbeing Economics

*How and Why Economics Needs to Change*



*Nicky Pouw*

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*To Lulu, Eva and Rosa – my reasons for living well*

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# Acknowledgments

When I travelled in rural Africa for the first time, researching poverty and inequality, I soon became aware of the inestimable value of social capital. In a small village community in Northern Uganda, I had just finished holding a survey on daily eating patterns in rural households. As I was saying goodbye, the woman with whom I had been speaking, who was aged around sixty and single, gave me two eggs. As I knew that she and her family often went hungry, this was an extremely valuable gift. I was astonished, but the team's Ugandan researchers explained that as well as being grateful for our visit, the woman was creating a bond with us; our visit had given her a sense of prestige and status that she must have lacked in her community. Due to the deep poverty in which she lived, she had become virtually invisible to many people. The visit was a certain acknowledgement of her existence; we saw her, and therefore she mattered. A friendship arose between us, and we continued to stop by on a regular basis. We shared family stories and exchanged recipes. We also discussed her situation with the village chief and other members of the community. Slowly, more and more people began to show concern for her. Through our research team she made contact with others from the village and beyond, who came to buy eggs and vegetables from her. With this income, she was able to buy new clothes and make small improvements to her home. She also invested in more chickens and built a small chicken run. All of this strengthened her self-confidence, she later told me. She went out more often, and started to participate in village festivities and meetings again. What began as an exchange of information grew into a friendship, one that conferred mutual recognition and access to a wider social and economic network. The value of social capital is difficult to express in monetary terms, but it is closely interwoven with our wellbeing as humans. Ultimately, this is likely to have been more valuable than the two eggs, although it is impossible to demonstrate this objectively at a particular

moment in time. What we can say, though, is that a form of initial 'exchange' took place between the woman and myself: two eggs in exchange for information. This initial exchange eventually brought us more than either had anticipated; something that contributed to our wellbeing, with unexpected side-effects on other scale levels.

I would not have been able to write this book without the opportunity I received from my research group, Governance and Inclusive Development (GID) at the Department of Geography, Planning and Development Studies at the University of Amsterdam (UvA), particularly Joyeeta Gupta and Jochem de Vries. Although the prevailing trend today is to publish articles, they gave me the time and freedom to work on a 'slow' project such as this book. I am grateful to be able to work in the multi-disciplinary research environment of the Amsterdam Institute of Social Science Research, led by Brian Burgoon. My colleagues in the GID group stimulate me every day with their non-economic research on global poverty, inequality and development in various contexts: Joyeeta Gupta, Isa Baud, Maarten Bavinck, Mirjam-Ros Tonen, Hebe Verrest, Mieke Lopes Cardozo, Esther Miedema, Yves van Leynseele, Joeri Scholtens, Courtney Vegelin, Michaela Hordijk and Winny Koster. Beyond this group, I should like to mention Boris Jansen of Natural Sciences at the UvA, with whom I conducted mind-broadening research in Africa, as well as Allister McGregor of Sheffield University in the UK, who played a defining role in the formation of my ideas on wellbeing and its importance in economics. I am grateful to my doctoral students for developing our shared ideas about the economics of wellbeing and inclusivity: Anika Altaf, Dilanthi Korlagama, Likoko Eunice, Kini Janvier, Tamara Jonkman, Olaf Erz, Raquel dos Santos, Nashia Ajaz, Rashmila Shakya and Anderson Kwasi Ahriweng. I should also like to thank my students from the Master's programme on International Development Studies for asking critical questions about 'Wellbeing Economics', and our heated discussions about power and powerlessness, freedom of

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*Nicky Pouw*  
*Amsterdam*

## Ten reasons why economics needs to change

- 1 Economics has lost touch with everyday reality.
- 2 Economics is based on a flawed image of human nature. The underlying assumptions are not representative of humans as social beings.
- 3 Economics should focus more on wellbeing and nature, and less on money.
- 4 Economics is embedded in a system of social and political institutions, but these have an endogenous influence on economic processes and outcomes.
- 5 Economics is modelled as a closed, manageable system, but it is an open process with emergent and evolving properties.
- 6 Economics is defined in isolation from nature, but there are reciprocal relations between economics and nature. Human beings are dependent on nature.
- 7 The current economic growth model is short-sighted; it fails to address the long-term interests of social cohesion and an inclusive economy.
- 8 The current economic growth model prioritizes growth over stability; it fails to address the importance of social equality and sustainability.
- 9 Power is an underestimated factor in economics. Economic analysis of distribution should problematize unequal power relationships.
- 10 There is a need for new benchmarks in economics. Economic progress should be measured in terms of the optimization of wellbeing, not the maximization of growth.

# 1 Introduction

This book is about Wellbeing Economics. This is how I view and experience economics on a daily basis, and how I hope others will (again) start to see and understand economics as an everyday practice, discipline and science. Today's economic science, with its overly narrow approach, has become too far removed from the reality of everyday life. When people think of economics, money and numbers often come to mind; we are less inclined to think about how economic choices are interwoven with social relationships, political power, psychology, nature or culture. Economics is about making choices, but economic choices are about more than money alone. Economics is also about health and wellbeing. Instead of focusing on how to maximize economic growth, in this book I argue that economics should focus on optimizing wellbeing. When weighing up economic needs and priorities, the relationships between people and with our natural surroundings play a role, as do subjective values and norms embedded in social power structures and culture. Economics should thus focus more on how to make economic choices in relation to wellbeing and nature, and less on money and cost-benefit analyses. When making economic choices, people try to protect, maintain or increase their wellbeing or that of others. There is nothing wrong with this; the majority of people want to optimize their everyday surroundings. Moreover, we live in a society where there is an increasing focus on animal wellbeing and nature. That is why I have put 'wellbeing' at the heart of this book, by which I mean both human wellbeing and the wellbeing of our surroundings, including animals. What people across the world – rich and poor, young and old, religious and atheist, women and men, prime ministers and market-traders – have in common is that they all pursue wellbeing. Their ambitions do not relate to money or property alone, however; people strive for a mix of wellbeing in a material, relational and subjective sense, and the pursuit of meaning forms part of this. It influences our

daily economic choices, consciously and unconsciously. In fact, economics consists of a 'simple' aggregate of people making choices. Before making these choices, people make economic trade-offs between different options; at least, assuming they have a choice at all. In traditional economic theories, these trade-offs are made on the basis of economic cost-benefit analyses, which can be measured, modelled and even calculated numerically. In this book, however, I argue that from a wellbeing perspective this trade-off is multidimensional and consists of quantitative and qualitative values. If society values sustainability and the creation of equal opportunities, for example, and not the pursuit of economic growth alone, then we must learn to think more multi-dimensionally in economic science. Our economic models should be better at reflecting this complexity, and we should also be able to go beyond models to use a wider range of analytical methods and techniques. This could make economics a critical and relevant social science once more; one that is closer to everyday reality, and aware of the mutual dependency between humanity and nature.

In this book, I explain how and why modern economic science should be rejuvenated in order to remain a relevant scientific discipline in a changing world. In doing so, I build on the ideas of Karl Polyani (1944) and Mark Granovetter (2017) on institutionally embedded economics, George Akerlof on the role of psychology in economic behaviour (1970), Tony Lawson (1997, 2003, 2015) and the earlier work of Charles Cooley (1918) on economics as a social process (which implies that economics should thus be studied as a process), Partha Dasgupta (2007) on the relationship between humans, economics and nature, and Kate Raworth (2017) on the distributive and regenerative economy. Raworth argues that the discipline of economics is calling out for a new approach, based on sustainable social and economic limits. I agree, but I go further by proposing concrete building blocks that give a theoretical structure and content to this new vision of economics. This means that we need to go back to the fundamentals of economics and create a new framework. After all, the proposed theory and

methodology should be robust. For this reason, I first consider the question: how do we define economics?

During guest lectures at the University of Amsterdam and beyond, I meet many young people, including secondary school pupils, with a great initial interest in and new ideas about economics. They tell me that they become disillusioned over time, however, and abandon further study in economics when they find out how much maths is involved and how few connections there are with social-cultural, political and environmental themes. They are taught to think that economics is just about money, and that economists mainly need to be good at arithmetic in order to develop and test economic models. That is a shame, because many of these young people have really interesting, innovative ideas about economics. Moreover, they have the ability to ask the critical, out-of-the-box questions that matter today; they are in fact perfectly placed to perceive and understand new economic phenomena, reformulate old concepts, and draw up new research questions. When it comes to being a good economist, these qualitative skills and knowledge are at least as important as quantitative knowledge and skills. In addition, deconstruction and reconstruction require knowledge of the history of economic thought. Many economic theories and models build on past work; think of the economic growth model, which has undergone multiple iterations since the Harrod-Domar model of 1939-1946, and then Robert Solow's. Those students are the people I most hope to reach and inspire with this book, followed by a broader readership of economists, lecturers, policymakers, researchers and people with a general interest in wellbeing and sustainable economics. All around the world, people are looking for new economic perspectives in order to solve current and future problems of economic distribution and sustainability. With this book, I thus hope to make a substantial contribution to the 'Rethinking Economics' debate; an initiative by an international network of students, academics and thinkers who are striving for innovation in economic thought.

Taking a wellbeing approach, I argue that the material economy is intrinsically linked to the socio-relational economy and the

economics of subjective values and norms. The latter play a key role in giving meaning to our economic activities (or establishing when meaning is lacking). This means that not everything in the economy can be measured, but it can be researched. The core thesis is that 'Wellbeing Economics' is embedded in a composite of social and political institutions. In this sense, I draw on several fundamental ideas in the work of the historic political economist and social philosopher Karl Polanyi (1886-1964), and more recent work by the economic sociologist Mark Granovetter (2017). The latter argues that society and the economy are inextricably interlinked. Moreover, I make the case for more pluralism and diversity in economic science. By more pluralism, I mean that economics can be approached from a number of scientific fields, theories and principles. Pluralism is the opposite of monism – the notion that there is just one leading principle or theory in a discipline, such as one theory of economic growth or a single model for predicting growth. Pluralism means that there are multiple knowledge systems, and that a problem can be tackled using several theories and principles at the same time. This creates space for a greater diversity of social and cultural sub-systems that nurture and embed these knowledge systems and theories. A pluralistic vision of 'economics' as a science means that we should pay attention to a wider range of social-cultural and political values that play a role in shaping economic processes and outcomes, and in theory formation. As a result, an economic problem can be approached from several theoretical starting points, depending on how the question is formulated and the context; something I have become increasingly aware of in my international research on economic development and human wellbeing.<sup>1</sup> Pluralism also implies a greater variety of research approaches, methods and techniques. It not only opens the way to deductive (deduced from theory applying to empirical observations) and inductive (derived from empirical observations)

1 By 'economic development', I mean the broad structural economic changes in a society that can lead to both an improvement and a decline in human wellbeing.



methodologies, but also abductive (deduced from sufficient conditions) and retroductive (deduced from a combination of theory and empirical observation) methods. As well as econometric models based on today's monistic trend in neoclassical economics, the economist's tools should also include more heuristic exploratory approaches,<sup>2</sup> descriptive and narrative analyses and participatory methods. These methods require more than a good grasp of figures and mathematics alone. On the one hand, they demand an ability to reflect on causes and results in a structured and logical way, to dissect economic problems analytically, and identify potential solutions; and on the other hand, they require creative and associative thinking about new, yet-to-be-formulated relations and concepts with political, socio-cultural and natural phenomena, from a more holistic perspective.<sup>3</sup> At present, I see more stimulation of associative thinking skills at the margins of economics than at the core, which is dominated by linear thinking (with the exception of complexity thinking). When combined with the emphasis on quantitative research, linear thinking can lead to dissociative thinking and fall prey to one-sidedness and narrow-mindedness. Qualitative knowledge and skills, by contrast, open up the discipline of economics to external insights. This can provide a counterweight to 'inner circle thinking' and a lack of innovation in theory-formation. Pluralism does not mean that 'anything goes', however. Economic analysis should be robust at all times. By this I mean that when deviating from a certain framework or condition under which a theory or method can be applied, its basic constitution remains valid.<sup>4</sup> More diversity in

2 By heuristic methods, I mean non-formal research methods whereby certain criteria are used to achieve open aims in an investigative and continuously evaluative way.

3 Associative thinking is particularly important in the study of intersectionality; for example, when looking at how intersections of inequality overlap with and reinforce one another. I shall consider this in more detail in Chapter 7, 'A Focus on Inequality'.

4 In Chapter 6, 'Implications for Methodology', I look in more detail at the precise methodological implications of more pluralism in economic science for *robustness* as an underlying condition.

economics means creating more space for context and political and socio-cultural values and standards that influence decisions and processes, consciously or unconsciously. Particularly when weighing up relative values, context, politics and socio-cultural factors should play a role, and the interaction with nature should be visible. Finally, we should not underestimate the added value of creativity and originality for a good economist, both as academics and as practitioners; how else would we develop the new insights, concepts and theories, methods and indicators that are relevant for today's economy and that of the future? As Albert Einstein once said, 'creativity is intelligence having fun'. Although it is not easy to calculate the inestimable value of creativity in science, we do know that creativity is threatened when a scientific field keeps developing in accordance with monistic principles alone. To put it bluntly, one-sidedness leads to navel-gazing and the potential implosion of economic science.

Economic problems are thus always embedded in socio-cultural and political factors, the combinations of which vary in space and time. The interaction with the natural environment also influences these processes. In this book, I present the economy not as a closed, self-regulating system that is guided by an 'invisible hand', but as a concrete, human, institutionalized process that constantly interacts with this socio-cultural and political context and the natural surroundings. This epistemological starting point is further developed in Chapter 3.<sup>5</sup> People and their economic capacities, value judgements and options (or lack of them) play both a shaping and a leading role in the decision-making process surrounding economic problems. Human wellbeing, or human wellbeing in relation to others and the environment, is both an outcome and part of this economic process. Wellbeing should therefore play a central role in our economic thinking. As social and natural beings, people are hereby viewed expressly in relation to their living environment (see also: Dasgupta 2001). In this sense,

5 Epistemological = theory of knowledge. That is to say, how we arrive at knowledge (insights and understanding) in science, in this case economic science.

this vision also underlines the fact that nature plays a central role in the economy, because people cannot (continue to) live without nature. Whereas nature simply exists, people have to adapt to their surroundings. People can manage nature, but they can never dominate it. In the end, nature dominates humanity. A version of economics that is disconnected from nature is thus illogical, in my opinion.

Chapter 2 explains why economics needs to change, and where the deficiencies lie in the old way of economic thinking. These deficiencies are characterized by the dominance of monistic theories and atomistic methodologies. Chapter 3 explains why and how wellbeing should be put at the heart of economics, and sets out the essential differences between wellbeing economics and neoclassical thinking on welfare. In the light of this new perspective, Chapter 4 redefines economics and further develops the basic epistemological and ontological principles of 'Wellbeing Economics'. Chapter 5 introduces the Wellbeing Economics Matrix (WEM) as a logical and layered framework for economic analysis and policy planning. The methodological implications of 'Wellbeing Economics' are discussed in Chapter 6, including the combination of objective and subjective values, the use of intersections, and how to handle emergent properties in economic analysis. Based on the WEM, in Chapter 7 I propose how we should problematize and formalize economic analyses of inequality. In Chapter 8, this is followed by a similar discussion about the importance of sustainability for a healthy economy. 'Nature' is further operationalized in this chapter, and proposals are made for measuring it. By putting economic inequality and sustainability at the heart of 'Wellbeing Economics', alternative measures of economic progress become more relevant and important, and this issue forms the focus of Chapter 9. Instead of steering the economy on the basis of a limited number of economic measures, I propose that we use a 'dashboard' of indicators and measures. The book concludes with Chapter 10, where I finally discuss the potential directions and starting points for the further development of 'Wellbeing Economics'.