

# Policy Brief

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## Overview

This Policy Brief is an outcome of the UNU-WIDER research project 'Social Development Indicators'. The overall aim of the project was to provide insights into how human well-being might be better conceptualized and, in particular, measured, by reviewing various concepts and measures and then offering recommendations for future practice and research. This Policy Brief outlines a contextual background to the project, by introducing some key concepts and measures used in assessing achieved well-being, especially at the national level. Highlighted are some of the best known and most widely used well-being measures. The Policy Brief then provides an overview of the five edited volumes that have emerged from the project, summarizing some of the main conclusions.

Written by David Clark  
and Mark McGillivray

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## *Measuring Human Well-being: Key Findings and Policy Lessons*

**N**ATIONAL GOVERNMENTS, CIVIL SOCIETY ORGANIZATIONS, AND INTERNATIONAL AGENCIES require reliable concepts and measures of well-being to monitor human progress and design effective development strategies. In consequence, considerable effort has gone into measuring poverty, inequality, and well-being at the individual (or household), national, and international level in recent decades. Among other things, economic and social indicators have been used to monitor progress over time, compare relative performance (most notably by compiling league tables that rank countries according to their success or failure), and assess the merits of different policy interventions. They have also been used to justify economic aid and measure progress towards internationally agreed targets such as the Millennium Development Goals.

In recent years work on well-being across the social sciences has accelerated in response to changes in global conditions, new research priorities, more sophisticated concepts and methods, and improved data resources. Yet many conceptual and methodological issues remain and some of the most widely used measures need to be treated with care. In particular, there is no single concept or measure of poverty, inequality, or well-being that is generally accepted above all others. These and other crucial issues are picked up in five new volumes edited for UNU-WIDER by Mark McGillivray and associates. These studies bring together a diverse collection of research—written by an international panel of experts with various backgrounds—that provide a range of different insights into how poverty, inequality, and well-being might be better understood. This is done by: (1) reviewing and assessing existing concepts and measures; (2) identifying and exploring promising new directions for research; and (3) showing how various approaches can be applied and used to illuminate policy issues through a series of case studies and practical examples.

### **Conceptualization of Poverty, Inequality, and Well-being**

Many different notions of well-being have emerged in the literature. In general terms, 'well-being' is a concept or abstraction that refers to the *state* of a person's life. It reflects the various activities or achievements that constitute a good form of life. The notion of well-being is often employed alongside allied concepts, such as the

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quality of life, living standards, social welfare, needs fulfilment, capability, life satisfaction, and happiness (among many others). While these overarching concepts overlap and are typically used interchangeably, there are subtle differences.

Early utilitarian conceptions of well-being focused on ‘the greatest happiness of the greatest number’. As greater income allows higher consumption

**Well-being is an abstraction that refers to the state of a person’s life**

and this translates into more utility or happiness, it was only natural to use income as the standard metric for utility or well-being. More recently, there has been widespread agreement that well-being is a multidimensional concept that embraces all aspects of human life. A range of different theories have emerged that shed light on different aspects of well-being—these include the basic human values approach, the intermediate needs approach, the universal psychological needs approach, the axiological categories approach, the domains of subjective well-being approach, and the central human capabilities approach. At the same time several attempts have been made to identify the dimensions of well-being by compiling lists of valuable capabilities or needs. Some commentators insist there are universal dimensions of well-being that are fundamental to human life and are in fact knowable, while others argue that such lists should be made explicit through public debate and may be context dependent.

The most influential conception of well-being is Amartya Sen’s capability approach. For Sen, well-being is assessed in terms of the capability or freedom to achieve valuable ‘doings’ and ‘beings’. Notice that poverty, inequality,

and development are all defined in terms of the same conceptual space. Thus, poverty is understood as basic capability failure, inequality reflects disparities in key human capabilities, and development involves capability expansion. According to Sen the selection of relevant capabilities depends on the purpose of the evaluative exercise as well as the values of the people concerned.

### Measurement of Poverty, Inequality, and Well-being

While it is recognized that not all aspects of well-being can or should be measured, attempts to quantify well-being have generally followed the conceptual advances highlighted above. Initial attempts to assess well-being across countries in the post-Second World War era relied on estimates of national income per capita. These measures are still widely used today, despite many well known limitations. Among other things income per capita has been adjusted to: (1) allow for purchasing power parity (differences in domestic price levels) between nations; (2) recognize inequalities in the way that income is distributed between different groups of people; and (3) obtain the Measure of Economic Welfare (MEW), which deducts from national income an allowance for defence expenditure, pollution, congestion, and crime and adds an estimate of the value of leisure and consumer durables.

Efforts to measure income poverty have also evolved. The best known and most widely used measure of income poverty is the headcount, which gives the total number or proportion of the population whose income falls

below an arbitrary poverty line. More sophisticated measures allow for the depth of poverty (how far on average people fall below the poverty line) and/or an estimate of inequality below the poverty line. A different approach has tried to get around the problem of selecting an arbitrary poverty line by allowing for vagueness or imprecision in specifying poverty lines.

Some critics have pointed out that poor households over spend on alcohol, tobacco, and gambling and under spend on food and other basic necessities. Others have reiterated the old argument that ‘income is a means, not an end’—and sometimes not an awfully good means! More generally there has been increasing and now widespread recognition that income cannot adequately capture the breadth or complexity of human well-being. In consequence, since the 1970s policymakers and practitioners have increasingly relied on a broad range of social indicators covering health, education, employment, housing, the environment, and basic human rights. An early attempt to produce a multidimensional measure of well-being

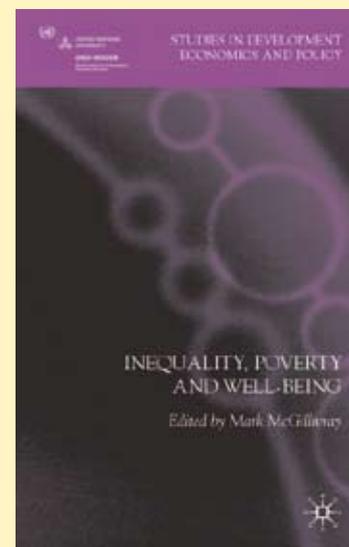
appearance in 1990 and currently combines income, life expectancy, adult literacy, and school enrolment. Later work produced supplementary measures such as the Gender Empowerment Measure (GEM), the Gender related Development Index (GDI), and the Human Poverty Index (HPI), which help illuminate important policy issues despite conceptual and methodological weaknesses.

Other approaches to the assessment of well-being have focused on sustainability, happiness, and the incorporation of participatory methods. One way of introducing the former involves viewing sustainability in term of intergenerational equity, which effectively requires that current and future generations should have the same opportunity to achieve basic well-being. Another approach involves deducting an allowance for environmental costs and the loss of natural resources—notable examples include the Genuine Progress Indicator (GPI) and the aforementioned MEW. A different strand of research is concerned with self-reported happiness and life satisfaction (sometimes within specific domains such as self-esteem,

## It is now generally agreed that well-being is multidimensional, embracing all aspects of human life

by combining three social indicators (infant mortality, adult literacy, and life expectancy) was the Physical Quality of Life Index (PQLI). The most successful and widely used composite measure, however, is the United Nations Human Development Index (HDI). HDI scores, published annually in the United Nations Development Programme (UNDP) *Human Development Report*, are now available for more than 170 countries. The HDI has been heavily criticized and revised since its first

physical safety and security, working life, and financial resources). The research literature on happiness has grown rapidly in recent years. Research suggests that happiness, however, is not always closely associated with income or other more objective indicators of well-being such as physical health. Doubt has also been cast on the reliability of subjective well-being comparisons between people and across countries. Another strand of research attempts to build poverty and well-being indicators

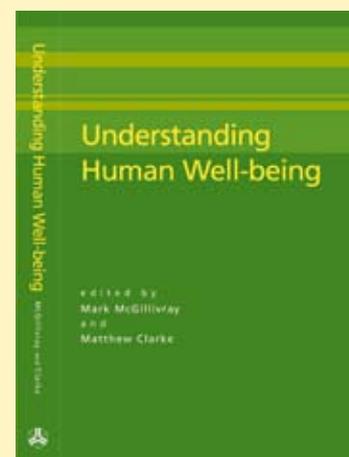


*Inequality, Poverty and Well-being*

Edited by Mark McGillivray  
(hardback 9781403987525)  
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*Understanding Human Well-being*

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and Matthew Clarke

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using participatory methods. This has the advantage of helping to ensure relevance for policy purposes.

### **Overview of the UNU-WIDER Volumes**

The five volumes produced by UNU-WIDER examine in greater detail a number of these concepts and measures. They also develop and apply some of these approaches in an effort to better understand well-being.

The volumes begin by considering foundational issues relating to concepts and indicators of well-being. One insight to emerge from a review of existing concepts is the necessity of considering the very purpose of any evaluation. Different concepts and measures are relevant in different contexts. Relying on a single concept or measure of well-being is simply not practical and can generate misleading policy conclusions. The relative merits of per capita income and social indicators may be assessed in turn. The studies find that international GDP comparisons make no allowance for environmental differences, for resource depletion, for leisure, for household production of goods and services, for black-market activities, or for external costs and benefits associated with production

social indicator movement would benefit from the development of a framework that can deal with multidimensional poverty measurement and include more precise and responsive indicators to guide short and medium term policy initiatives.

There have been various attempts to combine indicators into overall indices of well-being over the last four decades. Notable examples of composite indicators include the PQLI and the more influential and widely used HDI. A number of issues, including the choice of components, component weights, scale equivalence, component transformation, the treatment of income, non-linearity correlation among components, and practical relevance, arise with using such indicators. The primary conclusion to emerge from this exercise is the need for composite indicators of well-being to be (more) closely geared to policy implementation. This can be achieved by allowing the components and weights of an index to vary across countries according to the preferences of local people or policymakers. There is also a strong case for including human security in composite measures of well-being given its instrumental and intrinsic well-being properties.

## Per capita national income is still a widely-used measure of achieved well-being, despite its many known shortcomings

and consumption. In consequence, it is best to view GDP as a partial measure of aggregate output rather than an indicator of current or future well-being. While social and political indicators better capture the essence of well-being, it is difficult to know how to interpret wide variations in these indicators across countries. International comparisons are also hampered by data availability and measurement problems. In general the

Challenges also arise in constructing gender related indicators of well-being. It is argued that such indicators are crucially important, although their construction involves a number of conceptual and measurement problems. These include issues relating to the space in which gender inequality should be measured, whether the indicator in question should track the well-being of men and women separately, whether

gender equality in every indicator is necessarily the goal, what role households should play in allocating resources, the question of stocks versus flows, and how to deal with significant data gaps in the context of gender inequality.

Different ways of incorporating sustainability into the measurement of well-being review existing attempts to construct integrated measures of sustainability and well-being such as the Index of Sustainable Economics Welfare and the Genuine Progress Indicator. It is argued that such measures tend to conflate sustainability and well-being, which should be kept conceptually distinct. Within the UNU-WIDER studies a new measure of sustainable well-being is developed that avoids the pitfall of full integration and involves using genuine savings as a sustainability check for the HDI.

The UNU-WIDER volumes also examine measures of subjective well-being. Four kinds of well-being are discerned, which are related to nine different types of subjective indicators. There is little sense in combining these variants in a single aggregate measure, as this would be the equivalent of adding apples and oranges. Therefore the case

policy lessons are drawn from two large research processes sponsored by the World Bank, and the experience of quality of life studies. The research also considers recent attempts to generate quantitative data on poverty and well-being using participatory methods. Finally they reflect on the dilemmas of using participatory data on well-being in the policy making process and consider future directions for participatory processes in well-being research.

The UNU-WIDER volumes focus explicitly on poverty and inequality alongside related work on well-being. They provide an extensive review and assessment of mainstream accounts of poverty and inequality. Some of the contributions reiterate the case for moving beyond income in measuring poverty and inequality. In particular they discuss a range of conceptual, technical, and practical issues in the context of using multidimensional poverty measures such as the generalized index of deprivation and disparity.

There is a strong case for moving beyond income in assessing poverty and inequality, assessing shortfalls and differences in such areas of health and education.

## Happiness is not always closely associated with income or health: wealthier people are not necessarily happier

is made for using information about people's perceptions or satisfactions to make policy choices. Also posited is that 'happy life years' (life expectancy adjusted for happiness) can be used as an indicator of final policy effectiveness.

Another strand of research considers the contribution that participatory methods can make in defining and measuring well-being. In this context,



*Review of Income and Wealth*  
Volume 51, Number 2  
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Special Issue: 'Inequality and  
Multidimensional Well-being'

Edited by Mark McGillivray  
and Anthony Shorrocks



*Journal of the Asia Pacific Economy*  
Volume 11, Number 2  
(May 2006)

Special issue: 'Well-being  
Achievement in Pacific Asia'

Edited by Mark McGillivray

## Composite well-being indicators need to be more closely geared to policy implementation

### Conclusions in Brief

A number of conclusions emerge from the UNU-WIDER project, including:

- There are many different concepts and measures of well-being, which often overlap with one another. Further work is required to consider how these concepts and measures might be consolidated.
- Well-being is inherently multidimensional and depends on a range of human capabilities and achievements.
- Further conceptual and empirical work is required on combining quantitative and qualitative well-being indicators.
- Some countries are better in converting achievements in income into achievements in other—arguably more important—well-being dimensions: more knowledge of this process is required.
- The availability and quality of well-being data needs to be improved. Among other things, better estimates of international price levels are required to improve income comparisons across countries; and social indicators should be made more precise and responsive to changes in the policy environment.
- Human security is immensely important and should be regarded as a central component of human well-being, in turn requiring more reliable data.

### Reviews of *Human Well-being: Concept and Measurement*

It has become widely acknowledged that the purpose of development is to improve human well being. But how do we define well being? How do we measure it? This volume is a much needed publication that brings together leading research on addressing these questions. This is an important book for all development professionals.

—Sakiko Fukuda-Parr, Visiting Professor, The New School, New York, and Director and Lead Author, UNDP Human Development Reports 1996-2004

This volume extends WIDER's outstanding tradition of publishing cutting edge work on the quality of life. Mark McGillivray has done a fine job of bringing together new work by leading figures in the field. Anyone interested in research in this area should consult and learn from this book.

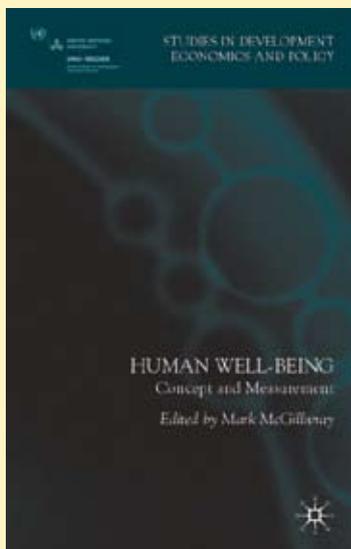
—Mozzafer Qizilbash, Professor of Politics, Economics and Philosophy, University of York

The authors of this much-needed book critically consolidate current literature on well-being measurement, propose new dimensions and measures, and articulate the need for more and better international data. The project of shaping indicators and processes to reflect wider horizons of human aspiration is of pivotal importance in development, and the book provides a tremendously solid yet creative contribution to it.

—Sabina Alkire, Director, Oxford Poverty and Human Development Initiative, Department of International Development, University of Oxford

Cross-country comparisons of human development and well-being are both common and controversial. This comprehensive review of alternative ways of measuring human well-being at the level of nations is therefore timely and welcome. The whole range of different conceptualizations as well as data constraints and measurement techniques are discussed. The authors both define the research frontier and suggest ways forward for future research. This study is also very useful for all the users of the various well-being indicators available today.

—Arne Bigsten, Professor of Development Economics, Göteborg University



*Human Well-being: Concept and Measurement*

Edited by Mark McGillivray  
(hardback 9780230004986)  
November 2006

Studies in Development  
Economics and Policy  
Palgrave Macmillan

Achieving and sustaining higher levels of human well-being it is a core challenge, for individual citizens, governments and international organisations world-wide. Measures of human well-being levels are an integral part of this process, being increasingly used to monitor and evaluate conditions within and among countries. *Human Well-being: Concept and Measurement* provides insights into how human well-being might be better defined and empirically assessed. It takes stock of and reviews various concepts and measures and provides recommendations for future practice and research.

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The World Institute for Development Economics Research (WIDER) was established by the United Nations University (UNU) as its first research and training centre and started work in Helsinki, Finland in 1985. The Institute undertakes applied research and policy analysis on structural changes affecting the developing and transitional economies, provides a forum for the advocacy of policies leading to robust, equitable, and environmentally sustainable growth, and promotes capacity strengthening and training in the field of economic and social policy making. Work is carried out by staff researchers and visiting scholars in Helsinki and through networks of collaborating scholars and institutions around the world.

## INSIDE: Policy Brief

### *“Measuring Human Well-being: Key Findings and Policy Lessons”*

In recent years work on well-being across the social sciences has accelerated in response to changes in global conditions, new research priorities, more sophisticated concepts and methods, and improved data resources.

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