Measuring Progress with Shared Prosperity using Subjective Well-Being Data

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Paper Abstract:

In 2013 the World Bank adopted the goal of promoting shared prosperity, formally defined as 'fostering income growth of the bottom 40 per cent of the welfare distribution in every country', and 'measured by annualized growth in average real per capita consumption or income of the bottom 40 per cent'. In order to achieve progress with shared prosperity, economic growth needs to be inclusive of the least well off in societies through productive employment. Tracking the income growth of the bottom 40 per cent (B40) enables one to determine whether economic growth has lifted the incomes of the poor and vulnerable in a country.

The concepts of shared prosperity is also closely linked to the concept of inequality as by tracking the progress of the poor's income, it is clear whether their incomes are growing faster or slower than per capita incomes on average and therefore whether inequality is falling or rising, respectively. In line with this reasoning, the Global Monitoring Report 2015 by the World Bank and International Monetary Fund introduced the concept of 'shared prosperity premium', defined as a faster income growth of B40 relative to the average. The report argues that progress with shared prosperity is more sustainable if there is a premium; otherwise increasing income inequality along with growth may limit development progress and increase political instability.

This paper discusses the need to use different measures to track progress with shared prosperity. The concept of shared prosperity as defined and measured by the World Bank ignores important aspects of welfare, not captured well with the usual monetary measure of welfare. This has also been acknowledged in the most recent Global Monitoring Report. It recognizes the importance of progress in education, health, nutrition, access to infrastructure, and raising voice and participation of the poorest in society for progress with shared prosperity: 'the goal itself is much broader in that

it aspires to sustainably elevate the well-being of the poorer segments of society' (1.35, p.40), where it is 'believed that 'monetary and non-monetary aspects of shared prosperity feed into each other and together can produce greater well-being for the poorer segments of society' (1.37, p. 40-41). The authors of the report are aware of the severe limitations of measuring progress with shared prosperity through income or consumption data and opt to track progress on the non-monetary dimensions of shared prosperity using the adjusted multidimensional headcount ratio that measures poverty by focusing on the breadth or multiplicity of deprivations. They note significant deviations in the patterns of monetary and multidimensional poverty at the country level, but do not attempt to make detailed cross country comparisons of the rankings based on the two measures.

In this paper, we make the case for measuring progress with shared prosperity using alternative welfare measures constructed using subjective well-being data that take in both monetary and non-monetary human needs for a good life. Subjective well-being – also known as happiness or life satisfaction – has generally been defined as 'the degree to which an individual judges the overall quality of his/her own life-as-a-whole favorably'. Biologically, high levels of subjective well-being are a signal that we are thriving and indicate the presence of good life chances in society, such as income, education, access to infrastructure, and high quality institutions. When our basic human needs are satisfied and there is a good fit between opportunities in a society and our capacities, this will be translated in good mood and subsequently into higher levels of life satisfaction. In addition, subjective well-being has been found to predict future health, mortality, productivity, and income. In other words, being satisfied with life embodies both subjective and objective welfare.

In the spirit of the recent Stiglitz-Sen-Fitoussi Commission' 'Beyond GDP' report and the UN World Happiness Report, we argue that subjective well-being data can tell us more about shared prosperity than just income data or expenditures data do. Apart from the fact that prosperity has both monetary and non-monetary components, human preferences play a role in life evaluations. Preferences may change over time as people calibrate their subjective well-being based on the 'ideal' they have for their personal life ('reference point') and based either on changes in domains important to their happiness (e.g., perceptions of government become more positive) or the importance of these domains for their personal well-being (e.g., trust in government becomes more important to people's quality of life). Objective indicators such as income and expenditures are not well able to capture people's preferences; in other words, they merely indicate the conditions for a good life, but not necessarily the outcomes of a good life.

Second, objective indicators capture quantitative changes relatively well but even they may not give a complete picture of economic changes and developments. Unemployment statistics, for instance, may improve as more people drop out of the work force; this translates into lower unemployment rates but indicates serious structural economic problems that force people to quit their active job search. Likewise, household expenditures may rise, but the latter may also be a result of an increase in food prices. Along these lines, progress in monetary prosperity cannot always be measured using the available objective indicators. Subjective data include information that is often absent in objective measures, which makes them useful as standalone indicators.

Comparing progress with shared prosperity based on subjective well-being measures ('shared well-being') and progress with shared prosperity based on the monetary measures, reported in the Global Monitoring Report, we find qualitatively different results. In only 50% of the reported country cases similar conclusions can be reached with the two measures. Analysis of the factors associated with the discrepancy between the shared prosperity and shared well-being indicators suggests that changes in satisfaction with standards of living and quality of governance have contributed to the discrepancy between monetary and subjective well-being measures observed in parts of the developing world, particularly Eastern Europe and the Middle East and North Africa.