

Recoupling Economic and Social Progress

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Abstract (up to 100 words)

Many of the prominent challenges of the twenty-first century, including the current dissatisfaction of population groups who feel left behind by globalization and technological advance, may be viewed in terms of a “decoupling” of economic prosperity from social prosperity. In this policy brief we present two new indexes of wellbeing - solidarity (S) and agency (A) - to be considered alongside the standard indexes of material gain (G) and environmental sustainability (E). The four indexes – SAGE - form a balanced dashboard for evaluating wellbeing, which is meant to provide an empirical basis for mobilizing action in government, business and civil society to promote a recoupling of economic and social prosperity. This new framework can also be useful to analyze and evaluate the performance of different countries in their response in dealing with the current COVID19 crisis. We suggest that compliance with containment measures, which is vital for combatting a global pandemic, will be high and relatively easy to implement if governments make sure that fundamental human needs are satisfied, in particular if solidarity within and between groups is high and individuals are empowered and ready to help one another.

Challenge (200 -500 words)

We are living through an exceptional crisis and the global COVID-19 pandemic has caught governments around the world off-guard. The social distancing measures that have been implemented have affected and disrupted all aspects of our lives. The social and economic impacts of the outbreak responses will have long lasting economic and social consequences all around the world. In particular the self-isolation measures have changed our social lives, from the way we work to our interpersonal relations, in ways never seen before. The global community needs to develop policy measures to respond adequately to these consequences. Besides the effects of the current crises, there are many other prominent challenges of the twenty first century – including climate change, environmental degradation, social and political fragmentation, global and national governance crises – that need to be tackled. Many of these challenges arise from a decoupling of economic prosperity and social prosperity. While GDP per capita - our conventional measure of economic prosperity - has grown reasonably steadily over the past four decades, this growth does not appear to have been matched by a steadily rising sense of social prosperity, in terms of rising wellbeing within thriving societies. Nor has this economic growth been environmentally sustainable, with further adverse repercussions on social prosperity. The persistence of national, ethnic and religious conflicts around the world, combined with rising dissatisfaction among large population groups that feel “left behind” in both the developed and

developing countries, attests to such decoupling of economic prosperity from social prosperity for significant segments of modern societies. Tackling the major challenges of our times will involve confronting the paradox of growing economic activity in an integrated global economy, accompanied by ongoing tensions arising from fragmented societies and polities.

A major problem in tackling the decoupling of economic and social prosperity is that politicians are far more sensitive to economic prosperity than its social counterpart. For example, when French President Emmanuel Macron taxed fuel to encourage the country's transition to green energy at the end of 2018, he did not expect thousands of citizens to march through the streets in Yellow Vests. He apparently had neglected the possibility that achieving economic prosperity through "green growth" may leave large segments of voters personally disempowered and social alienated. The same holds with regard to the massive protests in Chile that began with a subway fare hike and those in Lebanon, that were triggered by a WhatsApp tax.

The sense of disempowerment and social alienation is experienced among many significant population groups in advanced and emerging economies, from inhabitants of America's "rust belt" and Britain's small towns to Africa's unemployed youth. In short, in many countries around the world, economic prosperity, environmental performance and social prosperity are no longer aligned. If peace and prosperity are to be assured the governance systems at the various levels – local, regional, national and global - need to be reshaped with the aim of recoupling economic and social prosperity

Proposal (1,000-2,500 words)

We propose "The Recoupling Dashboard", providing a new theoretical and empirical basis for assessing wellbeing beyond GDP (Lima de Miranda and Snower, 2020). It sheds light on the decoupling process and provides an empirical basis for mobilizing action by government, business and civil society to promote a recoupling of economic and social progress. Given that the purpose of government and business is to promote the public interest, the Recoupling Dashboard is a step toward suggesting that government and business decisions be based on assessments, not only of their impacts on GDP and environmental performance, but also on solidarity and agency.

The central conceptual insights of our analysis rest on the following claims: (i) Human wellbeing is about more than satisfying preferences for the consumption of goods and services. It also includes the pursuit and achievement of value-driven purposes. (ii) Since the success of homo sapiens is built largely on cooperation and niche construction, humans have evolved motives to socialize (particularly in groups of limited size) and to use their capacities to shape their environment. (iii) Consequently, personal empowerment and social solidarity have become fundamental sources of human wellbeing.

Our sense of well-being arises from the process of natural and artificial selection. Our conception of well-being includes not just the satisfaction of tastes and appetites through consumption, but also the pursuit of purposes and values, driven by motives. This differentiates our approach from existing measures of wellbeing that adjust or supplement GDP, like the Measure of Economic Welfare, Index of Sustainable Economic Welfare, or Green GDP, which are tied closely to the notion of "the greatest happiness of the greatest number"—that is Benthamite utility maximization, whereby social welfare is simply the sum of individual utilities. Even indicators that aim to assess well-being independently of GDP by measuring the achievement of basic human capacities, such as the Human Development Index, have individualistic, preference satisfying foundations. Our proposed Recoupling Dashboard relates to the pursuit of human purposes through the engine of psychological motives.

On this basis, we introduce two new, innovative indexes, agency and solidarity, to be examined alongside economic prosperity as well as environmental sustainability to gain a more balanced and profound understanding of wellbeing. Our agency index involves people's need to influence their fate through their own efforts and is measured across five components "Labor market insecurity," "Vulnerable employment," "Life expectancy," "Years in Education" and "Confidence in Empowering Institutions". Our solidarity index covers the needs of humans as social creatures, living in societies

that generate a sense of social belonging. With respect to social belonging, "solidarity" may be considered synonymous with "social cohesion" and "social inclusion". Our Solidarity Index is measured across three components "Giving Behavior," "Trust in other people" and "Social support"¹.

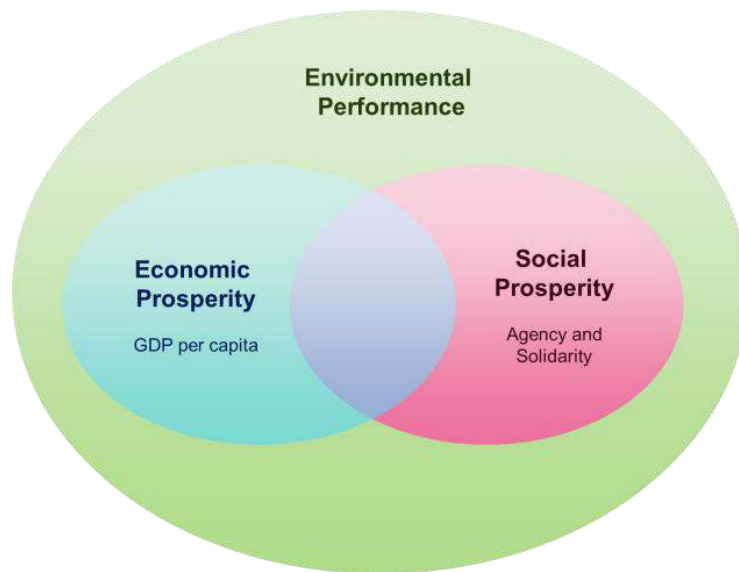


Figure 1: The relation among the four indexes

The relation among the four indexes above is illustrated in Figure 1. The economy and society are embedded in the natural environment. Thus the circle denoting "economic prosperity" (measured by GDP per capita) and the circle denoting "social prosperity" (measured by our agency and solidarity indexes) are to be found within the circle denoting "environmental performance." In well-functioning socio-economic systems, the economic-prosperity circle largely overlaps with the social-prosperity circle, i.e., the incentives, motives and attitudes (including trust, social support, economic security and so on) that people need to conduct economic transactions are the ones that promote social prosperity in their societies. For an economy that grows (in terms of GDP per capita) while its citizens are mired in dissatisfaction and conflict, the economic-prosperity circle is decoupled from the social-prosperity circle. For an economy whose growth is becoming increasingly unsustainable, the economic-prosperity circle is growing while the environmental-performance circle is shrinking.

We argue that agency and solidarity - alongside economic prosperity and environmental sustainability - cover fundamental human needs and purposes, present in all cultures. When people's important material needs have been met, when they feel securely and meaningfully embedded in society, when they have the power to influence their circumstances in accordance with self-determined goals, and when they live respectfully of planetary boundaries, then they achieve a wider sense of human wellbeing than when they simply maximize GDP growth. Failure to achieve any of these ends is associated with suffering. The inability to meet basic material needs signifies extreme poverty; lack of agency signifies a lack of freedom, self-expression and self-determination; failure to achieve social solidarity is associated with loneliness and alienation; and living unsustainably means robbing future generations (as well as others in the current generation) of the opportunity to lead flourishing lives.

The four goals - agency, solidarity, economic prosperity and environmental sustainability - are not consistently substitutable for one another. The gains from agency and solidarity generally cannot be translated into temporally invariant money terms, whereby economic prosperity is measured. In order to thrive, people need to satisfy all four purposes - their basic material needs and wants, their desire to influence their destiny through their own efforts, their aim for social embeddedness, and their need to remain within planetary boundaries. Agency is valueless when one is starving; consumption has limited value when one is in solitary confinement; and so on. Furthermore, the gains from agency,

¹ The data used is exclusively provided by external sources, such as the OECD or the World Bank.

solidarity, economic prosperity and environmental sustainability are different in kind and thus not readily commensurable.

That is the reason why our indexes of agency, solidarity, economic prosperity and environmental sustainability are to be understood as a dashboard. Just as the dashboard of an airplane measures magnitudes (altitude, speed, direction, fuel supply, etc.) that are not substitutable for one another (e.g. correct altitude is not substitutable for deficient fuel), so our four indexes are meant to represent separate goals. Only when a country makes progress with respect to all four goals can there be some grounds for confidence that a broad array of basic human needs and purposes is being progressively met.

The Recoupling Dashboard includes data from more than 30 countries² between 2007 – 2018. Summarized on an X-Y plane, the Recoupling Dashboard gives a visualization of how the relationship between the four dimensions varies through time and across countries. Our data shows that solidarity and agency develop differently over time and across countries compared to indexes of GDP per capita and environmental sustainability.

Countries with a high GDP are not necessarily ones that show high solidarity or agency. In fact, many countries growing in terms of GDP per capita show a substantial decrease in the solidarity index over time. Such a disconnect is an indication of a *decoupling* of economic and social prosperity. In the *Development over Time* section below, the Recoupling Dashboard shows that solidarity and agency follow time paths that are distinct from GDP per capita.

It can be argued that to some extent, social expenditure can crowd out personal giving (e.g., Inglehart 1997), a difference that might become visible in collectivist compared to individualist nations. The relationship between institutions, state capabilities, and informal social ties and networks is complex (Johnson et al. 2017). Here we define social solidarity as a sense of belonging within social groups that may be nested within larger social groups pursuing complementary ends. The fact that 5 Scandinavian countries are under the 10 highest ranking countries in our solidarity score in 2018 points to the direction that a well-developed welfare state and solidarity as defined here can go hand in hand. In addition, our results show that there is a positive correlation between our indexes of agency and solidarity, which suggests that if individuals are empowered and able to help themselves, and given the freedom to redirect their efforts in the context of their social groups, social solidarity may be strengthened.

In the *Comparison to Average* section below, the baseline square (in Blue) represents the average values of the four indexes across the countries in the base year (2007). Comparing the green and red line shows in one glance how a country developed over the past decade in each of the four dimensions. Comparison with the blue square and across the different graphs allows for cross-country comparisons.

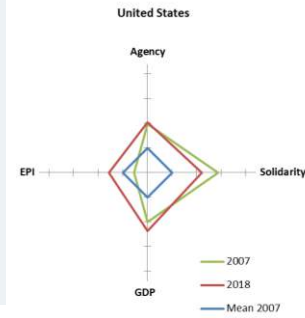
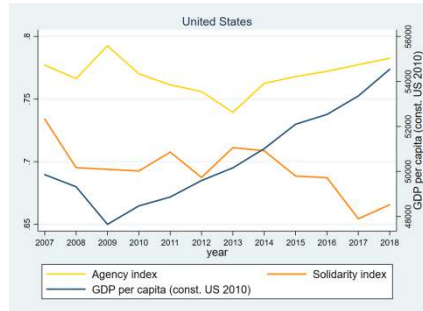
As we can see, the time series and cross section evidence indicate that solidarity and agency are phenomena that are distinct from economic prosperity and environmental sustainability.

² Australia, Austria, Belgium, Brazil, Canada, Chile, China, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, India, Ireland, Israel, Italy, Japan, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Russian Federation, South Africa, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States

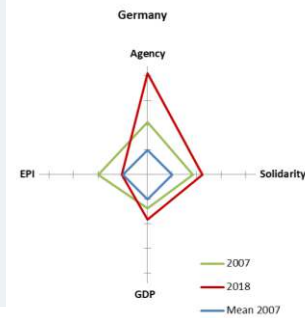
Development over Time

Comparison to Average

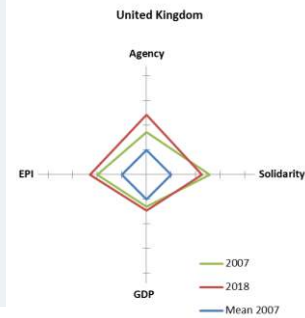
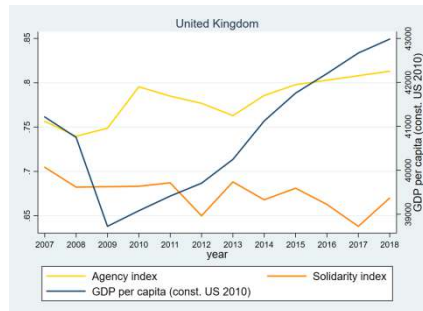
United States: From 2007 to 2018, there is an increase in GDP per capita, accompanied by a stagnation in agency and a decrease in solidarity, as well as a slight increase in environmental sustainability. Similar to the United Kingdom, the United States has experienced a progressive decoupling of GDP from agency and solidarity in recent years, particularly after the financial crisis in 2008.



Germany: From 2007 to 2018, the agency index rose substantially, whereas the solidarity index only slightly increased as did GDP per capita. There was also a decrease in environmental sustainability. Over time, one can observe that agency continues to rise along with GDP per capita, while the development of social solidarity has stagnated. Interestingly, Germany has experienced a rise in agency and solidarity since 2011.

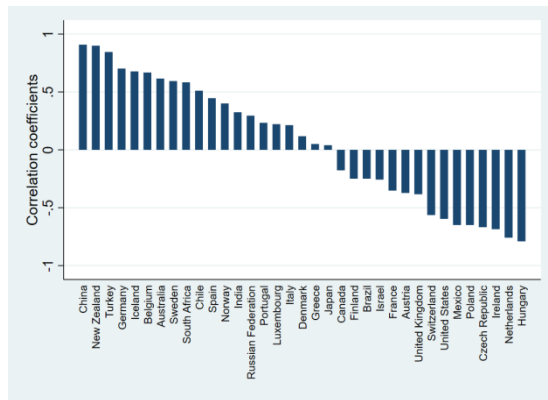


United Kingdom: From 2007 to 2018, the Recoupling Dashboard shows a rise in agency and GDP, while solidarity has fallen, indicating the country has become more "neoliberal." Over time, the United Kingdom has experienced a progressive decoupling of GDP from agency and solidarity, particularly after the financial crisis in 2008.

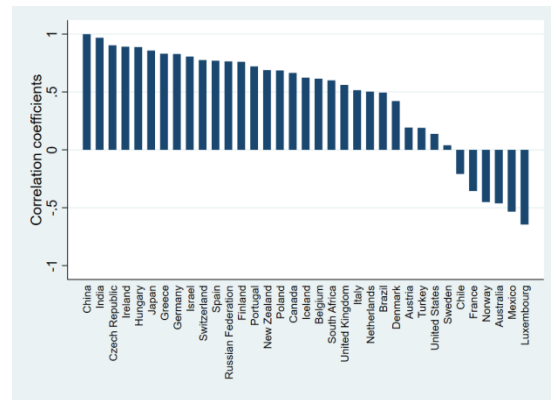


The degree to which solidarity is correlated with GDP per capita and the degree to which agency is correlated with GDP per capita varies across countries. We furthermore found suggestive evidence that inequality does not capture the phenomena of solidarity and disempowerment either.

Correlation between the indexes and GDP per capita across countries

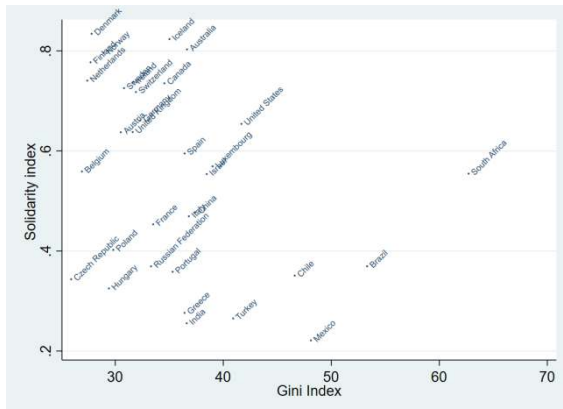


(a) Solidarity index

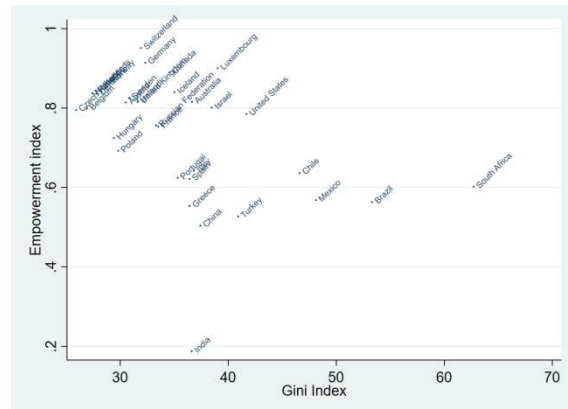


(b) Agency index

Index scores and Gini index across countries, 2017



(a) Solidarity index



(b) Agency index

Our analysis indicates that globalization may be expected to become more clearly welfare-improving only if it is accompanied by policy measures to strengthen social communities, counteracting the decline in solidarity and agency as experienced in many G20 countries. Economic policies at the supranational level must not be implemented independently of those at the micro-economic level, because there is a crucial meso-level of social groups at which important human needs and purposes are satisfied. The G20 as a multinational forum has unique capabilities to set global agendas and influence global norms; and is therefore a predestinated forum to develop a framework for multilevel governance to encourage the recoupling of economic, political and social domains around the world.

The Recoupling Dashboard offers a new approach to the evaluation of human wellbeing. With further elaboration, the Recoupling Dashboard can become a powerful tool to assess how decisions by governments and businesses affect human wellbeing. Currently, policy measures are evaluated primarily in terms of their impact on GDP. Similarly, business decisions related to production, employment and future investments are made primarily in terms of maximizing shareholder value.

In the current COVID-19 pandemic this new framework can also be useful by providing a more balanced assessment of the performance of different countries in their response in dealing with the current COVID19 crisis and the long lasting consequences that will arise from it.

One example in this regard is the compliance with containment measures. In order for pandemic containment to be efficient, compliance with the implemented rules is key. One conjecture is that compliance will be higher and relatively easier to implement if governments make sure that fundamental human needs are satisfied, in particular if solidarity within and between groups is high and individuals are given agency by being able to help themselves, and given the freedom to redirect their efforts in the context of their social groups, thereby strengthening their social solidarity.

The T20 calls on the G20 to put fundamental human needs at the heart of its policies. This includes endorsing a more holistic picture of human wellbeing into account, in particular by including agency and solidarity into the regular reporting of national statistics, and taking these as a basis for policy making. In addition, the contribution of the private sector should be harnessed by enabling responsible actors through several channels, like promoting the adoption of mission-oriented purpose and stakeholder-inclusive governance, and to aim at harmonizing and disseminating accurate and comprehensive reporting of private sector impacts on social development and externalities.

The Recoupling Dashboard is a first step towards reshaping governance systems, in both government and business, with the aim of recoupling economic and social prosperity.

References

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Table 1: Agency, solidarity, material prosperity, and environmental sustainability scores in 2018

Country	Agency index	Rank	Solidarity index	Rank	GDP per capita (const. US 2010)	Rank	Gini Index	Rank	EPI	Rank
Australia	0,81	15	0,83	5	\$ 56.919	7	36,90	11	79,80	26
Austria	0,80	16	0,66	15	\$ 50.250	12	30,50	25	89,40	5
Belgium	0,80	18	0,60	17	\$ 46.683	16	26,50	32	78,40	30
Brazil	0,57	30	0,31	31	\$ 11.026	31	52,90	2	82,70	21
Canada	0,89	3	0,71	11	\$ 51.382	11	34,67	17	86,60	9
Chile	0,63	27	0,33	30	\$ 15.130	28	46,05	4	83,40	18
China	0,51	33	0,52	21	\$ 7.755	33	36,80	12	65,10	34
Czech Republic	0,80	17	0,37	28	\$ 23.359	25	25,90	33	76,80	31
Denmark	0,83	10	0,85	2	\$ 62.931	5	27,60	30	84,00	16
Finland	0,84	6	0,78	6	\$ 48.445	14	28,00	29	91,40	4
France	0,75	22	0,45	23	\$ 43.664	17	33,90	18	87,80	7
Germany	0,91	2	0,67	12	\$ 47.502	15	32,60	19	86,30	10
Greece	0,55	32	0,23	33	\$ 23.558	24	36,60	14	80,20	25
Hungary	0,73	23	0,34	29	\$ 16.503	27	28,90	27	84,20	14
Iceland	0,83	9	0,84	4	\$ 52.103	10	37,40	10	87,60	8
India	0,19	35	0,17	35	\$ 2.104	35	36,75	13	60,30	35
Ireland	0,82	12	0,76	7	\$ 76.881	4	31,50	22	82,70	21
Israel	0,80	19	0,56	19	\$ 34.789	21	38,00	8	79,60	28
Italy	0,64	26	0,49	22	\$ 35.392	20	37,50	9	84,20	14
Japan	0,81	13	0,43	24	\$ 48.920	13			84,50	13
Luxembourg	0,88	4	0,59	18	\$107.243	1	41,60	6	83,10	19
Mexico	0,57	31	0,21	34	\$ 10.385	32	47,90	3	79,80	26
Netherlands	0,84	8	0,74	9	\$ 55.023	8	27,00	31	78,70	29
New Zealand	0,84	7	0,86	1	\$ 38.000	19			88,90	6
Norway	0,86	5	0,85	3	\$ 92.121	2	29,60	26	93,10	2
Poland	0,71	24	0,39	26	\$ 16.640	26	28,80	28	80,50	24
Portugal	0,63	28	0,37	27	\$ 23.738	23	35,20	16	85,80	12
Russian Federation	0,76	21	0,40	25	\$ 11.729	30	31,10	23	83,90	17
South Africa	0,61	29	0,56	20	\$ 7.440	34	62,60	1	69,00	33
Spain	0,64	25	0,63	16	\$ 33.146	22	36,50	15	83,10	19
Sweden	0,82	11	0,73	10	\$ 57.232	6	31,60	21	93,10	2
Switzerland	0,94	1	0,75	8	\$ 78.816	3	31,70	20	95,50	1
Turkey	0,51	34	0,27	32	\$ 15.027	29	39,90	7	75,90	32
United Kingdom	0,81	14	0,67	13	\$ 42.986	18	30,80	24	86,30	10
United States	0,78	20	0,67	14	\$ 54.542	9	41,83	5	81,00	23

Note: The agency index includes labor market insecurity, vulnerable employment, life expectancy, years in education, and confidence in empowering institutions. Due to missing data, the empowerment scores for Brazil, China, India, Russia, and South Africa include only the variables vulnerable employment, life expectancy, and years in education. They should therefore be interpreted with caution. The social solidarity index includes giving behavior, trust, and social support. Due to missing data, the solidarity scores for China and India do not include social support; for Israel, trust is missing. They should therefore be interpreted with caution. The two indexes are

based on own calculations. For comparison, GDP per capita (in constant US\$ based 2010), Gini index of income, and the Environmental Performance Index (EPI) are included in the table.

The full data ranging from 2007-2018 set can be found at <https://www.global-solutions-initiative.org/recoupling-dashboard/>.