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New definitions and new indicators for well-being : the example of EMWAU

by

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Well being is linked to the level of poverty and more precisely on the level of vulnerability. In a broader context, vulnerability is the probability or the risk to see one's living conditions degrade or deteriorate with time. According to Amartya Sen, reducing vulnerability implies to strenghten the capabilities of people or households for an increase of opportunities that could improve their long-term well-being. But the increase of capabilities does not equally benefit poor and non poor, as we could see in many micro-finance project. An increase of inequality may have a negative effect on the reduction of vulnerability. The behavior of the dominant social group towards poor people is also very important, since inequality can go on for many generation.

The vulnerability thus depends, of the levels of wealth, the capital distribution, the level of capability (which also depends on the two previous ones), and of the probabilities of the natural disasters and political instability, ethnic and regional conflicts. Vulnerability is strictly connected to the level of capabilities of the households, that is their freedom to choose and to act, and to their socio-economic and personal sphere.

The equation below is often given to describe the relationship between this three important notions:

Vulnerability = risk / capabilities

But, in fact, the risk depends itself on the level of the capabilities, the risk is endogenous.

And capabilities depends on the risk too. One can sometimes succeed, through their capabilities, in finding strategies to protect themselves from the risk and to strenghten their capabilities. In case of exogenous shock, the structure of the capabilities of indivuals can be modified. It means to adapt himself to a certain extent, notably by substituting some capabilities from others. For example in case of bad harvest, thus of almost nonexistant monetary comebacks, one can either intensify his other profitable activities, or have appeal to his social network. But one cannot infinetly substitute his capabilities, certain capabilities are complementary.

Levels of vulnerability, of poverty and capabilities are essential to understand, to describe and measure the level of well being. But these different notions are hardly valuable, notably considering their endogeneity, though they have already been the object of numerous tries of valuation.

In this article we will try to build a new statistical indicator of economic well-being intended to compare the tendencies of evolution in zone EMWAU. In another point of view on well being is the « happiness approach » and the Easterlin paradox. This may also helps us to improve the indicators of well being.

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The Centre for the Study of Living Standards (CSLS) had developed the Index of Economic Wellbeing for the Canada and some OECD states, based on a paper written by Lars Osberg in 1985. It is comprised of the following components :

• Effective per capita consumption flows .

• Net societal accumulation of stocks of productive ressources (tangible capital; housing stocks; natural resources stocks; environmental costs; net changes in the level of foreign indebtedness; human capital; and the stock of R&D investment).

- Income distribution (the intensity of poverty and the inequality of income).
- Economic security from job loss and unemployment, illness, family breakup, and old age.

This indicator has many qualities, including its focus on the importance of the intergenerational legacy in the reduction of poverty. However, applying it to the developing countries necessarily requires some arrangements because of their peculiarities. Likewise, as Osberg and Sharpe (2002) noticed, accounting the economic welfare of a complex society cannot avoid to voice both ethical and statistical opinions. Such value judgments are carried out through the choice of the components of welfare and of their corresponding weighting. The problems of the comparability of the data allows to build an international indicator which is more complex than a national one. This is one of the reasons which explain our choice to analyse countries that are in the same economic area (as it happens, the EMWAU zone), and this leads to some harmonization of the statistical standards between member states.

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