

Munk School of Global Affairs  
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# MEASURING NATIONAL WEALTH AND GOODNESS

The more we know, the more we know  
how little we know



Metrics are essential to making comparisons across space and time. We gather them to ascertain growth and decline and relative performance. Governments, international organizations, and independent groups gather data about virtually everything in virtually every country.

Gross National Product is a central metric in our modern world. A decade long exercise in national income accounting in the 1930s set the stage for a coherent and consistent measure of national production and wealth. GNP is, far and away, the most widely used metric in economic and political analysis.

Yet, GNP (and other attendant measures that emerged as part of a system of national income accounting) has come under fire, because it emphasizes material production and ignores other important aspects of national life. Many years ago,

it was noted that people with higher income did not necessarily evidence greater happiness. Others noted that measures of economic development ignored important elements of social development.

Senator Robert F. Kennedy made the point succinctly: “Gross National Product counts air pollution and cigarette advertising, and ambulances to clear our highways of carnage,” he noted, “It counts the destruction of the redwood and the loss of our natural wonder in chaotic sprawl... Yet 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 everything, in short, except that which makes life worthwhile.”

In the decades since Senator Kennedy made that statement, economists and others have sought alternate measures of national well-being and have tried to understand the correlation between different aspects of political, social, and economic development.

The United Nations issued its first Human Development Report in 1990, which defined development as a process of “enlarging people’s choices,” and noted that it included political freedoms and human rights as well as health, education, and a standard of living. In its 2010 report, human development was described as the “expansion of people’s freedoms to live long, healthy and creative lives; to advance other goals they have reason to value; and to engage actively in shaping development equitably and sustainably on a shared planet.”

Over time, the Human Development Index has broadened its scope. Focusing initially on aggregate national measures of health, education, and income, the Index has more recently incorporated measures of inequality to account for variations within a country’s population.

The Legatum Prosperity Index is a more recent measure, produced annually by the Legatum Institute. This Institute is “a London- based global think tank that promotes political, economic, and individual liberty around the globe, with a special focus on developing and transitioning countries.” Its index, “starts with a holistic definition of prosperity that includes both material wealth and quality of

life.” It pitches itself as “the only global index that measures both the factors that produce economic growth and those that produce happy citizens (or, more technically, “the subjective wellbeing” of a country’s citizens).” In other words, it uses “both objective and subjective data. It measures both the actual performance of countries as well as citizens’ perceptions of their lives.” It thus combines aggregate with survey data. The index should more accurately be described as a Prosperity and Satisfaction Index.

The overall index consists of eight sub-indexes: Economy, Entrepreneurship & Opportunity (E&O), Governance, Education, Health, Safety & Security, Personal Freedom, Social Capital. Each one has a logic and a substantial literature associated with it. Each is associated with both a sense of well-being and material wealth.

The two indices track each other to some degree; the correlation in ranking between the top 30 countries of the UN HDI and the top 30 in the Legatum index is 0.34 – with 1.00 representing a perfect correlation). That’s not bad, as a social science statistic, but it clearly indicates real differences in the two measures.

Those differences, and differences among other indices of national wellbeing, reflect deep rooted political debates: Is a nation’s wealth better explained by economic or non-economic variables? How much does democratic governance affect wealth? How important is inequality to wealth and satisfaction?

Over time, we have come to understand the importance of focusing on non-economic as well as economic factors. We understand now, thanks to these debates, that economic, political, and social development are intertwined rather than discrete and independent, and that our understanding of the links between economic growth and well-being is in its infancy.

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