



UvA-DARE (Digital Academic Repository)

An economics of wellbeing: what would economics look like if it were focussed on human wellbeing?

Pouw, N.R.M.; McGregor, A.

[Link to publication](#)

Citation for published version (APA):

Pouw, N., & McGregor, A. (2014). An economics of wellbeing: what would economics look like if it were focussed on human wellbeing? (IDS working paper; No. 436). Brighton: Institute of Development Studies (IDS).

General rights

It is not permitted to download or to forward/distribute the text or part of it without the consent of the author(s) and/or copyright holder(s), other than for strictly personal, individual use, unless the work is under an open content license (like Creative Commons).

Disclaimer/Complaints regulations

If you believe that digital publication of certain material infringes any of your rights or (privacy) interests, please let the Library know, stating your reasons. In case of a legitimate complaint, the Library will make the material inaccessible and/or remove it from the website. Please Ask the Library: <http://uba.uva.nl/en/contact>, or a letter to: Library of the University of Amsterdam, Secretariat, Singel 425, 1012 WP Amsterdam, The Netherlands. You will be contacted as soon as possible.



IDS WORKING PAPER

Volume **2014** Number **436**

**An Economics of Wellbeing:
What Would Economics Look Like if it
were Focused on Human Wellbeing?**

Nicky Pouw and Allister McGregor
January 2014



Poverty and Inequality Research Cluster

The Poverty and Inequality research cluster, part of the Vulnerability and Poverty Reduction team at IDS, produces research on poverty, inequality and wellbeing. Our research challenges orthodox views on the nature of poverty, how poverty is understood and how policy can best accelerate poverty reduction. Our work focuses on poverty and wellbeing through the lens of equity and inequality. Poverty is not only about 'poor' people but also about the social and economic inequalities that compound and reproduce poverty.

Email: poverty@ids.ac.uk

Web: www.ids.ac.uk/research-teams/vulnerability-and-poverty-reduction-team/research-themes/poverty-inequality-and-wellbeing

PI WP7



The Vulnerability and Poverty Reduction (VPR) Team aims to construct dynamic and multi-dimensional perspectives on vulnerability and poverty in order to transform thinking, policy and practice.

The VPR team produces working papers on social protection; conflict, violence and development; and poverty and inequality. Follow this link to view a full list of publications:

www.ids.ac.uk/research-teams/vulnerability-and-poverty-reduction-team/publications/vpr-working-paper-series

An Economics of Wellbeing. What Would Economics Look Like if it were Focused on Human Wellbeing?
Nicky Pouw and Allister McGregor
IDS Working Paper 436
First published by the Institute of Development Studies in January 2014
© Institute of Development Studies 2014
ISSN: 2040-0209 ISBN: 978-1-78118-147-8

A catalogue record for this publication is available from the British Library.

All rights reserved. Reproduction, copy, transmission, or translation of any part of this publication may be made only under the following conditions:

- with the prior permission of the publisher; or
- with a licence from the Copyright Licensing Agency Ltd., 90 Tottenham Court Road, London W1P 9HE, UK, or from another national licensing agency; or
- under the terms set out below.

This publication is copyright, but may be reproduced by any method without fee for teaching or nonprofit purposes, but not for resale. Formal permission is required for all such uses, but normally will be granted immediately. For copying in any other circumstances, or for re-use in other publications, or for translation or adaptation, prior written permission must be obtained from the publisher and a fee may be payable.

Available from:

Central Communications, Institute of Development Studies, Brighton BN1 9RE, UK

Tel: +44 (0) 1273 915637 Fax: +44 (0) 1273 621202

E-mail: bookshop@ids.ac.uk

Web: www.ids.ac.uk/publications

IDS is a charitable company limited by guarantee and registered in England (No. 877338)

An Economics of Wellbeing: What Would Economics Look Like if it were Focused on Human Wellbeing?

Nicky Pouw and Allister McGregor

Summary

This paper makes a number of fundamental proposals to reconsider economics by putting human wellbeing at the centre. It emerges from a pluralist perspective in economics and the ontological, conceptual, axiomatic and methodological propositions that are made lead to the construction of what we call an inclusive economy matrix (IEM). In particular, the paper draws on heterodox economics to redefine the scope of economics, economic agency, rational behaviour and put emphasis on wellbeing rather than welfare. Furthermore, from the acknowledgement of human wellbeing as a three-dimensional concept, the economic aggregation problem is reconsidered and the methodological implications discussed. The IEM is proposed as a comprehensive and robust analytical framework that gives space to bring social equity and sustainable development considerations forward as *a priori* concerns for economic development. As such, the IEM can serve as a point of departure for formulating new research questions, exploring new relationships between human wellbeing and economic development, and building economic models that bring us closer to people's realities on the ground.

Keywords: human wellbeing; poverty; inequality; sustainability; economic growth; theoretical framework.

Nicky Pouw is a Research Fellow at the Governance and Inclusive Development (GID) research group at the University of Amsterdam in the Netherlands specialising in economic research on poverty and inequality, human development and wellbeing, participation, gender and economic theory and epistemology. She holds a PhD in Development Economics of the Free University Amsterdam. Her research takes place in sub-Saharan Africa mainly, but recently extended to Sri Lanka and India. She is co-editor of the book *Local Governance and Poverty in Developing Nations* (2012) by Routledge (with Isa Baud).

Allister McGregor is a Professorial Fellow in the Vulnerability and Poverty reduction team (VPR) and the Institute of Development Studies (IDS). Professor McGregor uses his background in economics and anthropology to study the ways that systems of governance and the formulation and implementation of development policies impact upon poor people. His most recent work has been on conceptualising and then operationalising a social conception of wellbeing both as a way of critically analysing the persistence of poverty and as a means of re-evaluating development policy and practice. He is currently using the wellbeing to framework in the ongoing study of fishing communities in South and Southeast Asia, where there are conflicts between conservation and poverty policy objectives.

Contents

	Summary, keywords, author notes	3
	Acknowledgements	5
	Abbreviations	5
1	Introduction	6
2	A case for pluralism in economics	7
3	An economy of wellbeing	11
4	On economic agency	14
5	From welfare to wellbeing	16
6	The inclusive economy matrix	20
7	Final reflections and future research	23
	References	24
Figures		
Figure 1	The prime allocation mechanisms in the three economic domains	14
Figure 2	The three dimensions of wellbeing intersecting	17
Figure 3	The continuous improvement of wellbeing	19
Figure 4	The Inclusive Economy Matrix	22

Acknowledgements

An earlier version of this paper was presented at the Oxford/OU Conference 'Economics for a Better World' that took place at the Organisation for Economic Co-operation and Development (OECD) in Paris, France from 3-5th July 2013.

Abbreviations

ADM	Agent-Based Models
GDP	Gross Domestic Product
GID	Governance and Inclusive Development
ICAPE	International Confederation of Associations for Pluralism in Economics
IEM	Inclusive Economic Matrix
OECD	Organisation for Economic Co-operation and Development
SAM	Social Accounting Matrix

1 Introduction

There is growing concern in economics that presently dominant frameworks of thinking are no longer adequate to fully address and analyse the problems of today's globalising and rapidly changing economies (Stiglitz, Sen and Fitoussi 2009; Medema 2010; Coyle 2007, 2011; Jackson 2011; Ostrom 2012; Evensky 2012; Sent 2012 and others). Following the crisis of 2008 the recognition that there are major global problems, such as persistent debilitating poverty, growing inequality and environmental destruction are systematically overlooked by our contemporary economic frameworks. Economic power increasingly dictates development outcomes and the relentless pursuit of growth leads to the underestimation of risks in financial models (e.g. Krugman 2011; Colander *et al.* 2009). As a result, investments in forms of development and social change that would promote social and environmental sustainability are often afterthoughts in economic planning and are only discussed if economic growth is considered high enough to afford such luxuries. Referring back to Dudley Seers' path-breaking paper on 'The Limitations of the Special Case' (1967), we argue in this paper that there is a need again to question this 'growth-fetishism' and to modify our economics so as to acknowledge the increasingly urgent concerns for our social and natural environment. Seers questioned the neoclassical approach to development by pointing to the relative nature of value judgements about development. Cost-efficient production may not constitute the only origin of economic and social progress.

The many debates among high-standing economists and with other social scientists at this time provide insights into possible routes for making a change in economics. In 2009, the Final Report of the Sarkozy Commission (Stiglitz *et al.* 2009) argued that it is necessary to shift economists' prime attention from growth and welfare to a broader concern for human wellbeing. In their challenging recommendations they propose the use of complementary economic performance indicators, alongside gross domestic product (GDP), to better capture societal progress, the sustainability of that progress and the quality of life it delivers. In particular this would include indicators on social relations and the subjective values and evaluations that underpin our judgements about our quality of life. Many countries around the world have taken up the challenges of the Sarkozy Report and are developing new measurement regimes to test whether the development that they experience is delivering a better quality of life to their citizens. For example, the Measures of Australia's Progress initiative of the country's Bureau of Statistics is seeking to measure progress in terms that citizens have told them matter to them. This involves assessments in economic, social and environmental dimensions and the development of a more comprehensive set of (quantitative and qualitative) indicators (ABoS 2012). Similar initiatives are underway in national statistical agencies in countries as diverse as the UK, Italy, Chile, Morocco, Mexico and the Philippines.

The World Development Report 2012, on 'Inclusive Green Growth', predicates that '[T]he way forward requires a blend of economics, political science, and social psychology—smart solutions to tackle political economy constraints, overcome deeply entrenched behaviours and social norms, and develop the needed financing tools.' (World Bank 2012: 1). According to Krugman (2011) and as stated in his presidential address to the Eastern Economics Association, 'economists have failed to fulfil their social function' (2011: 310). He reminds economists therefore to 'remember what our fathers' learned' and that they might 'need some kind of sociologist to solve our profession's problem.' (2011: 312).

However, underpinning all of these debates there remains the question: What would have to change in economics if we were to address issues of social equity and environmental sustainability *a priori*? This is what we seek to provoke discussion on in this paper. In beginning to answer this question, we will argue that this requires fundamentally, that we start with a different conception of the human being (McGregor 2004, Douglas and Ney

1998); one that is ontologically different from the singular and reductionist notion of 'homo economicus', or rational economic agent (see also Sen 1977, 1979). This cannot be done without due reconsideration of other key economic concepts, their related principles/axioms and methods consanguineous to welfare economics, building on the groundwork laid by the various sub-fields of economics, in particular the strongly resurgent field of behavioural economics (Gintis et al 2005; Khaneman and Thaler 2006; Bowles and Gintis 2013). Together, these fundamental propositions lead us to construct an alternative framework designed to study the economics of human wellbeing. This framework is by no means conclusive, but illustrates the possibilities that emerge if we open-up the economics discipline to other social science perspectives and ideas, whilst at the same time preserving the robustness of the analysis.

The remainder of this paper is organised as follows. In section one, we explore the epistemological claim that economics would benefit from a pluralistic approach to economic theory and methodology. It is our contention that for understanding and analysing economic development problems, a pluralist perspective provides more room to alternative judgements and value settings regarding the process and direction of 'development'. In section two, the conceptual and theoretical points of departure of a more comprehensive perspective on an economy of wellbeing are elaborated. In section three we discuss reasons why and how to redefine the economic agency concept, as well as its underlying assumptions about rational choice. Section four broadens out economics to focus on human wellbeing rather than welfare. This poses challenges to the economic aggregation problem. Instrumental to the associated methodology of this is to distinguish between individual and collective wellbeing. Together, these propositions build up to the presentation of an 'Inclusive Economy Matrix' in section five, as an illustrative framework for studying the economics of wellbeing. The methodological implications of such a framework and questions for further exploration are also discussed in this section, followed by our concluding remarks in section six.

2 A case for pluralism in economics

In his 'Limitations of the Special Case', Dudley Seers (1967) argued that post-war neoclassical economics had developed blind spots for social equity and environmental sustainability in developing countries. In more recent times the economic rise of China, India, Brazil, Russia and Turkey is accompanied by growing inequality and negative spill-over effects on the environment (e.g. Liu and Diamond 2005; Kaygusuz 2007; Baer 2008; OECD 2008; World Bank 2010, 2013). Orthodox economic growth models dominate the development process also in these countries, where politicians show limited concern for marginalised groups and the environment. Development outcomes seem to strengthen the economic and political power of those who are already in a privileged position, whereas, people at the bottom of the income distribution are losing their connection to the development process, find themselves in life-threatening situations, and see the sources of their livelihoods further eroded. In the words of Smith and Max-Neef (2012): 'There is never enough for those who have nothing, but there is always enough for those who have everything' (2012: 128-129). The world is 'under the spell of a dehumanized economy' (2012: 128), and as they go on to say, this will have repercussions on the stability of economic growth and human wellbeing in the longer run (see also Coyle 2011; Skidelsky and Skidelsky 2012). These critics argue, that eventually the monist economic frameworks and the associated methodologies will lead to mis-directed economic policy and the self-defeat of the discipline. They point to the 2007 financial crisis as testimony of that and recent debates in the US media address the possibility of a further economic implosions in the US and China.¹

¹ See for example on China, Will Hutton in *The Observer*, 30th July 2011; on USA, Dan Weil in *Money News*, 13th February 2013.

More moderate critics take the view that the profession is at least in crisis, not the least because economists failed to predict or foresee the possibility of the current financial crisis (Krugman 2011). Recommendations on possible routes for making a change in economics vary from a more modest 'opening-up of the discipline' to take on board insights and epistemological viewpoints of other social-sciences disciplines, to embracing a pluralistic approach to economics as the overarching point of departure. As 'mainstream' economics begins to show signs of becoming more pluralistic again, the timing is right to tie some of these new insights together. Contributions from institutional economics, from feminist economics, and from behavioural economics (to name but three areas of new work) can all be brought together to explore the possible building blocks of a more humane economics.

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: 2). This lack of success, according to Sent, stretches out over a number of decades. The 2007 financial crisis can be seen as the most recent event that provides empirical and theoretical support to Sent's 'plea for pluralism'. Support for pluralism in economics is not new, but the current challenge is how pluralism can be functional to economists without having to lose the robustness of the discipline? Moreover, an additional challenge is teaching economics to undergraduates in a way that not only benefits a minority pursuing a PhD, but especially the larger number becoming economics professionals. As Anand and Leape argue (2012) in Diane Coyle's latest book '*What's the Use of Economics?*', aside from techniques and mathematical skills, professional economist need knowledge on institutional context and history, together with communication skills. Back in 1976, Bob Coats², essentially meant the same thing when he used post-Kuhnian language to describe pre-war and inter-war economics as 'having usually been poly-paradigmatic, rather than mono-paradigmatic', and with good reason (Coats 1976: 13). Monism (or monoparadigmatic), in both examples, refers to the singular and exclusionary use of (1) a key ontological viewpoint on the rational economic agent; (2) principles and axioms; and (3) methodology. Let us consider an example of each.

First, by virtue of the foundational position of seeing all economic agents uniformly as being rational and well-informed people that solve their economic problems in one optimal manner, being quite detached from their other, multiple identities, we overlook the complexity and heterogeneity of economic agents (e.g. Anand 1993; Kahneman 2003; Sen 2006; Kahneman and Thaler 2006; Sent 2012). 'Homo economicus' has rather exclusionary traits and characteristics to which not many women and men in the real economy comply (Kuiper 2001). The neoclassical axiom of the optimising economic agent under assumptions of strict convexity and monotonicity (Sent 2012: 11), does not hold in the real economy where lack of awareness and information, unstable³ and adaptive preferences (Sen 1985; Nussbaum 2000), psychology, cultural and historical values, and other subjectivities (e.g. morality and custom, van Staveren 2001) influence the range of alternatives and decisions. Moreover, economic agents face a wide range of economic problems, both in- and outside the market domain, that need to be resolved when they engage in the allocation (production, consumption and distribution) of scarce resources (see also Sen 2006, on multiple identities). Economic decisions made in one domain (e.g. the decision to work ten hours per day, has implications for the command over the distribution of the scarce resources of time and money in the household and public domains). For this reason, feminist economists have long argued for the need to consider the paid and unpaid economy as two sides of the same coin. Such epistemological reconsiderations can be made once we open-up to a different ontological

² A.W. (Bob) Coats was an economic historian and important thinker on the sociology of economics approach, that he introduced in Great Britain in the 1980s by means of his investigations on the role of economists in governments and international agencies.

³ Assar Lindbeck, back in 1971 in his book *The Political Economy of the New Left*, 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.

departure point, and replace the rational economic agent with a more complex and humane person that is subject to bounded rationality and can strive at most for 'purposeful behaviour' in solving her and his economic problems.

Monism in economic conceptualisation is also contested by Schlefer (2012). Underlying 'the metaphor of the invisible hand', he says, is 'the single-point theorem', which is in essence a mathematical idea.⁴ According to the single-point theorem, there exists a function F 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. Economic agents gravitate toward this point as if led by an invisible hand. However, economists have never been able to prove this theorem, instead, an 'auctioneer' is imagined to move agents toward the single optimum point (Schlefer 2012: 9). In a multi-dimensional spectrum and continuum of possible alternative solutions to an economic problem, the idea that multiple optima exist is then more likely than a single optimum point.

Another deviation from the singular optimum notion, are those situations in which only bad alternatives present themselves (for example, in situations of widespread poverty and hardship, Pouw 2011). The optimal point at which the economic agent is behaving rationally and in a cost-optimising manner, may not be among these possible alternatives. If the person wants to survive in the short run, then only sub-optimal solutions are possible. Finally, even if multiple identities and heterogeneity across agents are acknowledged *a priori*, economic model construction commonly proceeds on the basis of the *average* behaviour observed. Most economic models benefit from removing outliers and extreme points from the analysis. In this way, economic analysts (and their students) tend to develop blind spots for exceptional or minority cases – whereas we know that critical change and economic tipping points are often induced from the margin. '[T]he special case', in the sense of Dudley Seers (1967), causes outliers to be removed from economic modelling exercises for the greater benefit of producing impressive model results, that strengthen the theoretical model but have less to do with reality on the ground.

One reaction to this has been the recent development of agent-based models (ABM), for example by Joseph Stiglitz and colleagues.⁵ ABMs simulate individual and collective agent behaviour by building in elements of complexity theory, game theory, and evolutionary, emergent and heterogeneity principles. Sent (2012: 14) would refer to these conceptual models as an example of 'moderate pluralism', since many of the basic principles and methodologies remain exclusionary and monistic. The only change *vis à vis* the rational economic agent assumption is that economic agents are heterogeneous and behave in an unpredictable (so-called 'irrational') manner. The aggregated outcome of that behaviour will automatically surface by re-running (parts of) the model numerous times. No changes other than this are made with regard to economic concepts, theories and the relationships studied.

Second, monism in economic principles and axiomatic rules has been disputed by economists and non-economists alike, on multiple grounds. One of the biggest challenges economists face is how to approach the aggregation problem: that is how to connect microeconomic phenomena and processes with macroeconomic outcomes and *vice versa*. Institutional economists such as Coase 1991, 1998 and North 1995 have tried to fill this gap, but have 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

⁴ Schlefer (2012: 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.

⁵ Various presentations on ABM were given at the Eastern Economics Association (EEA) Conference 2011 in New York, attended by the author.

summation builds in blind-spots for two reasons: First, it sidelines potentially important exogenous factors that present themselves at higher levels of aggregation. Exogenous factors could be political, social, cultural and historical in nature and are known to determine economic processes, policies and outcomes in decisive ways, as has been argued by Karl Polanyi (1944) and many heterodox economists after him – see for example the critical economic works by Nancy Folbre (1994), Mark Lutz (1999), van Staveren (2001), John Davis (2003), Ben Fine (2010), and Frederic Lee (2010), to name just a few. Second, it ignores the possibility of emergent properties of functional relationships showing-up over time. Emergent properties are usually unknown and present themselves in the very process of aggregation. For example, people's preferences may change because of certain needs and wants to be fulfilled. Also, preferences adapt according to changes over people's life-cycle as the product of a dynamic change.

Emergent properties thus imply a (continuous) qualitative transformation of the relationship between micro and macro variables and functions. A famous example of this is the Sonnenschein (1972) and Debreu (1974) argument that the weak axiom of revealed preferences may not be satisfied at the macroeconomic level (Sent 2012). In other words, the maximisation of consumption by means of individual utility may not be preferred at the aggregate level of a macro or global economy, because of social and environmental externalities that can diminish the present and future wellbeing and growth. From that perspective, there is something to say for the limits of growth or 'the economics of enough' (Coyle 2011, Skidelsky and Skidelsky 2012). In order to decide, what is 'enough' economic growth and why, we need subjective assessments based upon both quantitative and qualitative knowledge. There is no objective way of deciding 'what is enough' and 'for whom'? This involves non-numerical value judgements that are grounded in cultural notions of justice. The political ideology of such principles is expressed in the kind of redistributive mechanisms built in the political-economic system (income tax, social services, etc.).

This brings us to the third manifestation of the problem; monism in methods. Since Jevons' (1871) *The Theory of Political Economy*, economists have sought to develop a more 'scientific' approach to doing economic research that resembles the natural sciences by promoting deductive reasoning and mathematical analysis as the dominant methodological approach and method (Schlefer 2012: 75). Especially in post-war neoclassical economics, greater objectivity, and therefore 'scientific value', has been assigned to the monistic use of quantitative methods and techniques. Where quantitative analysis and mathematical models can usefully shed light on average patterns and trends, they do not explain the 'how' and 'why' behind the phenomena observed. The theoretical models used, the relationships studied and the questions asked all arise from a particular worldview (*weltanschauung*), which entails value judgements, political decisions and which reflect ideologies. The most we can strive for, as Amartya Sen (1993: 127) argues is 'positional objectivity'.

Moreover, as Stiglitz *et al.* (2009: 144) point out, economists are confronted increasingly with the challenge of measuring 'intangibles' in the economic system. This is caused by a growing share of economic production and trade consisting of private and public services that employ both tangible and intangible goods, and involve high levels of human capital (e.g. financial services and public health services). These are notoriously difficult to measure (Stiglitz *et al.* 2009), implying that quantitative analysis alone does not bring us far enough in studying present-day economic processes and outcomes.

As a result, and because of the self-reinforcing and institutionalised reward mechanism⁶ of monistic theories and practices in economics, many economic models are quite detached from the economic reality on the ground. To make matters worse, the empirical testing of

⁶ The 'perversity' of the reward system of the economics profession refers to the publication of quantitative studies primarily by the top economic journals, has already been criticised by J.M. Blackman in Coates (1976: 10).

economic models is often skipped; a model can be the objective of a scientific paper itself, without empirical testing. This is rather strange if we think like a mathematician, whom would always seek to solve her or his equations. The problem is thus *not* in the mathematics; it is in the half-hearted way mathematics is *used* by economists. Theoretical models in economics are not sufficiently tested on real world data. Moreover, ‘model uncertainty’ (induced by variability and complexity) ‘should be taken into account by predicting more than a single model’ (Colander *et al.* 2009: 6). By looking at what raw data are telling us, in a heuristic manner, a range of different models can usually be thought of and empirically tested for their adequacy to a particular problem. Pluralism in economic research strategies could help to analyse economic problems from a more comprehensive perspective, answering the what, why and how questions in a more integrated manner. An acceptance of methodological pluralism would mean that both qualitative and quantitative methodologies were valued, and that whichever one or a mixed-methodology was to be used would depend on the issue to be studied⁷. In conclusion, a pluralistic approach to economic methodology conceives added-value of a more heuristic approach to economic analysis; model building and scenario prediction (e.g. see also Sent 2012).

However, where pluralism in economics creates space for multiple frameworks of thought, theories and methodologies, e.g. behavioural economics, experimental economics, feminist economics, it is also feared that it brings a risk of losing scientific rigor. As a result, we observe a disconnection between a certain degree of pluralism in economics already being practised, and the type of articles being published in high-ranked journals. The point of view to which we subscribe to here has been carefully posited by the International Confederation of Associations for Pluralism in Economics (ICAPE) in the following terms, ‘*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.*’ (ICAPE 2012)

In proposing an alternative framework of thought for the economic analysis of wellbeing in this paper, therefore, we foresee and accept as one of our biggest challenges to safeguard the methodological robustness of a mixed-methodology type framework.

3 An instituted economy

The first starting point in what we would call a more ‘inclusionary’ perspective in economics is the recognition of the economy as an instituted process. As exemplified by Polanyi (1944) and further reflected in the work of Amartya Sen on capabilities, freedom, and identity (Sen 1989, 1993, 1999, 2006), this type of approach combines political economy and social analyses. Recent work developing the concept of and methodology for understanding human wellbeing takes the same approach, seeing the state of human wellbeing as ‘... an outcome that is continuously generated through conscious and sub-conscious participation in social, economic, political and cultural processes’ (Coulthard, Johnson and McGregor 2011: 6; McGregor 2004; Gough and McGregor 2007).

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. From this perspective the economy is defined as *the instituted process of scarce resource allocation, by and to economic agents* (Pouw 2011, building on Polanyi 1944). This definition enables us to comprehend the roles that markets, politics and society play and how they interact to shape the economic processes and outcomes that we observe in order to fulfill people’s unlimited

⁷ Mixed-methodology, in this paper, refers to a (1) combination, (2) alteration, or (3) integration of quantitative and qualitative methods and techniques.

wants and needs. It entails the acknowledgement of instituted power relations that operate between economic agents at all levels, some of which are embodied in codified laws, rules and institutions and others of which are more deeply embedded in cultural values, norms, customs and beliefs. Economic exchange is thus not only driven by relative prices, but also by power differences in resource and market access and control, people's culture and social habits, legal rules about factor payment, production process and product quality, and so forth.

In this approach the economy is understood more broadly than in approaches that are focused on the production and exchange of only goods and money as if driven by market forces only and in this regard the paid and unpaid economy must be dealt with together, as two dimensions of an instituted process. The paid economy (monetised) refers to the corporate and public domains in which goods and services are produced in return for payment – this includes the formal and informal economy (including the subsistence, or barter economy), and the state that provides (subsidised) goods and services to its citizens and firms. The unpaid economy refers to the private domain of the economy of households and communities, where goods and services are produced for free by means of household or voluntary work and where a more diffuse concept of reciprocity operates. As much as in the education and training sectors of the paid economy, this is where socially and economically functioning, productive human beings are made. The paid and unpaid economies are interconnected and interdependent - one cannot function without the other. The same applies to the analytical distinction between the formal and informal economy – both are part of the same instituted economic process. We argue here that a key weakness of current economic frameworks and models is that it is not coherent to focus on only one (monetised) of the two sides of the economy.

The definition of the economy as an instituted process of scarce resource allocation, by and to economic agents indicates the sphere of competence for economic analysis: economics addresses problems around the allocation of scarce resources by and to economic agents, both in the paid and unpaid economy. Scarcity means that resources to society are limited in relation to the level of individual wants and needs, in an absolute or relative sense. In either case allocative decisions need to be made about the distribution and use of resources. This broader perspective on what the economy is and does, requires us to look beyond market exchange as the sole allocation mechanism in the economy.⁸ Goods and services are also allocated on the basis of other 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 mechanisms can also be taken into account, for example extortion, coercion and altruism in order to improve our understanding of how and to whom resources are allocated in a society.

Economists have extensively explored other allocation systems such as government and the household but they have usually done so with the ideas and methods of market analysis (for extreme examples, see the work of James Buchanan in public economics, and in the economics of the household the work of Gary Becker). However, their models have been restrictive and their explanations of reality have been contentious and for many unsatisfactory in the extent that they are far removed from what is observed and experienced on the ground. Neoclassical theories have failed to explain individual level decision making processes as influenced by social and cultural institutions, which in themselves have a history (habits, customs and traditions).

⁸ Allocation in economics refers to the production, consumption and distribution of scarce resources.

Moreover, micro models of economic decision making based on utility theory have failed to explain macroeconomic processes and outcomes. Aggregating for GDP involves only the behaviours and products of formal constituted businesses, as opposed to all productive agents in the economy, and as such is part of the failure to explain the connection between the micro and the macro. 'Money makes the world go around' is an expression often heard, but the same is said about 'love' and 'trust'. What drives the economy? Economic problems need to be solved in the process of allocating scarce resources and optimising quality of life. What steers the allocation of scarce resources? We contend that it depends on what domain in the economy we are looking at. Following Polanyi (1944, Polanyi, Arensberg and Pearson 1957) we consider three interconnected domains of the economy, as well as their dominant (but not exclusive) allocation mechanisms:

1. individuals & households & communities -> *reciprocity and mutual support (flourish, aspire, strive)*
2. private sector (national and international firms) -> *market exchange (live well, live better)*
3. public sector (national and international government) -> *redistribution (live well together)*

The first, individuals, households and communities, together make up the unpaid economy. The second and third, the private and public sector together constitute the paid or monetised economy. The three domains are intrinsically connected through: the scope of decision making and movement of economic agents across all three domains (inter-changeably and simultaneously); their exchange of scarce resources; the institutions that regulate their behaviour; and the values embedded in those behaviours. It is not helpful to separate these three domains from each other. Figure 1 below is an analytical representation of the prime allocation mechanisms that prevail in each of the three economic domains.

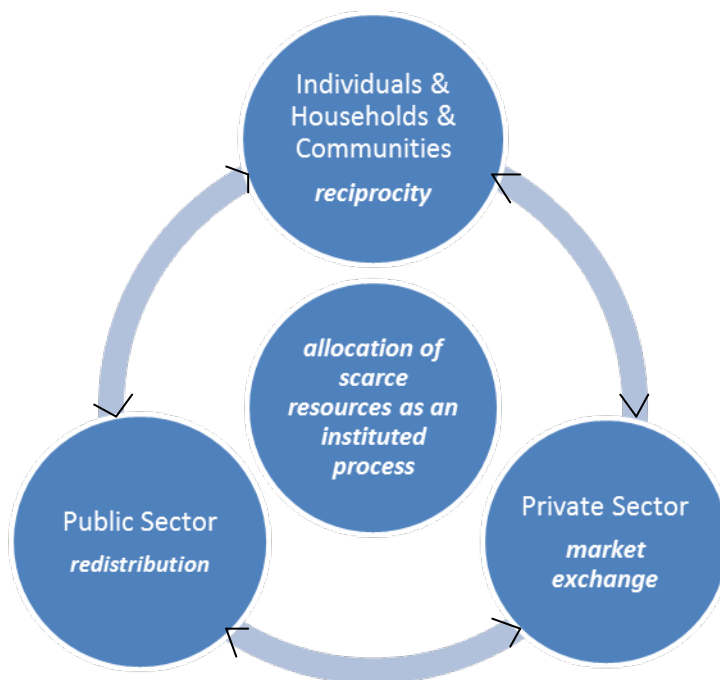
Within the private sector, market exchange is the dominant allocation mechanism by which decisions about the production, consumption and distribution of scarce resources takes place. Money and rules (contract law, regulation, etc.) facilitate impersonal market exchange between economic agents within different sectors of the economy. However, market exchange in real life comes in many shades: from impersonal exchange to more personalised forms of exchange embedded in private relations. Even without face-to-face contact, agents engage in market exchange out of a feeling part of so-called 'imagined communities', in the sense of Benedict Anderson (1991) – and expressed through goodwill and market and brand loyalty. The prime mechanisms of allocation in the public sector are redistribution and regulation. Governments collect taxes and earn income from assets, that are used to distribute and redistribute resources 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 space and the natural environment by all economic agents.

Within the unpaid economy, individuals, households and communities allocate resources on the basis of social mechanisms, such as reciprocity and mutual support embedded in family relations and social and cultural ties. The reciprocity principle supports cooperation within families and communities and warrants their continuity, as it rewards one positive gift or service by another one. Where contemporary economics sees the problem of work-life balance for example, very much as a personal problem, this becomes of greater societal concern if we see the unpaid household domain as an integral part of the economy. Although, exchange for money and barter takes place between individuals, households and communities, as does the simple redistribution of resources, reciprocity stands out as a distinctive allocation mechanism. Reciprocity is also of importance in the informal economy and has its place within the private and public sectors, where it can steer market exchange and the public distribution of resources. However, forms of exchange based on reciprocity and other non-market relations are typically blindspots in economic analysis. Issues of the social (non-market) allocation of resources, as a result, are left to a residualist notion of

social policy - as if social policy is by definition politics against the market, rather than an integral part of it (Polanyi *et al.* 1957; Esping-Andersen 1985).

These allocation mechanisms are embedded in social-cultural and political relationships and institutions, each to a greater or lesser extent and depending on time, circumstances and place. The underlying values that drive allocation mechanisms are complex and intertwined; they range from the impersonal to the strongly personalised; from individual to social interests; from low to high-trust; illegal to legal; short-term versus long-term interests, and any other value from which meaning or 'logic' is derived by economic agents. Instead of assuming the maximisation of self-interest to drive economic behaviour (being 'rational'), we rather say that economic agents act purposefully ultimately in pursuit of their own wellbeing and that of those that matter to them.

Figure 1: The prime allocation mechanisms in the three economic domains



4 On economic agency

This brings us to the second concept we wish to reconsider from a pluralist perspective. At the heart of the welfarist approach in neoclassical economics is the assumption that all individuals are rational economic agents; that is people pursue the maximisation of utility in a self-interested manner. Most heterodox economists see this as one of the core fallacies of neoclassical economics. They argue that rational economic agency in the sense that it has been used by mainstream economics does not exist in the real world. People's agency may be constrained by personal and contextual factors and economic decisions are also made out of social and personal custom and beliefs, collective interests, and moral, emotional and psychological motivations. What is an optimal choice for one human being is not necessarily an optimal choice for the other. People are different and pursue different priorities in life. This is problematic for aggregation and for the design of detailed policy that is supposed to have effects for real people. Although, Herbert Simon (1957) recognised and explained this 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 courses of conduct. Social-cultural, political and economic institutions also influence people's codes of conduct. Agency and the surrounding structure of institutions interact continuously in shaping human decisions and behaviour (Foucault 1978, 1982). Alternatives for the economic concept of agency have therefore been suggested, including the notions of 'bounded rationality' (first coined by Simon in *Models of Man* in 1957) and 'purposeful behaviour' (by Nancy Folbre in 1994). Simon postulated that rationality is restricted by people's lack of information, cognitive abilities, and time constraints. 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. 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 an maximised solution, bounded rationality means that people strive for satisfactory solutions.

In this paper, we adopt the purposeful behaviour concept as it indicates that people having some sort of a plan in mind, that they take initiatives and make choices to pursue what they regard as a quality of life for themselves and for others that matter to them. This is an argument for taking adaptive preferences seriously and a counter argument against the necessary assumption in the neoclassical approach of stable and lexicographically ordered preferences.

From an inclusive economics perspective, we therefore redefine economic agency as the capacity to solve a human wellbeing problem. As explained in the section above, economic agents can be thought of as purposefully striving to protect and improve their material and relational conditions and their quality of life (Figure 2). The capacity of women and men to solve an economic problem and reach that objective, is influenced by social constructs and power relations, for example, their gendered social identities, roles and relationships. Gendered identities embedded and reproduced in institutions, influence self-belief and determination. Gender may be internalised to such an extent that it, in the negative case, can hold people away from taking any initiative to begin with. For the other part, personal characteristics also play an important role. Furthermore, gender roles may co-dictate the set priorities and goals in life, as well as the underlying motivations from which people act and decide. This may range from pure, self-interest in one situation, to family and collective wellbeing interests in other situations. Finally, the economic agency of women and men is shaped by their human capital and command over scarce resources as well as political, social and environmental context. As is the case with gender relations, ethnicity, class and race also shape social identities, roles and relationships between economic agents.

5 From welfare to wellbeing

The third theoretical/conceptual shift that we propose is to put wellbeing instead of welfare at the centre of our economic analysis. This implies more than just replacing one word or concept with another. The shift to human wellbeing has more profound repercussions for the underlying economic principle/axiom of the economic aggregation problem.

The term 'welfare' has been prominent in debates through the development of neoclassical economics. Although the term has a long history and has wider connotations, its development from the nineteenth century onwards has been shaped by the emergence of the market economy and also the economics that has developed for understanding the market economy. During this process the term welfare has been reduced to refer primarily to material wellbeing and welfare has been set in a particular relationship to economic growth and production. This is 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 undoubtedly important at some stages of development to provide the incomes to bring populations out of absolute poverty, when we delve deeper into the historic and present day effects of growth we see that it does not always equate with a generalised improvement in the quality of life. While material conditions may improve, other aspects of the quality of life may suffer. Growth may be predicated on the damaging exploitation of the natural (the destruction of nature) or built environment (pollution) and it may also both depend on and generate social damage (competition and the erosion of social relationships). Both of these have, in turn, the potential to have negative feedback effects on the broader wellbeing of large sections of the population of growing economies. There is also increasing awareness of the significance the maldistribution of the benefits of economic growth and the effects that this has on individuals and societies (Wilkinson and Pickett 2009). Overall while economic growth may improve the material welfare of some parts of the population, it is clear that this is not always related to improvements in a broader notion of wellbeing. The Sarkozy Commission expressed an increasing awareness of the gap between the kind of progress that is focussed around increasing growth and that which is conducive to improvements in the quality of life for most citizens. This motivates us to reverse the trend towards a reductionist notion of welfare and to mobilise a broader conception of wellbeing (United Nations 1987; Sen 1999; McGregor 2004).

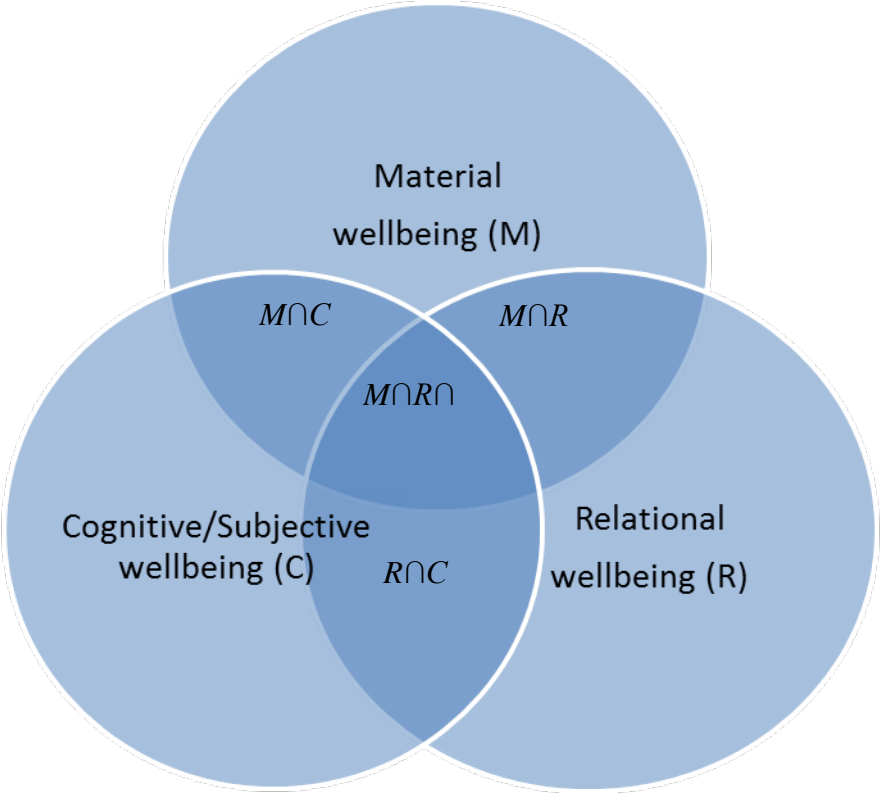
Broadening from a narrow view of welfare, our conception of human wellbeing can be defined as 'a state of being with others and the natural environment that arises where human needs are met, where individuals and social groups can act meaningfully to pursue their goals, and where they are satisfied with their way of life' (Armitage et al. 2012: 3; McGregor 2007). This conception of wellbeing takes into account the material, relational, and cognitive/subjective aspects of people's needs and goals in life. The first dimension - material wellbeing - resonates with the narrower definition of welfare by looking at material determinants of quality of life. The relational dimension considers people's quality of life in respect of the relationships that are important for them in their social and physical environment. The cognitive or subjective dimension of wellbeing recognises that the quality of the material and relational achievements are then translated into a person's subjective evaluation of their quality of life. This raises questions about how satisfied people are with what they are able to have and do in any given natural and societal context.

In this formulation it is possible to recognise that real people may place different emphasis on the different dimensions of their wellbeing. In Figure 2, the three dimensions of wellbeing are drawn as a basic Venn diagram, since the three dimensions can be analytically considered as different 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 wellbeing primarily by means of material wellbeing (M), but at the expense of their relational (R) and subjective wellbeing (C). Alternatively, others may either choose to or be forced by circumstance to downplay the fulfilment of their material needs, prioritising instead either their relational or cognitive/subjective wellbeing.

A desirable or valued state of wellbeing may also be pursued by means of a concerted effort in two dimensions ($M \cap R$ or $M \cap C$ or $R \cap C$), but most realistically it will be a combination of all three dimensions together ($M \cap R \cap C$) – this is where the dimensions of wellbeing intersect. The realisation of quality of life can thus be assessed in an integrated and comprehensive manner by looking at this intersection.

Figure 2: The three dimensions of wellbeing intersecting



Furthermore, we can make a distinction between (1) individual and (2) collective wellbeing. Although, we can speak of 'wellbeing' in general, these additive terms come of use when analysing origins and flows of human wellbeing in the economy at multiple scalar levels, which economists call aggregation levels. Where individual wellbeing concerns those processes and outcomes that determine an individual's quality of life, collective wellbeing refers to the quality of life of a collective (or group) of people. This can be a household, a community or neighbourhood, a group of women, men, a social network, or an entire nation's population. It is necessary to distinguish between the two, since we consider wellbeing an emergent process that stands subject to qualitative transformation when considering how it is

aggregated to a higher, collective level. There are often trade-offs between individual and collective wellbeing, and between levels of wellbeing over time. By using two different concepts for one idea, we try to stress that we do not simply derive collective wellbeing by means of an endogenous summation procedure of individual utility functions to add up to social welfare. Instead of assuming that social welfare is maximised by maximising individual welfare, the notions of individual and collective wellbeing recognise the existence of trade-offs and potential synergies. Trade-offs and synergies between individual and collective wellbeing are the source of qualitative transformations taking place in the aggregation from the micro to the macro level. People give-up and take from their individual wellbeing to the greater good or bad, and *vice versa*, and the collective may give back or take from individual wellbeing. This adds to our understanding of the complexity of economic decision making.

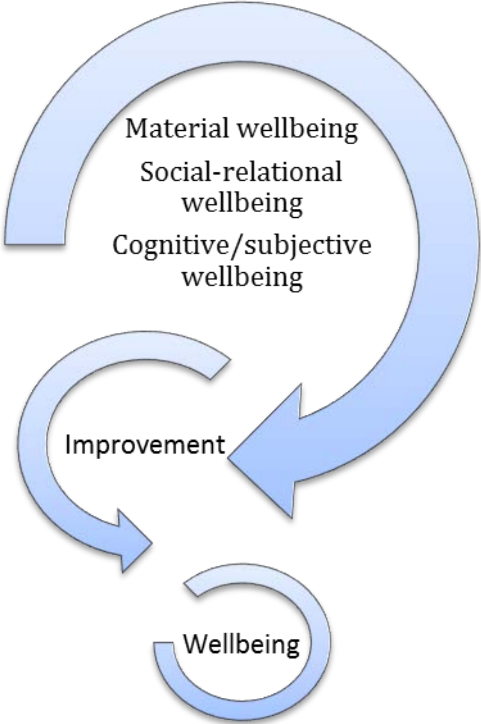
Together, individuals, households, communities, firms, and governments create societies that can be characterised by lower or higher levels of collective wellbeing. What the outcome will be, depends on the trade-offs people are willing to make on behalf of others, their fellow human beings and what they want to share as a collective. Social groups or 'communities' of people can be decisive on how and what kind of trade-offs and synergies are being made. As economic agents, we form part of multiple social groups or communities at the same time. Society sets norms and expectations about what trade-offs and synergies will be expected from the individual – for example, what level of taxes you are expected to pay. Without venturing into the many debates around social identity and community membership and cohesion (or lack thereof), we simply want to highlight here that the existence of social groups and communities influences the allocation of scarce resources. Community rules and behavioural norms can shape individual economic decisions – for example, a small-scale fishing community in Southern India may apply specific (informal) rules regarding fishing days and amounts of fish that can be caught in each season in order to preserve the fish stock in the longer run. If fisher households want to stay a member of this community, they need to obey these rules. This may imply going hungry collectively in one season, in order to have plenty of fish in the next. In line with Bowles and Gintis (2013) we recognise from many empirical observations that human beings are cooperative in nature and often act in the interests of the collective as a means of survival. As Ray and Liew put it, "Social interactions enable individuals to adapt and improve faster than biological evolution based on genetic inheritance alone." (2003: 386). Group or community formation is an effective vehicle to deliver both individual and collective wellbeing. We therefore propose that it is necessary to include social groups/communities as economic agents in our analytical framework. They form a piece of the puzzle as to what changes in the process of moving from 'individual' to 'collective' wellbeing. However, it should be noted that our use of the term 'community' does not conflate with any normative ideas about 'community economics' (i.e. seeing local substitution as the only preferred economic system).

People thus engage in economic decision making, ultimately to improve, maintain or protect their wellbeing. This is done by selecting the best possible combination of the three alternative sets of elements of wellbeing: material, social-relational and cognitive/subjective wellbeing. Different people will choose (or be forced to choose in the case of oppression), different combinations. The best outcome in one dimension is interdependent on the outcome in any of the other two dimensions. As such, the improvement, maintenance or protection of overall wellbeing represents a heuristic understanding of the decision making procedure that stands subject to multiple rules at the same time (non-comparable on a single scale), which is essentially different from the 'maximization/minimization' procedure underlying welfare economics, which is only subject to one rule (efficiency). As such, multiple rules guide complex human wellbeing decisions. The improvement, maintenance or protection of wellbeing means that each person could have a different outcome – whereas maximisation is only optimal in one point, which can be externally evaluated in relation to theory. In the case of multiple outcomes, both trade-offs and synergies exist between the different solutions. The evaluations of these trade-offs and synergies are made on multiple

scales (objective and subjective) and at different levels of aggregation (individual and at different levels of collective), which renders evaluation much more complex. The point is, however, not to lose this complexity in economic analysis.

Figure 3 represents the improvement of wellbeing (across all three of its dimensions) as the overall objective of economic decision making within an economics of wellbeing framework. Trying to improve wellbeing is a continuous process; the level ultimately achieved feeds back into the (future) wellbeing pursued and the conditions under which this is done. Instead of assuming that people have stable preferences over a particular set of material, social-relational and or cognitive/subjective aspects of wellbeing, we postulate that people are able to express relative priorities *vis à vis* one aspect or the other (e.g. M may be prioritised over C, M over R, C over M, C over R, R over M, or R over C) a combination of a particular kind ($M \cap C$, $M \cap R$, or $C \cap R$), or the totality of all ($M \cap C \cap R$) - see the Venn diagram in Figure 2 from which the alternative solutions are derived. By studying the intersection of wellbeing dimensions in the above manner, we do more justice to the complexity and dynamics of economic decisions that are made in multiple dimensions of wellbeing at the same time, and may adjust constantly depending on what has been achieved or not in another dimension. So, where we recognise that there are three dimensions to each economic decision that we make, we do recognise that people may prioritise one over the other for different reasons and varying over time.

Figure 3 – The continuous improvement of wellbeing



6 The Inclusive Economy Matrix

To offer the analytical guidance to a comprehensive perspective on the economics of wellbeing, an Inclusive Economy Matrix (IEM) is constructed as presented in Figure 4. The term 'inclusive' is used here to signify our more comprehensive approach to what the economy is all about (as an instituted process), the broader focus on wellbeing, economic agency, and pluralistic vision regarding theory and method. The IEM is constructed in much the same way as an economic social accounting matrix (SAM).⁹ However, a significant difference is that the IEM depicts both quantitative and qualitative flows of resources between economic agents in the economy. This adjustment adheres to our pluralist perspective on economic methods. The functions presented in the matrix cells represent all possible interconnections between the economic agents and the *unspecified* variables in each of the three wellbeing dimensions. It should be noted that the matrix can be applied and filled-in (with variables and functions) at multiple levels of aggregation – from micro to macro to international. The specification of variables and functional relationships forms part of the next analytical step(s), when the framework is applied to the study of an economic problem. This is beyond the scope of the present paper; yet we wish to encourage further thinking on this by fellow economists.

The IEM differentiates individuals (*I*) from households (*H*), and recognises social groups/communities (*C*) as a separate economic agent, apart from firms (*F*), the government (*G*) and the rest of the world (*W*). Net Savings (*S*) and Net Investments (*N*) close the scheme. The IEM is read from column to row. All economic agents are both providers and recipients of scarce resources, thus appearing both as column and row entries into the framework. The scarce resources being allocated in the economy through different forms of exchange between economic agents can enhance or diminish human wellbeing in its three dimensions: material wellbeing (*M*), relational wellbeing (*R*) and cognitive/subjective wellbeing (*C*).

In order to understand the working of the scheme, let us look at an example of the flow of scarce resources between the individual and the household, of which she/he is a member (i.e. column 1, row 2). The individual (*I*) contributes to the household (subscript *h*, so therefore *Ih*), (parts of) her/his material wellbeing (*Mi*), in the form of income or assets, relational wellbeing (*Ri*), in the form of care and affection, and cognitive/subjective wellbeing (*Ci*), in the form of happiness or spirituality. The nature and sign of the relationship between the different scarce resources allocated by the individual to the household is indicated, but not yet specified, by a functional relationship f_h . One member may contribute all of her/his income or assets to the household, another may contribute nothing, in which case $Mi=0$. The individual contribution to the relational wellbeing of the household may also be zero or negative, e.g. in the case of the individual not investing any time in household activities or only demanding. This applies to cognitive/subjective wellbeing as well, which may also take a negative form in the case of dissatisfactions or unhappiness. *Vice versa*, if we mirror *Ih* in the diagonal of the matrix, we can consider what households provide to its individual members, *Hi* (column 2, row 1). The household may provide shelter and home cooked meals that contribute to the material wellbeing of the individual household member (*Mh*). The household may also provide a sense of identity and family network to its individual members, which contributes to relational wellbeing (*Rh*). Finally, a household may add to a sense of security and personal satisfaction (*Ch*).

⁹ SAMs are used by economic planners to inform a wide range of different models (e.g. general equilibrium models, input-output models and multiplier models) about the monetary flows between economic agents in the paid (monetised) economy.

Let us consider another example to make sure the scheme is understood. For example, the flow of scarce resources between a firm (F_c) and a community in which the firm is physically located (column 3, row 4), whereby the firm provides employment and economic activity in the community, thus contributing to the material wellbeing of the community (Mf). The firm may conduct its economic activities in an environmentally sustainable manner, which contributes to relational wellbeing of the community in either or both a spatial or temporal sense (Rf). Finally, the firm may give future economic and development prospects and a sense of identity to the community (Cf). Again, the nature and sign of this relationship are unspecified at this point, but captured by the function f_c .

Vice versa, if we mirror F_c in the diagonal, we can explore the flow of scarce resources between a social group/community and a firm, C_f (column 4, row 3). A social group/community may provide for the physical space and proximity to natural resources to a firm, which adds to the firm's income and profits (Mc). A social group/community may also provide a concentration of workers and social activities that matter for public relations of the firm (Rc). Finally, a social group/community may foster a public opinion in support of or against the economic activities and presence of the firm (Cc).

The different columns and rows together aggregate to the total level of human wellbeing created in the economy – collective wellbeing. To ensure the framework's robustness, each column corresponds to a row. The framework can encompass multiple break-downs (e.g. multiple layers of government) without losing its robustness – all relationships can still be defined within the parameters of the IEM framework. Given that both quantitative and qualitative values can enter the functional specifications, their outcomes cannot be simply aggregated on a uni-dimensional scale. The \cap sign indicates that it concerns an intersection of all the different valued measures of wellbeing (as illustrated by the Venn diagram in Figure 2). As explained in section 5, human wellbeing is an emergent process.

A final note regarding the IEM framework concerns the diagonal of the scheme.¹⁰ On the diagonal, the differences in the allocation of scarce resources between individuals, households, firms, communities/social groups, layers of government and between the national economy and rest of the world can be analysed. By filling in the diagonal, the inclusive economics framework gives, *prime face*, reason to address inter-agent allocation issues, concerning relative scarce resource use, distribution, and how (dis)satisfied people are with that allocation, instead of looking only at the closing of the scheme - collective wellbeing. This gives ample room to explore the manifestations and (re)productions of different kinds of inequalities in an economic system.

The purpose of the IEM is to guide further thinking and the development of the economic analysis of human wellbeing - as a process and outcome, and at multiple level of aggregation in the economy. The depicted relationships in the scheme are now unspecified, meaning that the nature, sign and direction of the functional relationships between economic agents and resources are not yet formulated. Subsequent research could address the specification of these relationships, and resolve the methodological challenge of integrating the quantitative and qualitative analysis of multi-dimensional wellbeing. Once functional relationships between different entries in the IEM are specified, it can be used as analytical tool to study the (projected) impact of policy and change in an economy in more applied terms. Policy alternatives can also be studied on the basis of a specified IEM, in order to stimulate scenario type thinking on different human wellbeing development trajectories.

¹⁰ It is worthwhile noting that in a traditional SAM the diagonal is empty.

Figure 4: The Inclusive Economy Matrix

<i>from:</i> <i>Allocation of scarce resources to:</i>	Individuals (I)	Households (H)	Firms (F)	Social groups/Communities (C)	Government (G)	Rest of the World (W)	Nett Savings (S)	Total Received
Individuals (I)	<i>Allocation between Individuals</i>	$H_i = f_i\{M_h \cap R_h \cap C_h\}$	$F_i = f_i\{M_f \cap R_f \cap C_f\}$	$C_i = f_i\{M_c \cap R_c \cap C_c\}$	$G_i = f_i\{M_g \cap R_g \cap C_g\}$	$W_i = f_i\{M_w \cap R_w \cap C_w\}$	S_i	$U_i U_j \{H_i; F_i; C_i; G_i; W_i; S_i\}$
Households (H)	$H_h = f_h\{M_i \cap R_i \cap C_i\}$	<i>Allocation between households</i>	$F_h = f_h\{M_f \cap R_f \cap C_f\}$	$C_h = f_h\{M_c \cap R_c \cap C_c\}$	$G_h = f_h\{M_g \cap R_g \cap C_g\}$	$W_h = f_h\{M_w \cap R_w \cap C_w\}$	S_h	$U_h U_j \{H_h; F_h; C_h; G_h; W_h; S_h\}$
Firms (F)	$F_f = f_f\{M_i \cap R_i \cap C_i\}$	$H_f = f_f\{M_h \cap R_h \cap C_h\}$	<i>Allocation between firms</i>	$C_f = f_f\{M_c \cap R_c \cap C_c\}$	$G_f = f_f\{M_g \cap R_g \cap C_g\}$	$W_f = f_f\{M_w \cap R_w \cap C_w\}$	S_f	$U_f U_j \{F_f; H_f; C_f; G_f; W_f; S_f\}$
Social groups/Communities (C)	$C_c = f_c\{M_i \cap R_i \cap C_i\}$	$H_c = f_c\{M_h \cap R_h \cap C_h\}$	$F_c = f_c\{M_f \cap R_f \cap C_f\}$	<i>Allocation between social groups/communities</i>	$G_c = f_c\{M_g \cap R_g \cap C_g\}$	$W_c = f_c\{M_w \cap R_w \cap C_w\}$	S_c	$U_c U_j \{C_c; H_c; F_c; G_c; W_c; S_c\}$
Government (G)	$G_g = f_g\{M_i \cap R_i \cap C_i\}$	$H_g = f_g\{M_h \cap R_h \cap C_h\}$	$F_g = f_g\{M_f \cap R_f \cap C_f\}$	$C_g = f_g\{M_c \cap R_c \cap C_c\}$	<i>Allocation between units of government</i>	$W_g = f_g\{M_w \cap R_w \cap C_w\}$	S_g	$U_g U_j \{G_g; H_g; F_g; C_g; W_g; S_g\}$
Rest of the World (W)	$W_w = f_w\{M_i \cap R_i \cap C_i\}$	$H_w = f_w\{M_h \cap R_h \cap C_h\}$	$F_w = f_w\{M_f \cap R_f \cap C_f\}$	$C_w = f_w\{M_c \cap R_c \cap C_c\}$	$G_w = f_w\{M_g \cap R_g \cap C_g\}$	<i>Allocation between economies</i>	S_w	$U_w U_j \{W_w; H_w; F_w; C_w; G_w; S_w\}$
Nett Investments (N)	N_i	N_h	N_f	N_c	N_g	N_w	<i>Allocation of investment</i>	$S_i + S_h + S_f + S_c + S_g + S_w = N_i + N_h + N_f + N_c + N_g + N_w$
Total Expended	$U_j U_i \{H_i; F_i; C_i; G_i; W_i; S_i\}$	$U_j U_h \{H_h; F_h; C_h; G_h; W_h; S_h\}$	$U_j U_f \{F_f; H_f; C_f; G_f; W_f; S_f\}$	$U_j U_c \{C_c; H_c; F_c; G_c; W_c; S_c\}$	$U_j U_g \{G_g; H_g; F_g; C_g; W_g; S_g\}$	$U_j U_w \{W_w; H_w; F_w; C_w; G_w; S_w\}$		Collective Wellbeing

7 Final reflections and future research

In this paper we have made a series of proposals for an alternative framework of thinking about the economics of human wellbeing from a pluralist perspective. These proposals were made at three inter-related levels: (1) at the conceptual/theoretical level; (2) at the level of economic principles and axioms; and (3) at the level of methodology.

First, at the conceptual and theoretical level, with regard to the definition of 'economy' we have proposed to define the economy more broadly in terms of an instituted process of scarce resource allocation, by and to economic agents. This definition takes account of the social and political context in which economic decisions are made, and provides an entry point into the analysis of instituted power relations between economic agents that, ultimately, determine outcomes. We also proposed in line with others to interpret economic agency as the capacity to (satisfice) solve an economic (scarcity) problem. Instead of (stable) preferences, we propose to look at needs, satisfactions and priorities that are conditional on quality of life achieved and can adapt over time and experience. Finally, we propose to shift the prime focus of our economic analysis to human wellbeing, rather than welfare.

Second, at the methodological level, a pluralistic approach does not preclude an overarching methodological approach. This implies that, depending on the problem at hand, a mixed-methodology approach would qualify as a sound methodology as long as it follows from a robust analytical framework. In this paper, we took the example of the economic aggregation problem. Instead of assuming social welfare to be the sum-total of a set of individual welfare functions, we adopt the concept of wellbeing and the principle of emergence to be applicable in aggregating from individual to collective wellbeing.

Third, and finally, the IEM is proposed as an analytical framework of thinking about flows and trade-offs between different dimensions of wellbeing and between individual and collective wellbeing. The IEM signals flows of both a quantitative and qualitative nature and can be applied at multiple scale levels. As such, the IEM offers a comprehensive and robust framework that can be considered a first step for formulating new research questions, exploring functional relationships, and building new models. Putting wellbeing at the centre of economics, gives expression to our interest in how economic processes and policies affect the human wellbeing of present and future generations. This interest is grounded in both instrumental and moral motivations. The first steps in this direction have been taken by behavioural, anthropological, feminist and political economists and it is upon these contributions that we seek to build. As economists we want better guidance on how best to allocate scarce and sometime finite resources in respect of societal values. From a moral perspective we are concerned about inter-temporal and inter-spatial distributions and what is socially just both now and for the future.

References

- ABoS (2012) 'Measures of Australia's Progress: Summary Indicators, 2012', www.abs.gov.au/ausstats/abs@.nsf/mf/1370.0.55.001 (accessed on 21st February 2013)
- Anand, P. (1993) *Foundations of Rational Choice under Risk*, Oxford: Oxford University Press
- Anand, P. and J. Leape (2012) 'What Economicists Do – and How Universities Might Help', Chapter 3 in D. Coyle (ed.) *What's the Use of Economics. Teaching the Dismal Science after the Crisis*, London: London Publishing Partnerships
- Anderson, Benedict R. O'G. (1991) *Imagined Communities; Reflections on the Origin and Spread of Nationalism* (Revised and extended. ed.), London: Verso
- Armitage, E., C. Béné, A.T. Charles, D. Johnson, and E.H. Allison (2012) 'The Interplay of Well-being and Resilience in Applying a Social-Ecological Perspective', *Ecology and Society*, 17.4: 15. <http://dx.doi.org/10.5751/ES-04940-170415>
- Baer, W. (2008) *The Brazilian Economy. Growth and Development*, Boulder, USA: Lynne Rienner Publishers
- Bowles, S. and H. Gintis (2013) *A Cooperative Species: Human Reciprocity and Its Evolution*, Princeton: Princeton University Press
- Chang, H-J. (2003) *Kicking Away the Ladder. Development Strategy in Historical Perspective*, London: Anthem Press
- Coase, R. (1998) 'The New Institutional Economics', *American Economic Review* 88.2: 72-74
- Coase, R. (1991) 'The Institutional Structure of Production', Nobel Prize Lecture, reprinted in 1992, *American Economic Review* 82.4: 713-719
- Coats, A.W. (1976) 'The Current "Crisis" in Economics in Historical Perspective', *Nebraska Journal of Economics and Business* 16.3: 3-16
- Colander, D.; Föllmer, H.; Haas, A.; Goldberg, M.; Juselius, K.; Kirman, A.; Lux, T. and Sloth, B. (2009) 'The Financial Crisis and the Systemic Failure of Academic Economics', Kiel Working Paper 1489, Germany: Kiel Institute for the World Economy
- Coulthard, S.; Johnson, D. and McGregor, J.A. (2011) 'Poverty, Sustainability and Human Wellbeing. A Social Wellbeing Approach to the Global Fisheries Crisis', *Global Environmental Change* 21.2: 453-463
- Coyle, D. (2011) *The Economics of Enough. How to Run the Economy as if the Future Matters*, Princeton: Princeton University Press
- Coyle, D. (2007) *The Soulful Science: what economists really do and why it matters*, Princeton: Princeton University Press
- Davis, J.B. (2003) *The Theory of the Individual in Economics: Identity and Value*, New York: Routledge

- Debreu, G. (1974) 'Excess Demand Functions' *Journal of Mathematical Economics* 1.1: 15-23
- Douglas, M. and Ney, S. (1998) *Missing Persons: A Critique of Personhood in the Social Sciences*, Berkely (CA): University of California Press
- Esping-Andersen, G. (1990) *The Three Worlds of Welfare Capitalism*. Cambridge: Polity Press
- Esping-Andersen, G. (1985) *Politics against Markets*, Princeton: Princeton University Press
- Evensky, J. (2012) 'Hes Presidential Address: What's Wrong with Economics?', *Journal of the History of Economic Thought* 34.1: 1-20
- Fine, B. (2010) *Women's Employment and the Capitalist Family*, New York: Routledge
- Folbre, N. (1994) *Who Pays for the Kids? Gender and the Structures of Constraint*, New York: Routledge
- Foucault, M. (1982) 'The Subject and Power', *Critical Theory* 8.4: 777-795
- Foucault, M. (1978) *The History of Sexuality*, New York: Random House
- Gintis, H.S., R. Boyd and E. Fehr (2005) *Moral Sentiments and Material Interests: The foundations of cooperation in economics*, Cambridge, USA: The MIT Press
- Gough, I. and McGregor, J.A. (2007) *Wellbeing in Developing Countries. From Theory to Practice*, Cambridge: Cambridge University Press
- ICAPE (2012) 'International Confederation for Pluralism in Economics: Statement of Purpose', www.icape.org/ (accessed on 11th November 2012)
- Jackson, T. (2011) *Prosperity without Growth. Economics for a Finite Planet*, London: Taylor and Francis Ltd
- Jevons, W.S. (1871) *The Theory of Political Economy*, London: MacMillan and Co
- Kahneman, D. (2003) 'Maps of Bounded Rationality: Psychology for Behavioural Economists', *American Economic Review*, 93. 5: 1449-1475
- Kahneman, D. and Thaler, R.H. (2006) 'Anomalies: Utility Maximization and Experienced Utility', *Journal of Economic Perspectives* 20.1: 221-234
- Kaygusuz, K. (2007) 'Energy Use and Air pollution Issues in Turkey', *Wiley Interscience, Clean 2007*, 35. 6: 539-547
- Krugman, P. (2011) 'Presidential Address: The Profession and the Crisis', *Eastern Economics Journal* 37: 307-312
- Kuiper, E. (2001) *The Most Valuable of all Capital. A Gender Reading of Economic Texts*, Amsterdam: Thela Thesis
- Lee, F. (2010) *A History of Heterodox Economics. Challenging the Mainstream in the 20th Century*, London: Routledge

- Lindbeck, A. (1971) *The Political Economy of the New Left*, New York: Harper and Row
- Liu, J. and J. Diamond (2005) 'China's Environment in a Globalizing World. How China and the rest of the world affect each other', *Nature* 435.30 June 2005: 1179-1206
- Lutz, M. (1999) *Economics for the Common Good: Two Centuries of Economic Thought in the Humanist Tradition*, London: Routledge
- McGregor, J.A. (2007) 'Researching Human Wellbeing: From Concepts to Methodology', in I. Gough and J.A. McGregor (eds), *Wellbeing in Developing Countries: From Theory to Research*, Cambridge University Press
- McGregor, J.A. (2004) 'Researching Wellbeing: Communicating between the Needs of Policy Makers and the Needs of People', *Global Social Policy* 4.3: 337-358
- Medema, S.G. (2010) *The Hesitant Hand: Taming Self-Interest in the History of Economics*, Princeton (NJ): Princeton University Press
- North, D.C. (1995) 'The New Institutional Economics and Third World Development', in J. Harriss, J. Hunter, and C. M. Lewis (eds), *The New Institutional Economics and Third World Development*, London: Routledge
- Nussbaum, M.C. (2000) *Women and Human Development: The Capabilities Approach*, Cambridge: Cambridge University Press
- OECD (2008) *OECD Environmental Performance Reviews: Turkey*, Paris: OECD
- Ostrom, E. (2012) 'Coevolving Relationships between Political Science and Economics', *Rationality, Markets and Morals* 3 (May): 51-65
- Polanyi, K. (1944) *The Great Transformation*, New York: Rinehart Press
- Polanyi, K.; Arensberg, C.M. and Pearson, H.W. (eds) (1957) *Trade and Markets in Early Empires*, Oxford (UK): Gateway Publishing
- Pouw, N.R.M. (2011) 'When Growth is Empty. Towards an Inclusive Economics', *The Broker* 25 (June/July): 4-8
- Ray, T. and K.M. Liew (2004) 'Society and civilization: An optimization algorithm based on the simulation of social behavior', *Evolutionary Computation*, 7. 4: 386-396
- Schlefer, J. (2012) *The Assumptions Economists Make*, Cambridge (MA) and London: Belknap Press of Harvard University Press
- Seers, D. (1967) 'The Limitations of the Special Case', in K. Martin and J. Knapp (eds) *Development Economics. Its Position in the Present State of Knowledge*, New Jersey, The State University of New Jersey: Aldine Transaction Publishers
- Sen, A.K. (2006) *Identity and Violence: The Illusion of Destiny (issues of Our Time)*, New York: W.W. Norton
- Sen, A.K. (1999) *Development as Freedom*, New York: Alfred A. Knopf
- Sen, A.K. (1993) 'Capability and Well-Being', in M. Nussbaum and A. Sen (eds) *The Quality of Life*, New York: Oxford Clarendon Press

- Sen, A.K. (1989) 'Development as Capability Expansion', *Journal of Development Planning* 19: 41–58, reprinted in S. Fukuda-Parr and A.K. Shiva Kumar (eds) (2003), *Readings in Human Development: Concepts, Measures and Policies for a Development Paradigm*, New York: Oxford University Press
- Sen, A.K. (1985) *Commodities and Capabilities*, North-Holland
- Sen, A.K. (1979) 'Utilitarianism and Welfarism', *The Journal of Philosophy* LXXVI: 463-489
- Sen, A.K. (1977) 'Rational Fools: A Critique of the Behavioral Foundations of Economic Theory', *Philosophy and Public Affairs* 6.4: 317-344
- Sent, E.M. (2012) 'Pluralism in Economics', Working Paper, University of Notre Dame and Netherlands Institute for Advanced Study in the Humanities and Social Sciences
- Simon, H. (1957) *Models of Man, Social and Rational: Mathematical Essays on Rational Human Behaviour in a Social Setting*, New York: Wiley
- Skidelsky, R. and Skidelsky, E. (2012) *How Much is Enough? The Love of Money, and the Case for the Good Life*, London: Allan Lane
- Smith, P.B. and Max-Neef, M. (2012) *Economics Unmasked. From Power and Greed to Compassion and the Common Good*, Devon, UK: Green Books
- Sonnenschein, H. (1972) 'Market Excess Demand Functions' *Econometrica*, 40. 3: 549-63
- Staveren, I. van (2001) *The Values of Economics. An Aristotelian Perspective*, New York: Routledge
- Stiglitz, J.E.; Sen, A. and Fitoussi, J-P. (2009) 'Measuring Economic Performance and Social Progress', Paris: Report by the Commission on Commission on the Measurement of Economic Performance and Social Progress
- United Nations (UN) (1987) 'Report of the World Commission on Environment and Development', General Assembly Resolution 42/187, 11 December 1987 (accessed 12 March 2012)
- Wilkinson, R.G. and K. Pickett (2009) *The Spirit Level: Why more equal societies almost always do better*, London: Allen Lane
- World Bank (2013) 'India - Diagnostic assessment of select environmental challenges (Vol.1 to 3)', Washington, D.C.: The World Bank
- World Bank (2012) 'Inclusive Green Growth. The Pathway to Sustainable Development', Washington, D.C.: The World Bank
- World Bank (2010) 'Monitoring Environmental Sustainability. Trends, Challenges and the Way Forward', by G. Ruta, Environment Department, Washington, D.C.: The World Bank