

Approaches of prosperity in the globalization era

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Abstract: Into the 21st century, the meaning of prosperity has gone beyond material wealth. Many of the economists asks themselves what prosperity really means, as it is a problem studied from many years and it does not have an unique and general accepted definition. As Indira Gandhi said: „Freedom is indivisible ...peace is indivisible ...economic prosperity is indivisible”, we can say that the issue is still of interest and in the same time it is controversial. Starting from such aspects, this paper aims to emphasize some different approaches of the concept of prosperity.

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1. INTRODUCTION

Nowadays, the prevailing vision of prosperity as a continually expanding economic paradise has come unraveled. The issue was long studied over centuries. From Aristotelian studies to Adam Smith’s studies or to later analysis, the concept of prosperity remained a controversial one.

John Maynard Keynes, in his book, *The Means To Prosperity*, started the analysis from the nature of the problem: „*If our poverty were due to famine or earthquake or war—if we lacked material things and the resources to produce them, we could not expect to find the Means to Prosperity except in hard work, abstinence, and invention. In fact, our predicament is notoriously of another kind. It comes from some failure in the immaterial devices of the mind, in the working of the motives which should lead to the decisions and acts of will, necessary to put in movement the resources and technical means we already have. It is as though two motor-drivers, meeting in the middle of a highway, were unable to pass one another because neither knows the rule of the road. Their own muscles are no use; a motor engineer cannot help them; a better road would not serve. Nothing is required and nothing will avail, except a little, a very little, clear thinking.*”

In our century, scientists search for a different kind of vision for prosperity: one in which it is possible for humans beings to flourish, to achieve greater social cohesion, to find higher levels of well-being and yet still to reduce their material impact on the environment. Any cursory examination of the literature reveals that, beyond the narrow economic framing of the question, there are some strong competing visions of prosperity.

Some of these visions hail from psychology and sociology; others from economic history. Some draw on secular or philosophical viewpoints; others from the religious or wisdom traditions. It is obvious the fact that there are differences between these approaches, but there are also some striking similarities. For instance, in Buddhism, prosperity is viewed with an emphasis on collectivism and spirituality. This perspective can be at odds with capitalistic notions of prosperity, due to their association with greed. Many perspectives accept that prosperity has material dimensions. It is perverse to talk about things going well if you lack the basic material resources required to sustain yourself: food and water to be adequately nourished or materials for clothing and shelter. Security in achieving these aims is also important.

But from at least the time of Aristotle, it has been clear that something more than material security is needed for human beings to flourish. Prosperity has vital social and psychological dimensions. To do well is in part about the ability to give and receive love, to enjoy the respect of your peers, to contribute useful work and to have a sense of belonging and trust in the community. In short, an important component of prosperity is the ability to participate freely in the life of society.

2. APPROACHES OF PROSPERITY

One of the most used phrase in defining the prosperity is the following: “Prosperity is not just about income”, as rising prosperity is not the same thing as economic growth. But this does not in itself ensure that prosperity without growth is possible. A distinct possibility remains that growth is functional for prosperity: that continued economic growth is *a necessary condition* for a lasting prosperity. And that without growth our ability to flourish diminishes substantially.

That is why, many economists chose to examine three closely related propositions in defence of economic growth:

The first is that opulence — though not synonymous with prosperity - is a necessary condition for flourishing.

The second is that economic growth is closely correlated with certain basic entitlements - for health or education, perhaps - that are essential to prosperity.

The third is that growth is functional in maintaining economic and social stability.

But, beside this approaches, there is another one which show that there is an interesting overlap between components of prosperity and the factors that are known to influence subjective well-being or “happiness”. This doesn't mean that prosperity is the same thing as happiness. But the connection between the two provides a useful link into recent policy debates about happiness and subjective well-being. Amartya Sen, the Nobel Prize laureate, set out the distinctions very clearly in a landmark essay on “the living standard”. One of Sen's concepts was characterized by the term *opulence*, another, by the term *utility* and a third through the idea of *capabilities for flourishing*.

Broadly speaking, Sen's first concept - *opulence* - corresponds to a conventional understanding that prosperity is about material satisfactions. Opulence refers to the ready availability and steady throughput of material commodities. An increase in the volume flow of commodities represents an increase in prosperity. The more we have the better off we are, in this view.

The explanation for the concept of *abundance* may be found in the work of Adam Smith. In those days providing material commodities to meet the necessities of life was a priority. But it is pretty straightforward to see that this simple equation of quantity with quality, of more with better, is false in general. Even economic theory recognizes his

limitation. The “diminishing marginal utility” of goods reflects the fact that having more of something usually provides less additional satisfaction.

When studying *prosperity as utility*, Sen starts from the fact that quantity is not the same thing as quality. Opulence is not the same thing as satisfaction. Rather than focusing on the sheer volume of commodities available to us, this second version relates prosperity to the satisfactions which commodities provide.

Though it is easy enough to articulate this difference, it is more difficult to define exactly how commodities relate to satisfaction, as many people have noted. The one thing that's pretty easy to figure out is that the relationship is highly non-linear. Even something as basic as food doesn't follow a simple linear pattern in which more is always better.

There's a particularly important complexity here. Increasingly, the uses to which we put material commodities are social or psychological in nature rather than purely material. In the immediate post-war years it was a challenge to provide for basic necessities, even in the most affluent nations. Today, consumer goods and services increasingly furnish us with identity, experience, a sense of belonging, perhaps even meaning and a sense of hope.

Measuring utility in these circumstances is even more difficult. What is the psychic satisfaction from an iPhone? A new car? These questions are practically impossible to answer. Economics gets round the difficulty by assuming their value is equivalent to the price people are prepared to pay for them in freely functioning markets. It casts utility as the monetary value of market exchanges. The GDP sums up all these market exchanges. Broadly speaking, it measures the total spending by households, government and investment across the nation. Spending is taken as a proxy for utility. And this, in a nutshell, is the case for believing that the GDP is a useful measure of well-being.

But the case is deeply problematic at best. There is a huge literature critiquing the value of GDP as a well-being measure. Going back at least as far as Robert Kennedy's famous 1968 speech lamenting that GDP “*measures everything, in short, except that which makes life worthwhile*”, political leaders and scholars have recognised the inadequacies of GDP as a measure of true prosperity.

More recently, high profile figures such as French President Nicolas Sarkozy have joined the debate. He created a commission of 25 eminent scholars, including five Nobel Laureates, to reassess according to the Commission's official title, the “*Measurement of Economic Performance and Social Progress*”. The Sarkozy Commission's report, issued on September 14, 2009, concluded that while there is no single “holy grail” statistic which can quantify everything meaningful in a single number, a range of new variables should be included in measuring a nation's progress. While the Sarkozy Commission report gives perhaps too much weight to government regulation and social welfare spending as intrinsic goods, it is overall a welcome contribution to an important discussion.

Critics point to the fact that the GDP counts both “defensive” and “positional” expenditures even though these don't contribute additionally to well-being. And, perhaps most critically, the GDP fails to account properly for changes in the asset base which affect our future consumption possibilities.

Some have argued that the underlying concept of utility as exchange value is itself fundamentally flawed.

A key finding here is the so-called happiness (or life-satisfaction) paradox. If GDP really does measure utility, it's a mystery to find that reported life satisfaction has remained more or less unchanged in most advanced economies over several decades in spite of significant economic growth. Real income per head has tripled in the US since 1950, but

the percentage of people reporting themselves very happy has barely increased at all, and has declined since the mid-1970s. In Japan, there has been little change in life-satisfaction over several decades. In the UK the percentage reporting themselves 'very happy' declined from 52 per cent in 1957 to 36 per cent today, even though real incomes have more than doubled.

One of the difficulties in using the GDP for measuring prosperity results from comparing the self-report measure against the GDP, as it means to use different kinds of scales. The GDP is (in principle at least) unbounded. It can (politicians hope) go on growing indefinitely. The life-satisfaction measure on the other hand is a bounded scale. You can only score from 0 to 10, however often you go on making the assessment. It is implicit in the definition of the self-report scale that utility itself is bounded.

The two measures presume fundamentally different *concepts* of utility. In one interpretation there is no limit to the satisfaction that humans can achieve. The other is more circumspect in its view of the human psyche. Whatever else we may say about the relationship between GDP and life satisfaction, it's clear they are not measuring the same kind of utility.

An opinion that can be expressed when speaking about measuring prosperity by starting from the happiness of people is that happiness is also a very abstract notion. People can be unhappy for all sorts of reasons, some of them genetic, even when things do go well. Equally, they may be undernourished, poorly housed, with no prospect of improvement and yet declare themselves (some might say foolishly) completely content with their lot. Happiness may be seen as a state of moment, but we are going to see later how economists can "measure" it.

There is also an other perspective concerning prosperity. Sen sees it as *capabilities for flourishing*. He starts from studying how well people are able to function in any given context. Sen stresses not so much the functionings themselves - whether people actually live long, have a worthwhile job or participate in the community - as the capabilities or freedoms they have to do so. His point is that in a liberal society, people should have the right to choose whether or not to participate in society, to work in paid employment and perhaps even whether to live a healthy life. It is the capability to flourish that is important.

It is well known the fact that in a world of limits, certain kinds of freedoms are either impossible or immoral. The freedom endlessly to accumulate material goods is one of them. Freedoms to achieve social recognition at the expense of child labour in the supply chain, to find meaningful work at the expense of a collapse in biodiversity or to participate in the life of the community at the expense of future generations may be others.

Capabilities for flourishing are a good starting point from which to define what it means to prosper. But this vision needs to be interpreted carefully: not as a set of disembodied freedoms, but as a range of "bounded capabilities" to live well - within certain clearly defined limits.

These limits are established in relation to two critical factors:

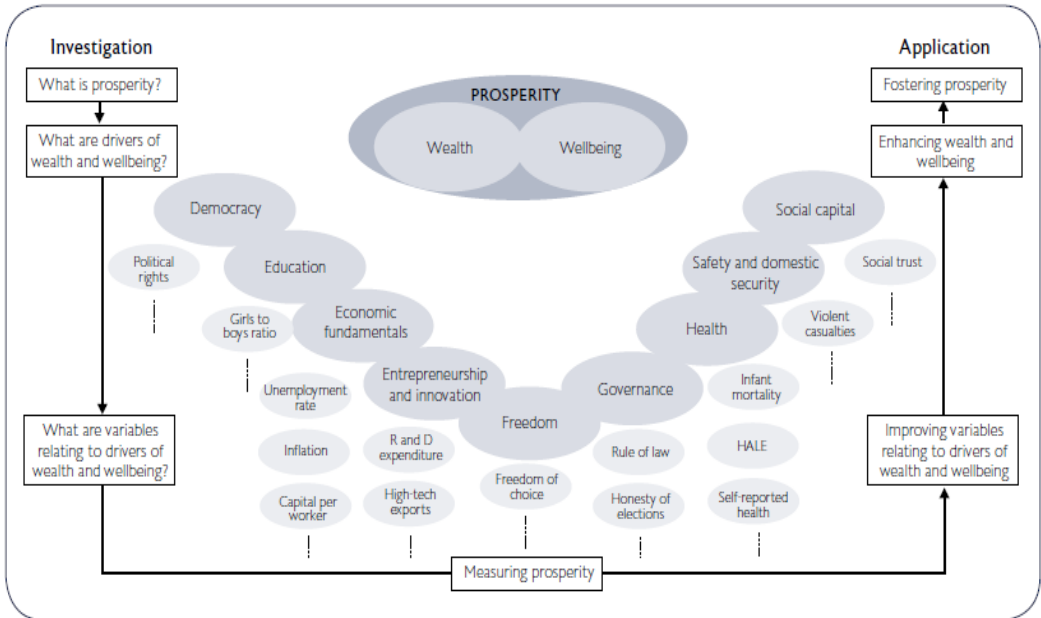
The first is the finite nature of the ecological resources within which life on earth is possible. These resources include the obvious material ones: fossil fuels, minerals, timber, water, land and so on. They also include the regenerative capacity of ecosystems, the diversity of species and the integrity of the atmosphere, the soils and the oceans. None of these resources is infinite.

The second limiting factor on our capability to live well is the scale of the global population. This is simple arithmetic. With a finite pie and any given level of technology, there is only so much in the way of resources and environmental space to go around. The

bigger the global population the faster we hit the ecological buffers, the smaller the population the lower the pressure on ecological resources...Capabilities are bounded on the one hand by the scale of the global population and on the other by the finite ecology of the planet. In the presence of these ecological limits, flourishing itself becomes contingent on available resources, on the entitlements of those who share the planet with us, on the freedoms of future generations and other species. Prosperity in this sense has both intra-generational and inter-generational dimensions.

3. THE PROSPERITY INDEX

The possibility that humans can flourish, achieve greater social cohesion, find higher levels of well-being and still reduce their material impact on the environment is an intriguing one. Starting from such aspects, there is a group of economists which founded a methodology to use in order to measure the countries prosperity. We are talking about the Legatum Prosperity Index, which uses a holistic definition of prosperity to include both material wealth and quality of life, as it may be observed in the figure 1.



Source: The 2009 Legatum Prosperity Index. An Inquiry into Global Wealth and Wellbeing, London, UK, 2009, www.prosperity.com

Figure no. 1.
What prosperity means?

The Index identified nine key factors that drive economic growth and personal wellbeing, which are foundations of prosperity. Each of these nine factors is represented in a sub-index and a country’s final Prosperity Index ranking is generated by averaging its scores across all nine subindexes, equally weighted.

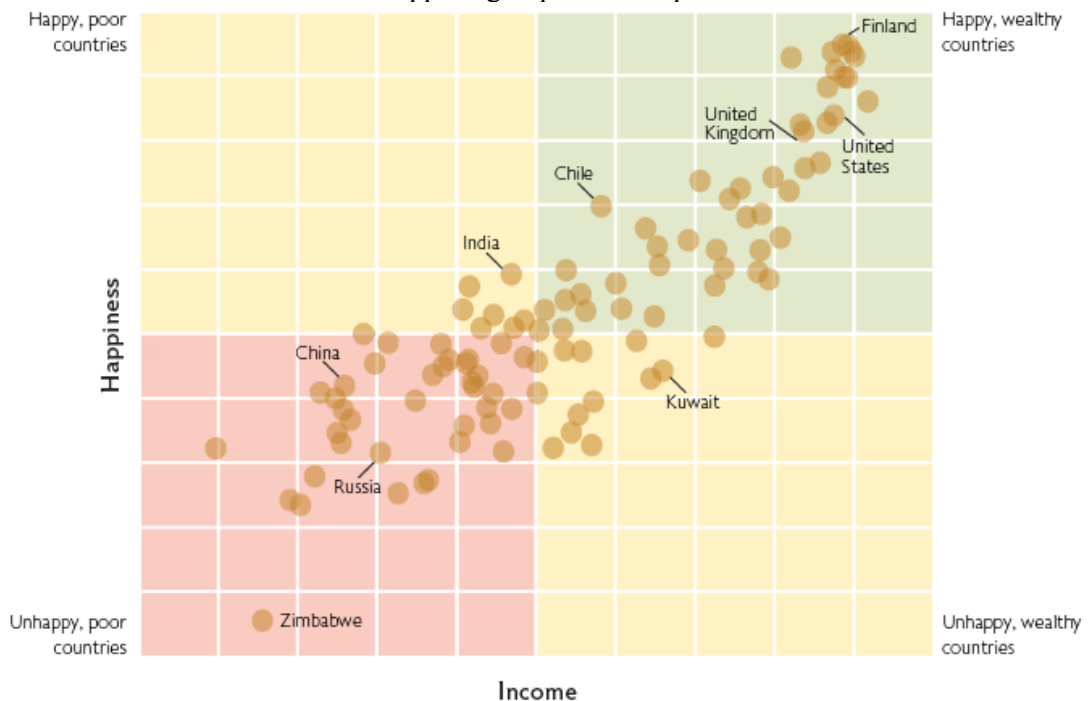
According to the Legatum Institute, the foundations of prosperity that define successful nations include:

- *Economic Fundamentals* – a growing, sound economy that provides opportunities for wealth creation

- *Entrepreneurship and Innovation* – an environment friendly to new enterprises and the commercialisation of new ideas
- *Education* – an accessible, high-quality educational system that fosters human development
- *Democratic Institutions* – transparent and accountable governing institutions that promote economic growth
- *Governance* – an honest and effective government that preserves order and encourages productive citizenship
- *Health* – the physical well-being of the population
- *Personal Freedom* – the degree to which individuals can choose the course of their lives
- *Security* – a safe environment in which people can pursue opportunity
- *Social Capital* – trustworthiness in relationships and strong communities.

The 2009 Prosperity Index accounts for 90 percent of the world's population, using a combination of objective data and subjective responses to surveys. This data comprises 79 different variables, and each is then distilled into one of the nine different sub-indexes identified as a foundation of prosperity.

Four of the sub-indexes in the Prosperity Index are created by correlating variables with per capita GDP, and five are created by correlating variables with subjective wellbeing, or happiness. Together, they give a comprehensive view of how well a nation is doing. The chart above is a scatterplot that places countries on a continuum by how economically competitive they are and how happy they are. One goal of national policy would be to move as far into the upper right quadrant as possible!



Source: Tim Wilson, *Apparently being rich does make you happy*, 2009
<http://sustainabledev.org/2009/10/27/zimbabewans-live-a-poor-unhappy-life/>

Figure no. 2.
Happiness and income

Sixteen of the top 20 most prosperous countries sit in North America and Europe – and two others (Australia and New Zealand) are the Pacific heirs of British commercial and political institutions. These 16 nations account for only 10 percent of the world’s population but 40 percent of world GDP.

As we can see in the tabel below, six of the top 10 countries in the 2009 Prosperity Index are located in Europe: Finland, Switzerland, Sweden, Denmark, Norway, and the Netherlands. Comparing European nations to the US, ranked 9th, the Index finds that the United Kingdom (11th), Germany (14th), and France (17th) all trail the U.S. in both economic measures as well as key quality of life measures. The U.S. outranks each of them on safety and security measures, which is somewhat surprising given public perceptions on the issue. The U.K. lags behind the U.S. in education and personal freedom, Germany in economic fundamentals and the impact of its government on economic growth, and France on social capital. All three countries turn in comparatively high ranks on entrepreneurship and innovation; with the U.K. ranking 2nd globally behind the U.S. Finland is ranked first on the collective measures of wellbeing.

TABLE 1. Top 10 and bottom 10 countries

Top 10 countries		Bottom 10 countries	
1	Finland	95	Kenya
2	Switzerland	96	Algeria
3	Sweden	97	Tanzania
4	Denmark	98	Nigeria
5	Norway	99	Pakistan
6	Australia	100	Cameroon
7	Canada	101	Central African Republic
8	Netherlands	102	Yemen
9	United States	103	Sudan
10	New Zealand	104	Zimbabwe

Source: *The 2009 Legatum Prosperity Index. An Inquiry into Global Wealth and Wellbeing*, London, UK, 2009, www.prosperity.com

The Index finds that the most prosperous nations in the world are not necessarily those that have only a high GDP, but are those that also have happy, healthy, and free citizens. Northern European nations, on average, perform better on measures related to quality of life than to economic wellbeing, and Eastern European nations perform better, without exception, on measures related to economic wellbeing than to quality of life.

3. CONCLUSIONS

According to Legatum Institute, Romania is the lowest ranked European Union country at 47th, and Belarus, at 85th, is the lowest-ranked European nation overall. Our country obtained the weakest place at social capital (102nd from 104 countries analised). Social capital in Romania is weak: only 19% of people believe others can be trusted, a low proportion of people feel that friends are important, and few people feel that they can rely on friends and family in times of need. Although Romania ranks 40th, internationally, with regard to group memberships, with very low numbers involved in sports, environmental, or arts organisations. By contrast, 38% declare an affiliation with a religious organisation, placing Romania in the top 30, internationally, on this variable. However, religiosity levels remain average, suggesting reasonable access to religious support networks. Romania also performs poorly in terms of helping strangers and

donating to charity, and has the fourth lowest rate of volunteering, worldwide. Also, Romanians report relatively low levels of freedom to move, practise religion, and speak; however, 74% of Romanians express satisfaction with regard to their freedom of choice in matters of daily life, placing the country 49th on this variable. Citizens also feel that their country is tolerant of diversity: roughly three-quarters believe the country to be a good settlement location for racial and ethnic minorities, while three in five believe the same to be true for immigrants.

These are only a few of the problems our country is confronting. It is obvious the fact that there must be taken a lot of measures in order to improve our place in the classament. In order to do that, we must realize that citizens – not governments – are ultimately responsible for the creation of wealth and the realisation of happiness. Yet governance is indispensable. Countries in which sound governance leads to satisfied citizens are also most likely to have the healthiest economic fundamentals and the most entrepreneurial societies. Accountable political institutions, protections for civil liberties, predictability in contracts, and reliable regulatory structures all help promote prosperity.

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