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# Towards an economics of well-being

J. Allister McGregor and Nicky Pouw\*

There is growing concern that presently dominant frameworks in economics no longer provide a way of adequately addressing and analysing the problems of today's globalising and rapidly changing world. This article makes a number of fundamental proposals about how we might reframe economics to move it towards a clearer focus on human well-being. It develops arguments for a change in the basic ontological proposition and for the need to see 'the economy' as an instituted process of resource allocation. From this viewpoint, economics is then the study of resource allocation decisions and processes and the forces that guide these: from a human perspective it is about understanding who gets what, under what conditions and why? The paper argues that a pluralist approach to understanding the economy is necessary for political, analytical and technical reasons. Drawing on a range of contributions to heterodox economics, the paper argues that if we are to understand current crises and challenges, then our understanding of resource allocation in society must have a broader scope than is present in mainstream economics; it proposes a rethinking of economic agency and provides a critique of rational behaviour that is founded in shifting the emphasis from a narrow conception of welfare to well-being. Acknowledging human well-being as a multidimensional concept, the relationship between the well-being of the person and the collective is reconsidered and the methodological implications for the issue of aggregation are discussed. The article seeks to serve as a point of departure for formulating new research questions, exploring the relationships between human well-being and economic development and analysing economic behaviour and interactions in such a way as to bring us closer to peoples' realities on the ground.

*Key words:* Well-being, Pluralism, Ontology, Sustainable development, Poverty, Inequality

*JEL classifications:* A1, B4, O1

## 1. Introduction

There is growing concern *within* economics that presently dominant frameworks are no longer adequate to fully address and analyse the problems of today's globalising and rapidly changing economies (see, e.g., Stiglitz *et al.*, 2009; Medema, 2010; Coyle, 2007, 2011; Jackson, 2011; Oström, 2012; Evensky, 2012; Sent, 2012). Following the crisis of 2008, there has been increasing recognition that major global problems, such as the persistence of debilitating poverty, growing inequality and environmental

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degradation and destruction, represent systematic blindspots for the dominant economic framework. The dominance of the mainstream approach to economics has profound political ramifications as economic power dictates development outcomes and strategies and the relentless pursuit of efficiency growth leads to the underestimation of risks in financial models and a failure of regulation to address those risks. This is recognised by senior figures in the economics profession (see, e.g., [Krugman, 2011](#); [Colander \*et al.\*, 2009](#); [Stiglitz, 2012](#)). Investments in forms of development and social change that would promote greater social, economic and environmental sustainability tend to be afterthoughts in economic policy debates and only tend to be discussed if economic growth is considered high enough to afford such luxuries.

In this paper we present arguments as to why economics should be reoriented to focus on human well-being and make a number of proposals about what this entails. We use the term well-being in a comprehensive and hybrid sense to denote a holistic conception of living well, combining notions of objective and subjective well-being. This approach to human well-being is broadly reflected in many of the emerging national and international frameworks that are being proposed to assess well-being (see [Stiglitz \*et al.\*, 2009](#); [McGregor and Sumner, 2010](#); [OECD, 2011](#); [UK ONS, 2011](#); [Allin and Hand, 2014](#)). It conceives of well-being as having three basic and interacting dimensions: a material dimension, a relational dimension and a subjective dimension. In this type of conception of human well-being, no single dimension can be considered on its own to provide sufficient insight into how well a person is doing in their life and all three dimensions together encompass what is required to generate well-being for people. In basic terms we can think of a person's well-being as arising from a combination of what they have (material), how they are able use what they have (relational) and the level of satisfaction or subjective quality of life that they derive from what they have and can do ([McGregor, 2007](#)).

In a seminal paper (titled 'The Limitations of the Special Case', [Seers, 1963](#)) in the 1960s that provided a critical overview of the newly emergent literature on post-colonial economic and societal development, Dudley Seers questioned the ascendant neoclassical approach by pointing to the extent that it was narrowly founded in the knowledge and experiences of the early-industrialised countries of the North. He saw this as problematic because it meant that scientific principles and axioms were being built on a foundation of particular historical experiences, in respect of a distinctive set of institutional arrangements and containing a particular set of value judgements about development and progress. In a subsequent article titled 'The Meaning of Development' ([Seers, 1969](#)), he described how this had resulted in a limiting of development thinking and planning to a focus on issues of economic growth and cost-efficient production. He argued that any assessment of whether development could constitute societal progress should also involve consideration of measures of poverty, unemployment and inequality. His call was for greater attention to be paid to the impact of economic development on people and his warning was that economic development and social progress were not always automatically aligned.

Seers' arguments did not have much leverage on the subsequent development of mainstream thinking about economic development, but today we are at a different juncture. In the wake of the 2008 crisis, the Final Report of the Commission on the Measurement of Economic Performance and Social Progress ([Stiglitz \*et al.\*, 2009](#)) argued that it is necessary to shift the focus of attention of economists and policy-makers from production and growth to a concern for sustainable human well-being.

In its challenging recommendations, the report proposes the use of complementary economic performance indicators, alongside gross domestic product, to better capture societal progress, the sustainability of that progress and the quality of life it delivers. In particular this would include indicators that take account of social relations and the subjective values and evaluations that underpin our judgements about our quality of life.

We argue here that the problem is not just one of indicators. The way that mainstream economics has framed societal progress cannot be reduced merely to a measurement problem. In this paper we pose a more fundamental and ambitious question: What would have to change in economics in order to address the issue of how to protect and promote sustainable human well-being *a priori*? The notion of sustainable human well-being that underpins the arguments in this paper entails concerns for both social equity and environmental sustainability (Wilkinson and Pickett, 2009; Gough and McGregor, 2007; Stiglitz, 2012; McGregor, 2014; Lawson, 2015). The paper cannot provide an expanded discussion of sustainability, but the basic proposition on which the paper builds is that sustainability must be considered as being interdependent and intertwined with human well-being (WCED, 1987; Anand and Sen, 2000; McGregor, 2014).<sup>1</sup> The interplay of the social, natural and built environments creates the conditions for human well-being both in the present and in the future, but this interplay is an interactive process and failures in human well-being in the present will tend to result in the unsustainable degradation of natural and built environments (Coulthard *et al.*, 2011).

Our argument starts at a fundamental level, arguing that it is necessary to adopt a conception of the person that is ontologically different from the individualistic and reductionist notion of ‘*homo economicus*’, or rational economic agent (Douglas and Ney, 1998; Sen, 1977, 1979; Davis, 2003; McGregor, 2004). We propose a conception of the social human being: a person whose identity and functioning can only be fully understood as emerging through their relationships with others (Deneulin and McGregor, 2010). This fundamental shift, then, entails reconsideration of other key economic concepts, their related principles and axioms and the methodology of contemporary mainstream economics. To do this, we build on the groundwork that has been laid in various subfields of economics and, in particular, in the strongly resurgent field of behavioural economics (Gintis *et al.*, 2005; Kahneman and Thaler, 2006; Skidelsky and Skidelsky, 2012; Bowles and Gintis, 2013; Lawson, 2015), institutional economics (see, e.g., Langlois, 1986) and political economics (see, e.g., Lawson, 1997, 2003, 2015). The propositions that flow from these insights lead us towards an alternative framework with which to study the economics of human well-being. The framework that is presented here is by no means complete, but it is developed to the extent that it illustrates the possibilities that emerge if we open up economics to other social science perspectives and ideas, whilst at the same time seeking to preserve the robustness and distinctiveness of the discipline.

The article is organised as follows. In Section 2 we explore the proposition that economics requires a pluralistic approach to how we organise and then analyse our societies. In Section 3 the arguments for understanding the economy as an instituted

<sup>1</sup> The Brundtland Commission definition of sustainable development expresses this well: ‘Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs’ (WCED, 1987, p. 43).

process of resource allocation are elaborated. In Section 4 we discuss why it is necessary to redefine the concept of economic agency and its underlying assumptions about rational choice. Section 5 explains how we propose economics should broaden to focus on human well-being rather than a narrow conception of welfare. The methodological implications of such a framework and questions for its uses and further exploration are discussed in Section 6, followed by our concluding reflections in Section 7.

## 2. A case for pluralism in economics

Since the work of Dudley Seers, many others have argued that post-war neoclassical economics has developed a wide range of blindspots as a consequence of its monist approach, most notably these include an inability to take account of issues of persistent poverty, inequality and environmental degradation and destruction (Atkinson, 1983; Townsend, 1993; Sen, 1999; WCED, 1987; Banuri *et al.*, 1996; Dasgupta, 2001). Although China, India, Brazil and Russia are sometimes represented as providing alternative models of development, their rapid economic rise also has been accompanied by significant inequality and negative spillover effects on the environment (see, e.g., Liu and Diamond, 2005; Kaygusuz, 2007; Baer, 2008; OECD, 2008; World Bank, 2010, 2013). Despite their different historical development pathways, mainstream economic growth models have also dominated the development process in these countries and their politicians have shown limited willingness to question the growth paradigm or to deal with the consequences for marginalised groups and the damage to the environment that flow from this development model.

As we are aware from recent major contributions to the literature (Piketty, 2013; Wilkinson and Pickett, 2009), the primacy given to the pursuit of private wealth and the ways that governments sanction and support this has served to strengthen the economic and political power of those who are already in a privileged position, while people at the bottom of the income distribution receive limited benefits and are marginalised from the development process. Over recent decades we have witnessed much economic growth around the globe, but it has been criticised for not being sufficiently 'inclusive' (OECD, 2014; Gupta *et al.*, 2015) and it has not resulted in a markedly more equitable distribution of human well-being either nationally or on a global scale (Bourguignon, 2015). Those not 'included' or unheard find themselves continuing in chronic and damaging poverty or being placed in increasingly vulnerable or precarious circumstances (Standing, 2011). In a highly critical commentary on contemporary economics, Smith and Max-Neef (2012, p. 128) propose that the world is 'under the spell of a dehumanized economy'. They suggest that: 'There is never enough for those who have nothing, but there is always enough for those who have everything' (*ibid.*, pp. 128–9). Echoing the less strident voices of others, they argue that this has profound negative repercussions for the stability of economic growth and the prospects for human well-being in the longer run (Coyle, 2011; Skidelsky and Skidelsky, 2012).

The key points that we take from this are that the currently dominant framework in economics has considerable value content and plays a political role in global society. There is a double jeopardy here: not only does the current monist economic framework reduce political space for debate over what constitutes progress, but it misdirects economic policy in ways that are damaging for societies and self-defeating for the discipline. Recommendations on possible routes to change in economics range from a modest 'opening up of the discipline' in order to take on board insights and

epistemological viewpoints from other social science disciplines, to embracing more radical approaches to economics. As ‘mainstream’ economics begins to show signs of becoming more pluralistic again, the time is right to bring a number of different insights together and contributions from a range of heterodox economics schools of thought can be brought together to provide possible building blocks for an economics that is more focused on human well-being.

When we focus economics on human well-being, then the moral case for pluralism in its own right becomes clearer. Since people are different in their conceptions of well-being and also in what they think should be done to achieve this, it is necessary to permit and even encourage different (pluralistic) ways of understanding and evaluating the economy. These different conceptions and strategies reflect differing value positions in our societies and identify criteria that might be used to evaluate economic performance beyond efficiency. This is the heart of a political debate that economics can no longer assume to avoid: it is about negotiations between different conceptions of the economy and society and the different proposed strategies for achieving sustainable development and social progress.

This major contention about the fundamental relationship between economics and democratic principles in our societies is also supported by the criticism of monism from other more analytical and technical standpoints. [Schlefer \(2012\)](#), for example, tackles a major conceptual underpinning of ‘the single-point theorem’. The idea that lies beneath ‘the metaphor of the invisible hand’ is in essence a mathematical idea<sup>2</sup> that states that a function  $F$  exists that has at least one fixed point in a continuum of points for which  $F(x)=x$ , with  $F$  having a number of properties that can be stated generically. In this world, economic agents gravitate towards this point as if led by an invisible hand. In order to solve this function, a strangely metaphysical metaphor is resorted to; ‘the auctioneer’ moves agents towards the single optimum point ([Schlefer, 2012](#), p. 9). In a multidimensional spectrum and with a continuum of possible solutions to an economic problem, the idea that multiple optima exist is more likely than a single optimum point. This implies that criteria other than efficiency to evaluate the performance of the economy will be required (see also [Munda, 2016](#)).

A further exception to the singular optimum notion are those situations in which only bad alternatives present themselves (e.g. in situations of widespread poverty and hardship), or the pursuit of jobless, ‘empty growth’ in the aggregate because it consists of speculative investments and housing bubbles without increases in real asset values ([Pouw, 2011](#)). The optimal point at which the economic agent is behaving rationally and in a cost-optimising manner (efficiently) may not be among the possible alternatives. If the person wants to survive in the short run, then it is possible that only suboptimal solutions will be available, for example when people are forced to accept below-minimum wages or inferior/harmful working conditions that are detrimental to their health. [Hsee et al. \(2012\)](#) explain that suboptimal solutions occur if salient rules such as inequality prevail.

Finally, the case for pluralism also can be made from a politico-technical technical critique of how monistic economics deals with the issue of ‘value heterogeneity’ and ‘value endogeneity’ amongst economic agents ([Sen, 1984](#)). Even if multiple identities and heterogeneity across agents are acknowledged *a priori*, economic model construction then commonly proceeds on the basis of the *average* behaviour observed at one point in time. Most

<sup>2</sup> [Schlefer \(2012, p. 9\)](#) draws the analogy with a geometric idea about the unique point of gravitation to which all water navigates in a cup of swirling water.

economic models benefit from removing ‘outliers’ and extreme data points from the analysis. This means that economic analysts tend to screen out exceptional or minority cases, but we know that innovation, critical change and economic tipping points are often produced in the margins. Instead, the average observed behaviour is set as the norm and consequently used for identifying causal linkages and making predictions about future behaviour and economic outcomes. This limits the way in which data are collected and relationships in the economy are analysed. Mathematical sophistication in economic model construction and application, and these limitations in how data are analysed, are seen as contributing to the scientific rigour of contemporary economics. By admitting the possibility of different conceptual and methodological approaches, pluralism is presented as threatening to undermine the rigour of the discipline. As a result, there is a disconnection between the extent to which it is seen as necessary to reintroduce pluralist perspectives in contemporary economic debates and the type of articles that are being published in high-ranked journals.

In shoring up its own intellectual hegemony, mainstream economics has tended to emphasise issues of ‘rigour’. Heterodox economics is consequently often accused of being insufficiently rigorous and it is implied that pluralism means that ‘anything goes’ (Lee, 2012), but the acceptance of pluralism cannot be seen as a causal erosion of rigour. Whichever conceptualisation and methodology is adopted, there are still appropriate (albeit different) scientific criteria that correspond to the different ontological and epistemological positions in which they are founded and these must be used to judge whether a contribution constitutes ‘good’ or ‘bad’ social science.

Rather than dilute the ‘science’ of economics, the admission of pluralism contains the possibility of providing alternative and enriching insights into different ‘economic’ processes in a world whose complexity and multidimensional character is increasingly recognised. In her article on ‘Pluralism in Economics’, Esther-Mirjam Sent develops the argument that ‘[a] lack of success of monism in economics, strengthens the case for pluralism’ in both theory and methods (Sent, 2012, p. 2). The International Confederation of Associations for Pluralism in Economics (ICAPE) puts it well when it observes that, ‘This is not to say “anything goes”, but that each tradition of thought (Austrian, feminist, old and new institutionalist, Marxian, neoclassical, Post Keynesian, social economics, Sraffian, etc.) *adds something unique and valuable to economic scholarship*’ (emphasis added; ICAPE, 2012, p. 1).

Tony Lawson (1997, 2003) argues for a ‘processual’ view of the economy (the economy as a social construct). This constructivist turn is similar to that taken in many of the other disciplines in the social sciences society and draws on the ways in which institutional economists have thought about markets, property rights and institutions (Langlois, 1986; Hay, 2016). Lawson has identified five distinct properties of social processes, which if applied to the economy lead to a different perspective on how the economy works. These are of a system that is: (i) an instituted process; (ii) open to influences from outside the economy (open system); (iii) structured and layered; (iv) characterised by internal relations; and (v) having emergent properties (Fullbrook, 2009). An emergent property is a characteristic of all social phenomena in that they are dependent on something that pre-exists and are the outcome of human interactions (Lawson, 2015).<sup>3</sup> These five properties provide a useful structure for our next steps in building a conception of an economics of well-being.

<sup>3</sup> In Lawson’s own words: ‘In particular I have argued that social phenomena specifically (i.e. those whose existence/reproduction depend necessarily upon human interaction) are, or are bound up with, totalities or systems that emerge from, and can causally act back upon, whilst yet remaining dependent upon, though causally and ontologically irreducible to, a pre-existing non-social reality’ (2015, p. 360).

### 3. Five distinct properties of the economy as a social process

#### 3.1 *The economy as an instituted process*

The view that the economy is an instituted process of resource allocation that is socially constructed and dynamic over time and place provides a fundamental point of departure for an economics that is more focused on human well-being. Recent work developing the concept of and methodology for understanding human well-being arrives at a similar position, seeing the state of human well-being as ‘an outcome that is continuously generated through conscious and subconscious participation in social, economic, political and cultural processes’ (Coulthard *et al.*, 2011, p. 6; McGregor, 2004; Gough and McGregor, 2007). In an effort to engage with reality of the lives of the people whose well-being we are seeking to understand, economic relationships are understood as being embedded in a broader context consisting of a political realm, a society and culture and a natural and built environment, which all play a role in ‘economic’ transactions. This approach, which resonates with Karl Polanyi’s notion of the economy as an instituted process (Polanyi, 1944), promotes an understanding of the economy that requires social and political economy analyses.

Defining the economy as the instituted process of resource allocation (Polanyi, 1944; Pouw, 2011; Johnson, 2009; Langlois, 1986; Lawson, 2003, 2015) makes the power differences between resource agents more explicit and enables us to explore how their decision-making is not narrowly economic but informed by a sense of identity, community and their relationships to others and their environment. This widening of scope of what shapes economic decision-making is why, in this paper, we subsequently refer to economic agents as ‘resource agents’.

#### 3.2 *The economy as an open system*

From this perspective, economic analysis entails the acknowledgement of instituted power relations that operate between resource agents at all levels. Some of these are embodied in codified laws, rules and institutions and others are more deeply embedded in cultural values, norms, customs and beliefs (Lawson, 1994, 1997, 2003). The economy is thus an open system that is influenced by ‘exogenous’ forces, including socio-cultural, political and environmental conditions and change. In this view, resource exchange between agents is driven not only by relative prices within the narrowly defined system, but by a wider range of forces, including: power differences in resource and market access and control; people’s culture and social habits; legal rules about factor payment; and concerns about the relationship between the natural environment and production processes.

#### 3.3 *The economy as structured and layered*

The economy is structured and layered in the same way as broader social processes tend to be (spatially and temporally) structured and layered (Lawson, 2003). Economic structure refers to the way in which the economy is organised around its various resource agents, institutions and sectors. Economic planning and planning models are organised around these structures and layers. For example, the system of national accounts adopts the categories, structures and layers that are recognised in the economy at a certain moment in time and draws boundaries between them. However, these categories, structures and layers are dynamically changing over time, and also



differ between different types of economies and societies. By ‘layering’ we refer to the fact that production, consumption and exchange of economic goods and services take place at multiple levels (micro, meso and macro) that interact. These are also characteristics that are used to define complex systems and are integral to the notion of sustainability that we have adopted here (see [Ramalingam et al., 2008](#)).

### 3.4 The core internal relations of the economy

Following [Polanyi \(1944\)](#), [Polanyi et al. \(1957\)](#), [Langlois \(1986, p. 15\)](#) and [Lawson \(2003, 2015\)](#), who see market structures and institutions as processual in themselves, we propose here that in order to capture something of this complexity whilst still retaining some parsimony required by modelling, we need to consider three interconnected domains with which to comprehend the structures and layers of the economy and their dominant allocation mechanisms. These allocative mechanisms allow us to see more clearly how economy and society are (*iv*) *internally related* through resource agents and resource flows:

1. individuals & households & communities -> *reciprocity and mutual support (personal relationships that support flourishing and provide the conditions for well-being as a person and as a member of a collectivity).*
2. private sector (national and international firms) -> *market exchange (personal and impersonal relationships of exchange that provide opportunities to improve well-being).*
3. public sector (national and international government) -> *redistribution and regulation (personal, impersonal and imagined relationships that produce the arrangements that seek to enable people to live well together).*

In the first domain, individuals, households and communities together make up the unpaid economy. In the second and third domains, the private and public sectors together constitute the paid or monetised economy. The three domains are intrinsically connected through the following: the scope of decision-making and movement of resource agents across all three domains (interchangably and simultaneously); their exchange of resources; the institutions that regulate their behaviour; and the values embedded in those behaviours. If we are to understand resource allocation decision-making and the ways that real economies function, then it is not helpful to completely separate these three domains from each other ([Johnson, 2004, 2009](#)).

Within the private sector, market exchange is the dominant allocation mechanism by which decisions about the production, consumption and distribution of resources takes place. Money and rules (contract law, regulation, etc.) facilitate impersonal market exchange between resource agents within different sectors of the economy. However, market exchange in real life comes in many forms: from impersonal exchange (electronic transactions) to more personalised forms of face-to-face exchange that are bound up with personal relations. Even without face-to-face contact, agents often engage in market exchange out of a feeling of being part of ‘imagined communities’, in the sense of [Benedict Anderson \(1991\)](#) and in which goodwill and (brand) loyalty are in play ([Hirschman, 1970](#)).

The prime mechanisms of allocation in the public sector are redistribution and regulation. Governments collect taxes and earn income from assets that are then used to distribute and redistribute resources to different groups within the economy, (for example through subsidies to private companies, social investments in education and healthcare for individuals and households, infrastructure investments to villages and communities of people and through regulating the use of physical space and the natural environment by all agents).

In the unpaid sphere of the economy, individuals, households and communities allocate resources on the basis of social mechanisms, such as love, reciprocity and mutual support obligations embedded in family relations and social and cultural ties. Aside from deeper forms of affection and duty-driven resource sharing, the principle of reciprocity also supports cooperation and care within families, neighbourhoods and other forms of collectivity. Where it is either implicitly understood or explicitly acknowledged, reciprocity builds systems of relationships that provide continuity and some predictability in resource sharing. They are systems of relationships that are usually founded in beliefs about social, political and environmental sustainability (Oström, 1990). There is no need to be romantic about these relationships in households and communities and it is important to acknowledge that as much as a household or community may be a locus of cooperation, care and mutual support, there is also the possibility of conflict and strife, sheer oppression and discrimination both inside and outside the household domain (see, e.g., Sen, 1989B), as much as there is in the other domains (private and public sector).

The need to view the paid and unpaid economies as part of the same system is illustrated with reference to the contemporary concern in many developed countries for the work–life balance. A work–life balance that reflects or causes neglect of unpaid roles and functions (such as the care of the young, old or disabled) is seen as not only having serious potential adverse effects on the mental health and flourishing of the individuals concerned, but also as having impacts on relatives and the functioning of families and communities. From a mainstream economics perspective, however, this is made into a personal problem, whereas if viewed as having negative implications for the effective functioning of the economy as an integral whole, then this becomes a matter of social concern.

Many forms of exchange based on reciprocity and other non-market relations are overlooked or poorly attended to in economic analysis and this causes mainstream models to paint only a partial understanding of what drives human economic behaviour and how microeconomic patterns translate in macroeconomic change (and vice versa). In policy terms, issues of the social (non-market) allocation of resources are not considered a core part of the economic policy agenda and instead are swept up into a residualist social policy agenda (UNRISD, 2005). In such a residualist view, social policy is seen as separate from and an adjunct or support to the market (Polanyi *et al.*, 1957; Esping-Andersen, 1985). However social policy can also be seen as an integral part of the economy, contributing to economic development, equity and sustainability, and as such it cannot be treated simplistically as competing with economic growth for resources.

### 3.5 *The economy has emergent properties*

When used for economic planning purposes, the objective of economic analysis is prediction. An economics of well-being requires different metrics to play a role in economic analysis, providing the possibility of exploring different objectives (differing purposeful behaviours) and different values (see also Munda, 2016). There is thus not one criterion that can predict economic outcomes; there may be multiple criteria that apply to different subgroups in society. This leads at best to scenario-based thinking, rather than single-point predictions. The economy has emergent properties when we consider aggregating multidimensional well-being from the individual to the macro level. The very nature of economic relationships can change in this aggregation process, but

they can also change over time because of uncertainty and shocks. The current methodological challenge for economists is to think around standard models and identify (new) feedback loops, explain the anticipatory behaviour of heterogeneous resource agents and find ways to deal with multidimensional risk and uncertainties.

To recap, the definition of the economy as an instituted process of resource allocation by resource agents indicates the sphere of competence for economic analysis: economics addresses problems around the allocation of resources by agents in both the paid and unpaid economies. Resource decisions and flows take place in a context of a distribution of power and authority that is to a greater or lesser extent institutionalised. Goods and services are allocated on the basis of multiple mechanisms, such as (re)distribution in the public domain or reciprocity in the unpaid domain of individuals, households and communities. But a broader range of other values and mechanisms can also be taken into account (e.g. extortion, coercion and altruism) in order to improve our understanding of how and to whom resources are allocated in society.

#### 4. Emergent resource agency

At the heart of the welfare-centred approach in neoclassical economics is the assumption that all individuals are rational economic agents, i.e. people pursue the maximisation of utility in a self-interested manner. Many heterodox economists see this as one of the core fallacies of neoclassical economics. By virtue of the foundational position of seeing all economic agents uniformly as being rational and well-informed people who solve their ‘economic’ problems in an optimal manner, being quite detached from their other, multiple identities, we overlook the complexity of economic agents and the heterogeneity between them (see, e.g., [Anand, 1993](#); [Kahneman, 2003](#); [Sen, 2006](#); [Kahneman and Thaler, 2006](#); [Sent, 2012](#)). The neoclassical axiom of the optimising economic agent under assumptions of strict convexity and monotonicity ([Sent, 2012](#), p. 11) does not hold in the real economy. A lack of awareness and information, unstable<sup>4</sup> and adaptive preferences ([Sen, 1985](#); [Nussbaum, 2000](#)), psychology, cultural and historical values and other subjectivities (e.g. morality and custom; van [Staveren, 2001](#)) all influence the range of criteria for decision-making.

By implication, what is an optimal choice for one human being at one point in time is not necessarily an optimal choice for the other. People are different and pursue different priorities in life: as we have noted above, their views of what constitutes well-being differs, as do their views of what they should do to achieve that well-being. But well-being cannot be achieved by people in isolation; it is achieved through their relationships to others in society. In this respect, people must seek to achieve their well-being by reaching compromises with the well-being aspirations and strategies of others. From this perspective, we can observe that at the heart of understanding the economy as an instituted process of resource allocation is the recognition that people do not just seek to live well in terms only of improving their own individual well-being, but that they must seek to live well together with others: where the challenge is to simultaneously improve one’s own well-being while at the same time not destroying

<sup>4</sup> Assar Lindbeck, back in 1971 in his book *The Political Economy of the New Left* ([Lindbeck, 1971](#)), already pointed to the problematic practice of taking consumers’ preferences as given. This creates disincentives for economic analysts to take consumer preferences to be a serious matter for study.

relationships with others in society that make so many of the constituents of well-being possible at all (Deneulin and McGregor, 2010). This is why a fundamentally different and non-individualistic conception of the person is required (McGregor, 2004; Douglas and Ney, 1998).

Although Herbert Simon (1957) recognised and explained the limitations of the *maximisation* approach many years ago, the notion of the rational economic agent has marched forward in a monistic and exclusionary manner. For epistemological reasons, Amartya Sen, among others, has argued that the rationality assumption in economics should not be limited to self-interest (Sen, 1977, 1979). Instead, people are capable of giving credible commitments to other courses of conduct. Socio-cultural, political and economic institutions influence people's behaviour and interactions and together these shape economic decision-making as an emergent process. Agency and the surrounding structure of institutions and meanings interact continuously in shaping human decisions and behaviour (Foucault, 1978, 1982; Giddens, 1984).

Alternatives to the narrow economic concept of agency have been proposed, including the notions of 'bounded rationality' (first coined by Simon in *Models of Man* in 1957) and 'purposeful behaviour' (by Nancy Folbre, 1994). These two can be seen as at ends of a continuum of alternative perspectives. Building on the existing framework, Simon postulated that rationality is restricted by people's lack of information, cognitive abilities and time constraints. Taking a more radical departure, Folbre argues that people act with a certain purpose in mind; this purpose may not always be the most cost-effective one nor informed by self-interest only, but it may well enhance human well-being. Both concepts allow for a more heuristic interpretation of economic behaviour and design of behavioural models. For example, Daniel Kahneman (2003) has constructed maps of economic models that take bounded rationality of economic agents as the starting point. Instead of assuming that the economic agent is seeking a maximised solution, bounded rationality means that people strive for satisfactory solutions. The use of 'satisfaction' here is not glib and underlines that there a subjective dimension of well-being, which when accepted may help us understand people's 'inefficient' choices in the material well-being dimension.

Going further than just accepting a satisficing position, we argue that the subjective dimension of well-being also encompasses consideration of aspirations and goals. In order to understand 'the economy' in its whole sense and as an instituted process, it is necessary adopt the purposeful behaviour concept that Folbre's more overtly political conception suggests. This indicates that people have some sort of a goal in mind and that they take initiatives and make choices to pursue what they regard as important for their own well-being, but always doing so in relation to others. In a way similar to that expressed in Bourdieu's notions of *doxa* and *habitus*, this entails them in both conscious and unconscious recognition of how their well-being depends on appreciating and accommodating the well-being aspirations of others (Bourdieu, 1977).

This challenge of taking account of multidimensional well-being and heterogeneity between resource agents is compounded by acknowledging that what people consider as important for their well-being changes over their life course and also adapts to changing specific contextual circumstances. These are two important effects that cannot be discussed at length here, but alongside the preceding discussion these provide arguments for accepting that any economics of well-being must take the issue of adaptive preferences seriously.

When taken together, these considerations provide a major set of counterarguments against the necessary assumption in the neoclassical approach of stable and lexicographically ordered preferences. From this perspective, we can redefine economic agency as the striving to solve human well-being problems in dynamic contexts. To summarise, in this model, resource agents must be thought of as purposefully and continuously striving to sustain, protect and improve their well-being in relationships with others in society. The capacity of women and men to solve a resource problem and move towards that objective is influenced by social constructs and power relations, as well as by their own complex identities and aspirations.

## 5. From welfare to well-being

The concept of welfare has played a central role in the evolution of neoclassical micro-economic theory and methodology. Although the term ‘welfare’ has a long history and has had wider connotations, its development from the nineteenth century onwards has been shaped by the emergence of the market economy and the economics that has developed for understanding it. During this process, the term ‘welfare’ has been reduced to refer primarily to material well-being and welfare has been set in a counterpoint relationship to economic growth and production. This is well illustrated by Esping-Anderson’s use of the concept of ‘decommodification’ in his analysis of the evolution of welfare states (Esping-Anderson, 1990). In this view, economic growth is seen as the main provider of improvements in welfare. Growth is seen as providing jobs and for increased incomes to be invested in consumption, health and education, while at the same time providing the tax base from which to fund the services to meet the demands for these investments. In the tradition of nineteenth-century welfare states, social welfare is then provided to those who, for one reason or another, are not able to benefit from economic growth.

While economic growth is vital at different stages of development to provide the food and incomes to bring populations out of absolute poverty, when we delve deeper into the historical and present day effects of growth, it is apparent that it does not always equate with improvement in our broader conception of well-being. While material conditions may improve, other aspects well-being may suffer (e.g. the quality of the environment that one is able to live in, work–life balance, the social institutions of neighbourhood and community). Both the relational and subjective quality-of-life outcomes of well-being are often reduced during development processes that are myopically focused on growth (for the case of development of coastal India, see McGregor, 2014).

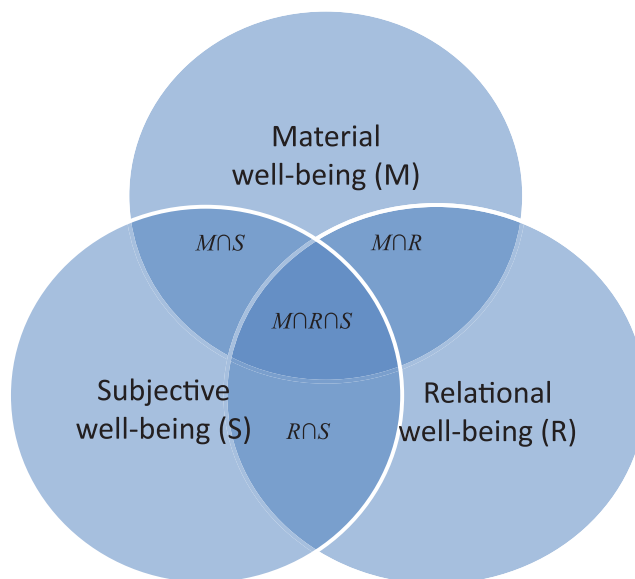
If we broaden from a narrow view of welfare to the three-dimensional conception of well-being that was introduced at the outset of this paper, both the relational and subjective dimensions of well-being need to be reintroduced to a framework for understanding resource allocation. To recap: the relational dimension seeks to take account of the integral importance of social relationships to our well-being. This dimension reflects Amartya Sen’s notion of ‘functionings’ in that it is not the ‘things’ that we have that make us well, but what we can do and achieve with those things (Sen, 1984, 1985, 1989A). In instrumental terms, relationships enable us to translate the material things that we have into valued outcomes (such as our labour power and land to nutritious food and good health); in more intrinsic terms, relationships enable us to meet less tangible, but no less important, human needs such as love, affection, a sense of

worth and identity. The subjective dimension of well-being recognises that the quality of the material and relational achievements are then translated into a person's subjective evaluation of their quality of life. While there are well-recognised economists' criticisms of measures of the 'happiness' conception of subjective well-being (*cf* Johns and Ormerod, 2007), there are also strong advocates of it (Layard, 2005). In this three-dimensional conception of human well-being, the measure of subjective well-being that it is proposed is not the 'happiness' that most economists have focused on, but a measure of subjective well-being based on 'quality of life' approaches to this subject (Ryff, 1989; Camfield and Skevington, 2008). This takes account of what it is that people themselves regard as important for their quality of life and their assessment of their level of subjective satisfaction in their achievement in respect of that.

It is not credible in either scientific or political terms to achieve a comprehensive and realistic assessment of a person's well-being without taking account of the view from the person whose well-being is being assessed. There are many examples from a wide-ranging literature that explain situations in the real world where people may be doing well in terms of the material well-being, but nevertheless are dissatisfied in their own judgements of their quality of life (Graham, 2010). From the perspective of an economics of well-being, whether or not we agree with these judgements is neither here nor there and the place of moral judgement is a matter of wider debate. Whether these judgements are right, wrong or contradictory, they are a reality that must be contended with in our understanding of how societies and economies work.

In this conception of well-being, we recognise that real people may place different emphases on the different dimensions of their well-being. In Figure 1, the three dimensions of well-being are drawn as a basic Venn diagram, since the three dimensions can be analytically considered as different but interacting sets. This is the first step in logical thinking about all possible relationships between the elements of the represented sets. Some people may prioritise the pursuit of their overall well-being primarily in terms of material well-being (M), but at the expense of their relational (R) and subjective well-being (S). Alternatively, others may either choose, or be forced by circumstance to downplay the fulfilment of their material needs, prioritising instead either their relational or subjective well-being. A desirable or valued state of overall well-being may also be pursued by means of a concerted effort in two dimensions ( $M \cap R$  or  $M \cap S$  or  $R \cap S$ ), but most realistically it will be a combination of all three dimensions together ( $M \cap R \cap S$ )—this is where the dimensions of well-being intersect. The realisation of well-being can thus be assessed in an integrated and comprehensive manner by looking at this intersection.

We can also begin to distinguish between (i) personal well-being and (ii) collective well-being. Although we can speak of 'well-being' in general, these two terms are of use when exploring the relationships between outcomes and processes of well-being between different scalar levels. Where personal well-being concerns those processes and outcomes that determine a person's quality of life, collective well-being refers to the quality of life that is enabled for a collective (or group) of people. This collective can be a household, community or neighbourhood, a group of women or men, a social network or a nation's population. However, it is necessary to distinguish between the personal and the collective, because we understand that from a dynamic perspective proposal that well-being must also be understood as an emergent process in itself that stands subject to qualitative transformation when it is aggregated to a higher, collective level. There are often



**Fig. 1.** *The three dimensions of well-being intersecting.*

trade-offs between personal and collective well-being and between levels of well-being over time. The notions of personal and collective well-being recognise the existence of trade-offs and potential synergies. Trade-offs and synergies are the source of qualitative transformations taking place in the aggregation from the micro to the macro level. People may be willing to sacrifice their own well-being for a broader and more diffuse group of people (e.g. when volunteering to go to war) and, mirroring this, the collective may ‘give back’ or ‘take from’ individual well-being. This conceptualisation provides room for understanding human relationships beyond simple one-to-one transactions and person-to-person relationships and in terms of person-to-collective relationships. These person-to-collective relationships have the additional quality of playing a key part in creating identity and feelings of belonging, both of which are important for the person’s well-being.

This insight into a more social conception of human well-being (McGregor, 2007; Lawson, 2015) adds to our understanding of resource decision-making as located in a complex system, and the patterning of these decisions as both an outcome and underlying generator of an emergent and multilayered process. The norm of being willing to make personal sacrifices for the greater good, referred to by Larry Kramer (2014) as ‘diffuse reciprocity’, may produce a sense of greater collective well-being. The Netherlands, historically, has provided an example of this, where the combination of tolerance of other values within the nation state and willingness to contribute (through high tax rates) to collective civic life and culture has translated into relatively low levels of income inequality and well-being failure (OECD, 2015).

In line with Bowles and Gintis (2013), the model that we propose here builds on the many empirical observations that human beings are social and cooperative in nature and that they will often act in the interests of the collective as a means of survival. As Ray and

Liew (2003, p. 386) put it, ‘Social interactions enable individuals to adapt and improve faster than biological evolution based on genetic inheritance alone.’ Group or community formation is an effective vehicle to deliver both personal well-being and the conditions to support the further achievement of well-being in a particular collective. The agency of the collective should therefore not be overlooked in any exercise of economic modelling and planning that focuses on human well-being.

## 6. Methodological implications and uses

One of the biggest challenges economists face is how to approach the aggregation problem when engaging in model design and economic planning, i.e. how to connect microeconomic phenomena and processes with macroeconomic outcomes and vice versa. Institutional economists such as Coase (1992, 1998) and North (1995) have tried to fill this gap, but are criticised as having only partially succeeded because of their relative neglect of non-market institutions and of the history of institutional change (Chang, 2003). Over time, the realisation has grown that economic aggregation problems cannot simply be approached uniformly as a static endogenous summation problem (i.e. the summation of stable preferences). Endogenous summation builds in weaknesses to analysis for two reasons. First, it sidelines potentially important exogenous factors and events that appear only at higher levels of aggregation (e.g. pollution and insecurity). As has been argued by Polanyi (1944) and many heterodox economists after him (see Folbre, 1994; Lutz, 1999; van Staveren, 2001; Davis, 2003; Fine, 2010; Lee, 2010), these exogenous factors could be political, social, cultural and historical in character and are well understood to determine economic processes, structures, policies and outcomes in decisive ways. Second, it ignores the possibility of emergent properties of resource exchange relationships changing in significance and character over time, because of adaptation. Emergent properties are generally unknowns and they present themselves in the very process of interactions between lower-level entities aggregating to higher-level outcomes. For example, if rich people (in a poor country) want to build high fences around their compounds in order to feel safe, this may contribute to high levels of crime and insecurity in society as a whole because of fewer interactions and declining trust and understanding across the population as a whole.

The question then is how to build emergent properties into economic modelling when used for planning purposes. Before considering the possibility of constructing feedback loops, anticipatory behavioural mechanisms and transformative shifts into the existing framework, as ways to capture emergent processes, we propose to construct a new framework first. In Pouw and McGregor (2014), we have considered the possibility of translating an economics-of-well-being approach into a form of social accounting matrix (SAM). These matrices are used by economic planners to inform a wide range of different models (e.g. general equilibrium, input-output and multiplier models) about the monetary flows between economic agents in the paid (monetised) economy. Elsewhere we have postulated that a revised SAM, titled an inclusive economy matrix (IEM), could be used to discipline thinking about qualitative relationships between resource agents in which these quantitative flows are embedded and subjective evaluations of them. Moreover, we propose the inclusion of ‘social groups’ as resource agents by means of a separate entry into the IEM in order to create room for identifying (new) variables and specifying functional relationships between the individual



and collectivities and between collectivities and all other resource agents (households, firms and government). The specification of variables and functional relationships forms part of the next analytical steps of using an IEM-type tool in practice, when the framework is applied to the study of a concrete economic problem. Given that both quantitative and qualitative economic values can enter the functional specifications, their outcomes cannot simply be aggregated on a unidimensional scale. This is where we need to start thinking about the intersection of the measures of the different dimensions of well-being (as illustrated by the Venn diagram in [Figure 1](#)) and how these can be used in economic analysis, instead of or alongside simple summation procedures.

## 7. Final reflections and future research

In this paper we have offered the first steps in a series of proposals for an alternative framework of thinking about the economics of human well-being. Advocating for a pluralist perspective is a point in its own right and is seen as necessary because the adoption of a well-being focus in itself indicates that no one particular form of analysis can be dictated. We argue that plurality is needed because politically, morally and epistemologically we cannot limit how people might (differently) think about what well-being should include and how people think that they and we collectively should go about achieving it.

The proposals have been made in terms of the economy being defined and characterised as an instituted process of resource allocation that is underpinned by socio-cultural and political values, that is dynamically structured and layered, that is organised around complex internal relations between resource agents and their multiple identities, that is made up of the paid and unpaid economies and that has emergent properties that codetermine human well-being at personal and collective levels.

Putting human well-being at the centre of economics enables us to consider more comprehensively how economic processes and policies are likely to affect the human well-being of present and future generations. It encourages us to think of societal development and the policies that we think will stimulate and support this from a broader perspective than one that is narrowly focused on economic growth. An economics of well-being approach is thus grounded in both instrumental and moral motivations. As economists, we want better guidance on how best to understand and if necessary guide the allocation of resources in respect of societal values. From a moral perspective, we are concerned about the sustainability of development, both now and for the future, and therefore about intertemporal and interspatial distributions and what is socially just and sustainable. We invite others to contribute to the follow-up steps to these first propositions, not the least about the methodological implications and the new research questions that flow from an economics of human well-being.

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