

# The Age of the Welfare Revolution

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## SUMMARY

*The age of the welfare revolution has just begun. Several national and international organizations have attempted to define the main characteristics of welfare. During the financial crisis the governments have realised that in order to increase well-being they must include new objective and subjective factors in their public surveys. The aim of this article is to highlight the weaknesses and strengths of the existing indicators and to indicate the importance of this new agenda.*

*Keywords: welfare, well-being, subjective well being, quality of life, happiness*

*Journal of Economic Literature (JEL) code: D60; N30*

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## INTRODUCTION

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Robert F. Kennedy declared the following at the University of Kansas on 18 March 1969: “The gross national product does not allow for the health of our children, the quality of their education or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages, the intelligence of our public debate or the integrity of our public officials. It measures neither our wit nor our courage, neither our wisdom nor our learning, neither our compassion nor our devotion to our country, it measures everything in short, except that which makes life worthwhile.” (World Bank, 2012. p.17)

This short quotation highlights the main question of this paper. Is it enough to focus on material conditions concerning quality of life or should we turn to other determinants of people’s life? In the rapidly developing world people once in a while stop for a moment to take a glance at the surrounding world. When this occurs among economic professionals, and experts it forecasts paradigm change that points out a new path for the next generation of scholars. Nowadays a similar revolution is taking place again in the field of welfare economics.

The financial and economic crisis of 2008-2009 increasingly confronts not only the public, but the scholars as well. Unfortunately, the most important factor – the person him/herself – has been ignored for centuries. The question may arise: why should such attention be paid to people’s welfare and its economic impact? The answer is very simple; the most important value is people. If we feel satisfied and live on welfare, we can contribute much more efficiently to economic development. This report highlights the difficulty to define the real essence of well-being. It carries conceptualisation difficulties, which is a controversial point among experts. Depending on various disciplines,

welfare has several meanings and core components. Hence the different senses of the word have to be distinguished. I attempt to summarize briefly the core concepts regarding welfare research and the existing results. Finally I will present a new direction in welfare research, in particular The Organisation for Economic Co-operation and Development’s (OECD) new indicator system and its underlying opportunities.

## CHALLENGING TERMINOLOGY

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Several researchers have attempted to define welfare, but in the literature there seems to be no general definition which is appropriate to describe people’s life from an economics point of view. Nevertheless, this field of research had been ignored and omitted for ages till a new economic revolution occurred. In the following part of this paper, that is based on Mary Daly’s book (Welfare) and Ruut Veenhoven’s article (The four qualities of life. Ordering Concepts and Measures of the Good Life) I would like to illustrate some existing endeavours. The initial use of the expression welfare appeared in the 14th century. In this sense it meant fare and journey well (Daly, 2011, p 12). During a long term of evolution it has collected several meanings, such as material sufficiency, the absence of negative conditions, physical and mental health, and satisfaction of desires and provision of need (Daly, 2011, p. 13).

According to Veenhoven’s article, we can realise that depending on which discipline one uses, it has different names and connotation. In ecologists’ papers this concept appears as the quality of life. Sociologist and economists typically apply the word ‘welfare’ in the same way (Veenhoven, 2000, pp. 5-6). In Daly’s Welfare (Daly; 2011) additional approaches of Fives, Williams, Fitzpatrick, Ryff and Wilkinson are demonstrated. Fives

(2008, pp. 3-4) states that it is “The possession of all-purpose means to attain one’s ends and/or the satisfaction of one’s desires and preferences.” On the other hand, Williams (1999; p. 685) considers it as “Providing someone of the conditions for the realisation of mutual security, dignity and respect.” Last but not least Fitzpatrick (2001, p. 23) declares that it is “The common denominator that we all share and which marks us out as members of the same social group” (cited in Daly, 2011, p.15). Quality of life, especially the subjective well-being, has seemingly become an important component of economic policy within the past few decades. For instance in the Netherlands well-being is used for social provisions and does not have the meaning of citizens’ satisfaction (Veenhoven, 2000, pp. 5-6). Pusic (1966, p. 83) states that welfare is “An overall goal of the political community consisting in the optimal satisfaction of interests which the members of the community have in common” (Pusic 1966; p. 83).

In general welfare has two main manifestations. One is material well-being and the other is psychological well-being. Daly lists income and employment participation opportunities as the factors of material welfare, which are indicated by labour market participation and income levels, income inequality and poverty, chances of mobility, resources available through family, and personal relations (Daly, 2011, p. 112). Ryff (1989) lists the main dimensions of psychological well-being. He highlights self-acceptance, positive relations with others, environmental mastery, autonomy purpose in life, personal growth (making the best of talents and capacities) (in Daly, 2011, p. 41). In connection with these dimensions, we can take a great number of coefficients into consideration as well.

One example of sub-meanings of people’s life is demonstrated in Table 1. The quadrants of quality of life were developed by, Ruut Veenhoven. In this framework the external features refer to the quality of the environment while the internal features refer to the individual. The outer factors, e.g. ecological, social, economic and cultural, belong to the first quadrant which determines the life chance, called ‘Livability of environment’. It means the social capital, which is the general meaning of good living conditions. In this sense many researchers use quality of life or well-being for these. On the other hand, Veenhoven prefers ‘livability’ concept because it is not limited to the material circumstances. The second segment is for the inner qualities of life chance that includes, physical and mental health, knowledge, skills, art of living, for instance. In brief, it has many non material aspects. Therefore, this is the life ability of a person. With other words, it means “how well we are equipped to cope with the problems of life” (Veenhoven, 2000, p. 6). Veenhoven (2000, p. 6) points out that “a good life must be good for something more than itself.” The ‘Objective utility of life’ sector highlights the characteristics that can determine the life results by outer qualities. Factors such as rearing

children, care for friends, authenticity can’t be precisely measured, however, they are essentially important to determine the real framework of quality of life. The ‘Subjective appreciation of life’ quadrant symbolises inner factors that determine the evaluation of life, e.g. appraisal of life, prevailing moods, overall appraisals, etc. Here subjective well-being, life satisfaction and last but not least happiness can be manifested (Veenhoven, 2000).

*Table 1*  
*Some sub-meanings within quality quadrants*

	Outer qualities	Inner qualities
Life chance	Livability of environment – Ecological, – Social – Economic – Cultural	Life-ability of the person – Physical health (negative; positive) – Mental health (negative; positive) – Knowledge – Skills – Art of living
Life results	Objective utility of life – External utility For intimates For society For mankind – Moral perfection	Subjective appreciation of life – appraisal of life aspects (Satisfaction with job; satisfaction with variety) – Prevailing moods – Overall appraisals

Source: Veenhoven (2003) p. 11

Reflecting on the happiness approach, Wilkinson (2007) reveals the “risk of prioritising short-term, pleasure seeking activity and it is relatively insensitive to the context in which the emotion is experienced” (in Daly, 2011, p. 41).

## MEASURING THE IMMEASURABLE

History of the welfare states goes back a long way and had a significant effect on research, but the methods were different from country to country. On the other hand, it is not surprising that welfare is increasingly becoming one of the most controversial and researched topics. “In the second half of the 1960s, social tensions brought into being the Social Indicator Programme. The first task of this programme was to build up a conceptual and methodological framework and then to interpret the social welfare” (Lengyel et al. 2002 p. 8). The next decades are likely to witness a significant rise in scientific attention in the field of qualitative and quantitative aspects of a person’s life. In the middle of the 1970s, Hungary joined the mainstream with the work of Rudolf Andorka, who was the father of the theoretical Social Indicator Programme (Lengyel et al. 2002).

The year 1972 opened up a new horizon in the field of economics when a revolutionary new indicator, Gross National Happiness, was introduced by King Jigme Singye Wangchuck in Bhutan. It is built on four pillars: “the promotion of sustainable development, preservation and promotion of cultural values, conservation of the

natural environment, and establishment of good governance” (Daly, 2011, p. 39; Helliwell et. al., 2012). This means that welfare has broadened its conceptual horizon, has been complemented with the meaning of social provision and has become more objective (Gough et al., 2006). Thus, in the frame of this initiation the theory became practice.

During a crisis it is hard to speak about welfare. Nowadays governments are faced with the difficulty of handling the rapidly worsening well-being. Welfare is often addressed as the issue of a successful economic policy. In order to ensure it governments have to develop an effective tool which is convenient for measuring and following this phenomenon. The core problem of constructing and applying indicators is their validity and reliability. GDP suffers from a number of pitfalls. Moreover, “GDP is not appropriate to measure health status, life expectancy or education and satisfaction” (Lengyel, 2002, p.5). As a result, the hegemony of GDP is over. Hard indicators, such as gross national product or households’ income, are well-documented so they can be used for prediction, but indicator, such as quality of life, is a hardly researched, and therefore it has to be treated carefully. The

characteristics of quality of life are not well understood and hard to deal with in depth. Since the quality factors are still poorly observed at an international level, they can raise further difficulties in terms of time series and cross-sectional comparison. Nevertheless scientific initiatives state that the welfare revolution is only just the beginning.

In Table 2, based on the Handbook of Social Indicators, (Land et al., 2012), I would like to demonstrate the main existing and often used indicators which are intended to measure quality of life. A great many indicators have been developed at national and international level or on the initiative of international organizations as the OECD. Fortunately, more and more national statistic bureaus are joining in this effort, e.g. in the USA, the Netherlands, and Australia. Since 2011 the United Kingdom has been preparing social surveys in which we can find issues related to quality of life. In 2012 The Guardian has published the results, notably the Happiness Index of the United Kingdom, (Davies, L.; Rogers, S.; 2012) and it is the one which perfectly proves its growing importance among citizens and government too.

*Table 2*  
*Fourteen current quality of life indices and some of their properties*

Index name	Disaggregates into subseries (domains)?	Disaggregates into subpopulations?	Standardizes each indicator?	Construction of index	Reflects citizens’ importance
Human Development Index UNDP (2001)	Yes, income, education, health	Yes, in later indices for the poor and women	Yes: max-min. income is log, not linear.	Additive with equal weights. Log (income) + education + health	No survey, but experts preview
Genuine Progress Indicator Redefining Progress (1995)	Yes	No	Yes: to dollars	Additive with equal weighting for all money units	No
Index of Economic Well-Being Osberg and Sharpe (2000)	Yes, income, investment, inequality, insecurity	No	Yes	Additive with unequal weights	No, though does sensitivity analysis on alternate weights
National Well-Being Index Kahnemann et al. (2004)	Yes, 19 domains considered	Possible, but not reported	Yes: to affect on 6 point scale	Additive with weights equal to time spent on that activity	Yes, time-use survey
Index of Social Progress Estes (1997)	Yes	No, though some indicators include only at-risk population	Yes	Additive with equal weights	Yes, panel of expert citizens
Index of Social Health Miringoff and Miringoff (1999)	Yes, 16 indicators. But not calculated over entire population. Includes vulnerable subgroups only	No, though some indicators describe only vulnerable subgroups	Yes: max-min	Additive with equal weights	No, fails to include GDP, average life expectancy
Happy Life-Expectancy Veenhoven (1996)	Yes, subjective happiness, life expectancy	No, though possible	No: cardinal measurement of both domains	Multiplicative with equal weights	No
American Demographics Index of Well-Being Kacapyr (1997)	Yes: reports individual indicators	No	Yes	Additive with equal weights	No
Netherlands’ Living Conditions Index Boelhouwer and Stoop (1999)	Yes, reports individual indicators but not sub-groups	Yes, reports by province	Yes	Additive with equal weights	No
Australian Quality of Life Index (-)	Yes, standard of living, health, relationships, what they are achieving in life, safety, community connection, future security	Yes	Yes	Additive with equal weights	No

Source: Land et al., 2012, pp. 190-191

The strengths of these indicators are that each seeks to involve individuals, and in order to succeed they try to evaluate them in depth. However, the strengths of these indicators are at the same time the weaknesses. Four shortcomings can be highlighted. First of all, they may not be able to measure the complete relevance of citizens' lives. Even though they attempt to cover the whole field of life, they involuntarily highlight particular coefficients while other and much more consistent ones are ignored. The second problem with these indicators is the inconvenient emphasis of the factors. Some factors are emphasized more despite of having a relatively low effect on quality of life, some coefficient are indicated as equal. The third problem is the unrepresentative population segmentation. Some indicators do not take subpopulations into consideration, although each subsegment has different life circumstances and they have different chances for welfare (OECD, 2011). Due to this shortcoming, very little is known about the qualitative factors of life. The fourth issue is that some indicators are built up from basic indicators, such as crime, unemployment, life expectancy, etc., but they are not enough in themselves to present real quality value, such as subjective well-being or happiness.

Land et. al. added to this group extra indicators referring to children's welfare: e.g. the Child and Youth Well-being Index, and Kids Count Index, which was introduced by the Annie E. Casey Foundation (Land et al. 2012 p. 191). Considering that they have less significance in terms of the objective of this paper, they are neglected here. In my opinion they rather correspond to subseries than a coherent and general social indicator.

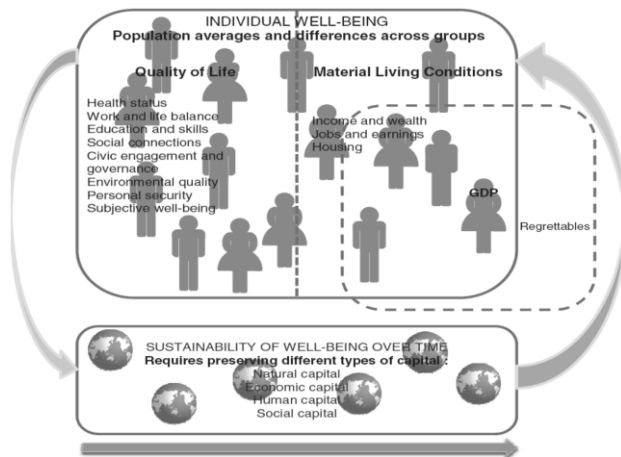
In addition the newest aspiration is connected to the OECD. It has a major initial task in determining the core factors of well-being. It was also one of the institutions to attempt to facilitate quality of life research at international level in addition to the European Commission (Beyond GDP Partners; 2012). The first conference devoted to 'Statistics, Knowledge and Policies' was held in Palermo (Italy) in 2004. It was followed by other two further events. The conferences in Istanbul (Turkey) in 2007 and in Busan (South Korea) in 2009 contributed to a 'Global Project on Measuring in the Progress of Societies' as their main objective. The 50<sup>th</sup> Anniversary of the OECD brought the first revolutionary breakthrough when it began its 'Better Life Initiative' in May 2011. In 2011 the working paper of OECD, 'How's Life? Measuring the Quality of Life', attempted to revolutionize welfare research. In September 2009, a report published by the Commission on the Measurement of Economic Performance and Social Progress was published which provided a framework for this report (Stiglitz et. al., 2009; OECD, 2011). This Commission is led by prominent researchers, e.g. Joseph Stiglitz, Amartya Sen and Jean-Paul Fitoussi. The Commission highlights 30 core points about how can the measurement and progress of well-being be improved. The 'How's

Life? Measuring the Subjective-Wellbeing' points out the two main objectives: to contribute to welfare statistics; and to encourage policy makers by giving more adequate and proper information about social progress. In order to achieve its success, the OECD designated 11 core categories which were divided into sub-indicators:

1. Income and Wealth (Household net adjusted disposable income, Household net financial wealth, Household final consumption, Subjective evaluation of material well-being)
2. Jobs and Earnings (Employment rate, Long-term unemployment rate, Average gross annual earnings of full-time employees)
3. Housing conditions (Number of rooms per person, Lack of access to basic sanitary facilities)
4. Health status (Life expectancy at birth, Self-reported health status)
5. Work-life balance (Long working hours, Time for leisure and personal care, Employment rate of mothers with children of compulsory school age)
6. Education and skills (Educational attainment, Students' cognitive skills)
7. Social connections (Social network support)
8. Civic engagement and governance (Voter turnout, Consultation on rule-making)
9. Environmental quality (Air quality)
10. Personal security (Homicide rate, Self-reported victimisation)
11. Subjective well-being (Life Satisfaction, Affect balance) (OECD, 2011)

The strength of this survey is its involvement of more subjectivity (e.g. self-reported health status, social network support, self-reported victimisation, life satisfaction and affect balance), so human life can be correctly mapped. In order to involve general public, the OECD has launched a website where everybody can contribute to the survey by establishing their own Better Life Index (<http://www.oecdbetterlifeindex.org/>). At the end a quality of life circle is drawn which consists of the key elements of long-term prosperity.

Figure 1 is intended to reframe 'the relative importance of life' trying to avoid the main faults of the former indicators. In order to be successful, the OECD has not created yet another general indicator. It has only collected the core indicators which have a significant effect on welfare. It is no accident that 'well-being outcomes' and 'distribution of well-being across individuals' are in the centre of the OECD investigation. It reflects that each segment of the society reacts to the current or a new economic policy in a different way. This proves that researchers should focus on the returns on scale of an intervention instead of observing their inputs. As a consequence, it is worth aggregating and evaluating sub-segments of a society according to age, income, housing, or education (OECD, 2011).



Source: OECD, 2011, p. 19

Figure 1. The framework of individual well-being

OECD divides the potential factors of welfare into three main categories: quality of life, material living conditions and sustainability. The quality of life category covers such factors as health status, work and life balance, education and skills, social connections, civic engagement and governance, environmental quality, personal security and subjective well-being. Furthermore income and wealth, jobs and earnings and housing can influence the material living conditions. These two categories mean the personal sphere and the factors below mean the global effect. The implementation of well-being is described as a cycle in which people's quality of life contributes to sustainable well-being. As a consequence, a long-term material well-being comes into being for each citizen. Researchers of the OECD attempt to avoid the trade-off between today's and tomorrow's well-being. Those initiatives are not unique. They do not prevail at supranational; but they are increasingly widespread among national statistical offices (OECD, 2011). The key to final success is to be found in the

relevant activities of national statistical offices and in openness to the initiatives.

## CONCLUSION

The redistributive role of governments seems to be more valuable than it was formerly, thus we cannot focus on economic damage only, but we should identify social revival as a basic factor of economic progress. A realistic concept of the essence of human beings is extremely difficult to conceive; therefore welfare is a highly elusive phenomenon. It transcends the conceptualization framework. The real difficulty is based on the lack of a meaningful statistical tool. The map of the human notion is essential. As a result of previous work, attention is concentrated on the happiness of people and their prosperity to an increasing extent.

Many international and national organizations are committed to exploring the potential coefficient of welfare, particularly the quality of life. Some of them are very successful because they involve a great number of subjective factors. However, the existing indicators suffer from some pitfalls, such as a lack of correspondence in the field of the citizens' life; incorrect emphasis; unrepresentative population segmentation; and lack of real quality value. On the other hand, many of the indicators are very impressive and revolutionary. The OECD study is unique in its kind. Its researchers seek to build up a common methodological framework of the real quality of life and the factors influencing it. Nowadays researchers and government have the opportunity to establish a revised fiscal and social policy. By using these indicators, the economic policy reform will not be only an empty phrase but a realistic goal. Last but not least we must not forget that "the economy serves individuals, not individuals serving the economy" (World Bank 2012, pp.17).

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