PREFACE

Achieving economic growth has been a central tenet of public policy for most countries since the middle of the last century. An often implicit justification for this policy objective is that economic growth directly increases social welfare. Yet within the current literature, the relationship between economic growth and social welfare are not fully understood.

Within this book, the relationship between economic growth and social welfare is questioned. The processes associated with achieving economic growth produce both costs and benefits that effect social welfare levels. Generally speaking though, it is only the benefits that are considered when analysing shits in social welfare. If analysis of the relationship between economic growth and social welfare fail to consider the number of important economic costs and non-welfaristic impacts of economic growth on social welfare, the true nature of this relationship remains unknown.

Costs of economic growth include increased pressure on social relationships and environmental degradation, whilst non-welfaristic issues include distribution, poverty and intergenerational equity. These costs and non-welfaristic issues can be included in measures of social welfare through the operationalisation of normative social choice theory.

Measuring social welfare is not a new exercise within the economic literature or the social sciences generally. Economists, politicians and policy makers all wish to know whether life is becoming better or worse off and the ability to measure such changes in well-being is eagerly sought. Within the economic literature, the dominant approach to measuring social welfare is to aggregate individual welfare. Individual welfare is generally measured through revealed preferences within the market place. The aggregation of these revealed preferences is GDP. Therefore, increasing GDP (per capita) enhances social welfare. However, there are two important limitations to this approach that can be overcome using normative social choice theory.

The first is the implicit assumption that individual welfare can be directly aggregated to measure social welfare. This assumption is faulty for two reasons: a) Arrow proved the impossibility of democratic aggregation; and b) the behaviour and market decisions of individuals do not ensure optimal social outcomes. Individuals are able to act as both agents in the market and also as citizens within a society. Normative social choice theory overcomes Arrow's "impossibility" of aggregation and also captures the decisions made by citizens, not those of the market agent.

The second limitation becomes evident when we measure social welfare by focusing on how society facilities the attainment of certain (hierarchical) needs. Economic activity adequately captured in GDP does not, however, capture how social well-being can increase through the attainment of these (hierarchical) needs. These needs can be determined and measured using normative social choice theory.

Normative social choice refers to the normative processes of ordering alternative social states to determine what is the best state for that society on the basis of the choices, preferences and value judgments of members of that society. Normative social choice theory incorporates various "social concerns around welfare" that are not adequately captured using individual preference satisfaction techniques within the market place.

Social choices can be estimated using expert opinion (or analyst), government formulated public policy, or specific interview of individuals on social welfare outcomes. The methodology for each technique is well established (Islam 2001). Using one, or a combination of the above, it is possible to determine the social choice perspectives on various social welfare issues.

A social choice framework is normative and value judgments about the valuation of, and preferences for, social welfare maximisation must be considered. Normative social choice theory provides the normative framework for aggregating individual welfare and should be applied to social welfare measures as it highlights social preferences and value judgments. It is concerned with economic and non-economic activities that are important in determining social welfare levels, quality and composition. Normative social choice theory can highlight changes within society and how these changes impact on social welfare. It can also be used to determine the weights assigned to different components of social welfare.

The two new measures of social welfare developed and empirically applied in this book will operationalise social choice theory by explicitly stating the social choices, preferences and value judgments of society.

The first social welfare function adjusts national income per capita (a figure derived from GDP per capita) by adopting certain welfare economic criteria, particularly systems analysis and cost-benefit analysis. It extends the work of previous GDP adjusted studies. Within this function national income per capita will be adjusted to consider the costs and benefits arising from achieving economic growth. Comparisons of this measure of social welfare (adjusted national income per capita) and unadjusted national income per capita will assist in analysing the relationship between economic growth and social welfare.

The second social welfare function is based on achieving a sense of well-being. It utilises a concept of hierarchical needs in a new form, where the fulfillment of specified needs is used to measure social welfare. Within this approach, social welfare includes non-welfaristic considerations such as liberty, social relationships and self-actualisation. The results of this social welfare function will be used to test the veracity of the results of the first social welfare function.

A brief analysis of economic growth and social welfare in the context of certain contemporary development issues, sustainability, globalisation and health, is also undertaken.

The results of these welfare analyses are expressed as time series. All the time series trends show that despite constant increases in economic growth, social welfare in Thailand at times fell or remained unchanged. Based on this empirical welfare analysis, this book concludes that achieving economic growth often increases social welfare and is therefore desirable, but not at all times.

Suggestions that economic growth may decrease a nation's aggregate social welfare are limited within mainstream literature. Within both empirical studies, during periods of high economic growth, social welfare fell at certain times and remained relatively unchanged at others. This experience is described as *stunting economic growth* as this economic growth has "retarded the progress" of social welfare. Stunting economic growth is undesirable.

Finally, a number of illustrative policy frameworks designed to reduce periods of stunting economic growth and increase social welfare are suggested.

This book utilises "real-life" social welfare functions to analyse the relationship between economic growth and social welfare. The book also makes various contributions to the literature.

The main *characteristics and contributions* are the application of normative social choice theory to social welfare measurement with the following emphases:

- social preferences and value judgments about economic activities and outcomes are important in determining social welfare levels, quality and composition. Therefore, an explicit social welfare function should be specified in valuing economic outcomes for measuring social welfare;

- social valuation of economic activities and outcomes and economic growth should be based on the consideration of costs and benefits of economic activities and growth, the explicit form of which should be specified in the social welfare function;

- social valuation of economic progress also needs to be determined within an explicit cost benefit analysis framework with the following possible implications for the measurement of social welfare;

- non-welfare aspects of the determinants of human welfare should be incorporated;

- an incorporation of the hierarchical structure of human needs in the estimation of social welfare; and

- the approach is based on social welfare issues in a developing country (Thailand).

Such a combination highlights that social preference and value judgments about economic activities and outcomes are important in determining society's welfare levels, quality and composition.

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Matthew Clarke
Sardar M. N. Islam
Centre for Strategic Economic Studies
Victoria University, Melbourne
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