SUSTAINABLE ECONOMIC POLICY AND WELL-BEING

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SUMMARY HAIKU

Sustainable plans
reduce current well-being,
though are good long term.

INTRODUCTION

All governments must make a trade-off between running sustainable economic policies and raising the more immediate welfare of their citizens. This trade-off helps to explain why many governments fail to adopt sustainable economic policies even though by doing so they would improve the well-being of future generations.

This paper looks at subjective well-being and a country's adjusted net savings, which is a common proxy for long term sustainable development. (Adjusted net savings is also known by other names, e.g. Genuine Savings.) We explore the relationship between individual subjective well-being and sustainable economic development as well as looking at results for different groups.

METHODOLOGY

Adjusted net savings is calculated by the World Bank as net national savings plus education expenditure, and minus energy depletion, mineral depletion, net forest depletion, and carbon dioxide and particulate matter emissions damage. A high level of adjusted net savings leads to a country increasing its (broadly defined) wealth over time, whereas a low level may see the country running down its wealth. The World Bank publishes adjusted net savings estimates for many countries for the period starting 1970 onwards.

We used World Values Survey data for self-reported life-satisfaction and other personal traits that were measured at four different times over the last 20 years.

We control for both personal and country level factors to study well-being. Personal level variables include age, sex, marital status, employment status, income scale and education levels. Country level variables include internationally comparable GNI per capita in terms of purchasing power parity, inflation rate and unemployment rate; in prior work these variables were shown to have strong relationships with subjective well-being.

RESULTS

Our research indicates that countries which have lower adjusted net savings rates achieve greater improvements in life-satisfaction of their citizens over the short-term. This may arise, for instance, as governments boost near-term welfare expenditure at the expense of building longer-term capital. Our findings of a negative relationship between initial adjusted net savings and well-being improvements over periods of up to 15 years are consistent with this process.

Over longer time horizons, however, countries that have low initial adjusted net savings may subsequently have to cut back on welfare-related expenditure to rebuild their capital, which results in lower long-term subjective well-being.

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Conversely, a country that starts off with high adjusted net savings (e.g. because government spends less on the current welfare of people) will increase the reserves available to raise people's well-being over longer time horizons. This shift is captured, in our findings, by a switch towards a positive relationship between initial adjusted net savings and well-being improvements over a 20-year time horizon.

These results hold for both individual level and aggregate group level results. It is important to note that adjusted net savings is regarded as a sustainability measure for very long-term horizons and 20 years is still a relatively short time period to study this hypothesised long-term relationship. Lack of longer term data means that we cannot assess the relationship over longer time horizons. We leave this to be examined in future research as more data becomes available.

CONCLUSION

Overall, our results highlight an important political economy challenge for policies that are designed to boost sustainable outcomes. Governments that act in this way may suffer in the short-term relative to more profligate governments, and so potentially lose political power.

This political economy challenge may help to explain why many governments do not run sustainable policies. Our 20-year time horizon results indicate that it would be beneficial to examine the relationship between adjusted net savings and subjective well-being over even longer time horizons. Such an analysis would contribute to a better understanding of whether people gain inter-generationally in terms of both sustainability and well-being when governments are focused on maintaining or increasing a country's (broadly defined) wealth by having high levels of adjusted net savings.

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