



Task Force 3:  
LiFE, Resilience, and Values for  
Wellbeing



# AN ETHICAL FRAMEWORK FOR MEASURING PROSPERITY

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# **Abstract**






**T**his Policy Brief proposes that the G20 not just employ the annual Gross Domestic Product (GDP) as a measure of economic prosperity, but also look at social prosperity (social quality of life, encompassing solidarity and agency) and environmental sustainability. These aspects can be summarised on a SAGE dashboard, where S stands for solidarity, A for agency, G for material gain, and E for environmental performance. Prosperity should be measured in ways that help


policymakers address the collective challenges of the G20. This approach is closely aligned to measuring prosperity ethically. The measurement should be aligned and consistent across G20 member states as well as over time. The brief makes two recommendations: (1) members of the G20 should measure national prosperity annually using the SAGE dashboard; and (2) the G20 should develop International, National, and Corporate Accounting (INCA) standards for both the public and private sectors.



# **The Challenge**

# **1**





**M**any of the problems that people around the world face — such as climate change, biodiversity loss, financial instability, and socioeconomic inequities— derive from deficiencies in the moral foundations of the market economy. They are collective action problems that are not addressed through the incentives prevalent in economic activities. People should act in ways that take into account the consequences of their actions for others, but they fail to do so because the market economy often incentivises them to pursue selfish interests to the detriment of others.

A crucial reason for this deficiency is that the prosperity of nations and businesses is not measured appropriately. Historically, these outcomes have been measured primarily in terms of GDP and shareholder value, respectively. This deficiency is not inherent in the capitalist system. Rather, it is a failure to measure success within the capitalist system in ways that promote the pursuit of collective satisfaction.

GDP and shareholder value do not take environmental degradation and social fragmentation into proper account. Climate change and biodiversity loss, for

example, clearly endanger the present and future of humanity, but these phenomena are often not counted as detrimental to progress, when the latter is evaluated only in terms of GDP and shareholder value. Social fragmentation prevents people from engaging in the collective action required to overcome such problems. Globalisation and automation may undermine the social fabric of communities, but their consequences are given little attention while measuring national and business prosperity.

Capitalism is a system that enables people to mobilise resources, goods, and services in the pursuit of given goals. If the goals are defined and measured inappropriately, the market system will function inappropriately as well. A key challenge of our times is to rethink the measurement of prosperity, at both the national and business levels.


By measuring prosperity in ways that seek to be more consistent with the achievement of meaningful human well-being—individually and collectively, at present and in the future—by accounting and reporting on such measures, we can conceive of how the capitalist system can be redirected to serve the genuine interests of humanity and the rest of the natural world.



# **The G20's Role**

# **2**





**T**he G20 can play an important role in redirecting market economies by instituting a measure of prosperity focused on human well-being, derived from meaningful, fulfilling lives lived in thriving societies. This measurement can become the basis for evaluating the success of G20 policies in a variety of areas. Measuring prosperity in economic, social and environmental terms, the G20 can gain a broader, more nature-centric and human-centric perspective on what real progress means for societies.

### **Ethical Measurement of Prosperity**


Failures to address collective action problems are invariably *moral* failures. An essential purpose of moral values is to promote intrinsic cooperation within groups and suppress destructive selfishness. Moral values help people address collective challenges, such as public good and common pool resource problems.

On this basis, it is “wrong” to engage in economic activities that lead to the destruction of our natural world or the disintegration of our communities.

Prosperity should be measured in ways that enable us to address our collective action problems at all the relevant levels—local, regional, national, multinational, and global. This requires human well-being to be measured more profoundly and extensively than GDP and shareholder value can.

There are four key concepts of well-being. The first is “hedonic happiness,” pertaining to physical and emotional pleasures, such as those obtained from food or entertainment. The second is life satisfaction. This focuses on how people evaluate their well-being over their lives as a whole, rather than their feelings at any point in time. The third concept is eudaimonic happiness, which is measured in terms of subjective achievement of meaning and purpose, mastery and personal growth, social engagement and self-esteem. These measures are closely related to a person’s mental state and their ability to perform characteristic functions well.


A fourth concept rests on the pursuit and achievement of moral values, which can be defined in terms of their primary function—namely, values that induce us to collaborate beyond self-interest in



response to collective challenges, and to suppress destructive competition. This concept, which may influence life satisfaction and eudaimonic happiness, is intrinsically important across nations and cultures.

The ethical measurement of prosperity becomes central to the redirection of capitalism towards human fulfilment. The G20 can be the core of an international measurement effort along these lines by recommending that its members pursue an ethical measurement of prosperity.






**Recommendation:  
The SAGE  
Dashboard**

**3**





**T**hough there are many existing measures of well-being, none thus far has been focused exclusively on the pursuit and achievement of moral values. The SAGE Dashboard illustrates how this can be constructed.

It has four components:

1. **Solidarity** (S, measuring social cohesion and embeddedness): This covers the needs of humans as social creatures, living in communities with a sense of belonging.
2. **Agency** (A, measuring empowerment): It covers an individual's need to shape their life through their own efforts, both personally and collectively. It includes mastery of the environment, personal growth, and attainment of personal and collective goals.
3. **Gain** (G): It covers GDP and profit. This variable is central in the economists' toolkit.
4. **Environmental sustainability** (E, measuring the impact of human actions on the natural world): It


includes not only the consumption of what economists call "environmental services," but also the need to support the flourishing of the natural world.

Each of these components has a corresponding normative foundation of well-being:

- Solidarity: Communitarianism
- Agency: Classical Liberalism
- Gain: Utilitarianism
- Environmental Sustainability: Eco-ethics.

These normative foundations are clearly related to the core values identified by contributors to the literature on moral values. For example, Jonathan Haidt's moral foundation theory<sup>1</sup> includes the categories of Care/Harm, Loyalty/Betrayal, Authority/Subversion, and Sanctity/Degradation. These can all be considered aspects of Solidarity, whereas Liberty/Oppression and Fairness/Cheating can be viewed as aspects of Agency.

The underlying claim of the SAGE




dashboard is that it represents values, as well as the corresponding sources of well-being, that all people appear to have in common, transcending national and cultural boundaries. This claim is built on the following insights:

- Since the success of *homo sapiens* is built largely on cooperation and niche construction, they have evolved motives to socialise (particularly in groups of limited size) and to use their capacities to shape their environment.
- Consequently, personal empowerment (the exercise of agency) and social solidarity have become fundamental sources of human well-being—along with consumption of goods and services and environmental sustainability.

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 respectful of planetary boundaries—they and their social groups, businesses and governments achieve a wider sense of well-being than when they

simply maximise 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 empowerment 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 goals of economic prosperity, empowerment, solidarity, and environmental sustainability are “on a par”<sup>2</sup> in the following sense: (a) each component of well-being is better than others in some respects, (b) none seems to be at least as good as the others overall, in all their relevant respects, and (c) there is no common unit by which they can be measured with regard to overall well-being, though they may be comparable ordinally for decision purposes. When sources of well-being are “on a par,” each is qualitatively different in terms of overall well-being, but nevertheless contributes to it. This means that, in a particular social context, when choices between two jobs in different disciplines



(for example, becoming a lawyer or a doctor) are on a par, offering a slightly higher wage in one job will not make that job more desirable. Such choices are “hard choices,” because “they are comparable, but one is not better than the other, and yet, nor are they equally good.”<sup>3</sup>

The gains from empowerment and solidarity generally cannot be translated into temporally invariant money terms to measure economic prosperity. 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. Empowerment is valueless when one is starving; consumption has limited value when one is in solitary confinement; and so on. Furthermore, the gains from empowerment, solidarity, economic prosperity, and environmental sustainability are different in kind and thus not readily commensurable.

That is the reason why empowerment, solidarity, economic prosperity and environmental sustainability should be understood as a dashboard. Just as the dashboard of an aeroplane measures

magnitudes (altitude, speed, direction, fuel supply) that are not substitutable for one another (e.g., correct altitude is not substitutable for deficient fuel), so these four indexes are meant to represent separate goals. Only when a country makes progress on 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 link between them comes from the moral underpinning of ‘gain’, which is the economic driver of a capitalist system. So long as there is an inconsistency in the way we measure gain with fulfilling the other components of the dashboard, there will be tension between financial motivation and the intrinsic interests of people as individuals, societies, and the natural world. It is essential that incentives are not at variance with human and planetary flourishing.

For this to happen, measurement of GDP and profit should be complemented by measurement of the costs and benefits of maintaining, preserving, and protecting solidarity, agency, and environmental sustainability. Gains that occur at the expense of any of them are not true gains in the sense of benefits

that accrue without detriment to others. To the extent that this is the case, we are overstating both GDP and profit by failing to account for the true costs of avoiding detriment. Complementing GDP and profit, both at the macro/national level and the micro/corporate level, with the three other components of well-being, can be done naturally using the SAGE dashboard.


### **Recommendation 1: Develop an Empirical SAGE Dashboard for the G20**

The empirical development of a normative dashboard of well-being should have the following aims:

1. Universal applicability: It should identify the major normative components of well-being which extend beyond cultural, national and religious boundaries.
2. Simplicity: It should focus on just four components of well-being, since that (on average) is the maximum number of independent pieces of information that can be kept in working memory at the same time. (Each of the components may of course be assessed in terms of multiple subsidiary elements.)

3. Regularity: It should measure these normative components of well-being with the same regularity as GDP, which implies annual or quarterly measures.
4. National scope and duration: It should encompass most countries of the world over sizeable time spans, so that national performance (beyond GDP) can be compared across nations and over time.
5. Business scope and duration: It should measure companies on the same basis over sizeable time spans, so that business performance (beyond shareholder value) can be compared across businesses and over time.
6. Comparability across the policy-business divide: It should measure national performance and business performance consistently, so that indicators of policy effectiveness and business impacts are coherent, permitting an appropriate interaction between policymaking and business strategy.

The dashboard should comprise a flow statement (measuring the flows of



value-driven well-being from solidarity, agency, material gain, and environmental sustainability) and a stock statement (measuring the stocks that enable the generation of the flows).

**Social capital** is the stock that enables the flow of solidarity. The stock of **capabilities** enables the flow of agency. The stocks of **physical and human capital** enable the flow of goods and services. And the stock of **natural capital** enables the flow of environmental services. (Needless to say, in addition to these direct effects, each of these stocks of capital also has indirect effects on each of the flows.)

The flow and stock statements of the dashboard are analogous to the income statement and balance sheet of a company. Both statements are necessary for the assessment of prosperity.

It is important to emphasise that these stocks are enablers of the flows, not necessarily the generators of these flows. The stock of social capital, for example, provides a social environment of trust and cooperation. But only when people's interactions draw on these social resources does solidarity flow.

Similarly, if capabilities are unused, agency does not flow from them—much as goods and services do not flow from unutilised physical and human capital. However, while social, physical, and human capital along with capabilities generally depreciate when unutilised, natural capital often regenerates when environmental services are not consumed.

It is also important to recognise that flows do not necessarily diminish stocks, as conventionally associated with physical assets. Indeed, that is a distinguishing characteristic of all three assets being discussed here—natural, human, and social. We can consume the benefits of many forms of nature without depreciating their stock provided we do not over-consume them to the point that they cannot regenerate sufficiently and rapidly. We can consume the benefits of human knowledge and information without diminishing the stock of either, provided that we do not abuse them through deceit or misrepresentation. We can consume social capital through broader participation without diminishing its stock (in some cases we can actually increase it), if we do not misuse it through breaches of

trust and expectation, but use it to generate increasing returns of social interactions.


A rudimentary version of the SAGE dashboard's flow statement has already been developed for over 160 countries over the last two decades. The methodology and data sources underlying this empirical exercise are described in Lima de Miranda and Dennis J. Snower's paper, "Recoupling Economic and Social Prosperity".<sup>4,5</sup> They have noted that while material gain (G) is captured by GDP per capita and environmental sustainability is also measured through conventional indices (such as through the Environmental Performance Index), solidarity (S) and agency (A) are assessed through subjective measures.

There have been other efforts to quantify and measure well-being, such as the Organisation for Economic Co-operation and Development's (OECD) 'Better Life Index',<sup>6</sup> the US non-profit Social Progress Imperative's 'Social Progress Index',<sup>7</sup> the 'Genuine Progress Indicators' (GPI) developed by several US economists,<sup>8</sup> the concept of Green Accounting which factors in environmental costs, UK economist

Partha Dasgupta's 'Dasgupta Review',<sup>9</sup> the 'Strategy of Environmental Economic Accounting for India' developed by its Ministry of Statistics and Programme Implementation,<sup>10</sup> and the UN's Sustainable Development Goals.<sup>11</sup> Relevant learnings from these other efforts can be incorporated into the SAGE framework, in accordance with well-defined criteria.

Drawing from other empirical efforts can only enrich our normative measures of well-being. Conversely, our normative measures can augment the other dashboards. SAGE is not an alternative to existing well-being dashboards, but an ongoing empirical effort to distil and categorise existing data within a framework focused on the moral foundations of well-being.

Once the flow and stock statements of a normative dashboard of well-being have been prepared, it will be possible to develop effective policy measures not only for commodities (such as multipliers, indicating the effect of government expenditures on GDP) and the environment (such as environmental impact multipliers of government expenditures), but also with respect to solidarity and agency.



On this basis it will, for example, become possible to measure the effect of government expenditures not just on GDP and environmental services, but also on social cohesion (via solidarity) and empowerment (via agency)—all on a consistent basis across countries and over time.

Further, it will be possible to measure government policy effectiveness and business impact that are compatible across all components of the normative dashboard. This will enable significant progress in designing government macroeconomic and structural policies that are complementary with policies directed at business (such as specifying business responsibility targets, taxation, regulations, and government procurement rules).

**Recommendation 2:  
Develop an International,  
National and Corporate  
Accounts (INCA) Standards  
Framework**


Using the measurement initiative above, it is possible to design a normative accounting framework for national and business accounts, so that national and business decision-making are in consonance with the components of

well-being. In particular, international, national, and corporate accounts (INCA) for public and private sectors can be developed.

What is required is a consistent set of accounts across the macro-micro divide, including international, national, and corporate accounts. This will incorporate traditional stocks and flows of human, social and natural capital, alongside existing measures of financial and material products and services, such as assets and liabilities, income, and profit and loss statements.

The approach would draw on existing systems of estimating total wealth, impact measurement, and natural capital accounting. Once these measures of stocks and flows are included in reporting, along with the measurement of policy and business effectiveness, they could have significant impact on the governance of sectors such as information technology, and places, such as neglected towns and regions. It would promote appropriate delegation of authority to individuals, institutions, and government bodies at the local, regional, and sectoral levels. It could have as profound an effect on the management of human, social and





natural assets as did the development of national accounts in the 1950s on macroeconomic management.

A normatively based dashboard of well-being (SAGE), spanning the policy-business divide, accompanied by a

normative accounting system (INCA) is a first step towards the achievement of “moral capitalism”. This would allow businesses to compete for profits and consumers to fulfil their needs, equitably and inclusively.

Attribution: Colin Mayer and Dennis J. Snower, “An Ethical Framework for Measuring Prosperity,” *T20 Policy Brief*, June 2023.



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## **Endnotes**

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