

REPORT ON THE MASTER THESIS

IEPS – International Economic and Political Studies, Faculty of Social Sciences, Charles University

Title of the thesis:	Economic Well-Being Beyond GDP
Author of the thesis:	Liam James Burton
Referee (incl. titles):	PhDr. Jaromír Baxa, Ph.D.

Remark: It is a standard at the FSV UK that the Referee's Report is at least 500 words long. In case you will assess the thesis as "non-defendable", please explain the concrete reasons for that in detail.

SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY	POINTS
<i>Theoretical background (max. 20)</i>	15
<i>Contribution (max. 20) points</i>	15
<i>Methods (max. 20) points</i>	10
<i>Literature (max. 20) points</i>	14
<i>Manuscript form (max. 20) points</i>	8
TOTAL POINTS (max. 100) points	62
The proposed grade (1-2-3-4)	2

You can even use a decimal point (e.g. giving the grade of 2.5 for 60)

Comments of the referee on the thesis highlights and shortcomings (following the 5 numbered aspects of your assessment indicated below).

1) Theoretical background: With respect to the core of the study (Ch. 7), the author provides a lot of interesting indicators that are relevant for measurement of well-being. However, I have limitations towards the very basic idea of the paper that the GDP shall be smashed away because it does not provide proper measurement of well-being. I feel there is a strong misunderstanding that I'm trying to describe in my detailed review below. Furthermore, I believe that upon this misunderstanding, the thesis contains in its initial chapters a couple of misleading arguments that undermine credibility of the thesis strongly.

2) Contribution: Somewhat original work with occasional interesting ideas (in particular in Ch. 7 several interesting indicators are presented that shed some light on issues related to distribution of income) but on the other hand there are important misconceptions and ideas that are accepted without any critical discussion. From my subjective knowledge of the field, parts of the thesis (Ch.2,3,4,5, somewhat conclusions) do not really reflect the current state of knowledge.

3) Methods: I think it is very ambitious to describe 12 proposals within one thesis since each particular topic would have required specific literature review and some analysis to help the author to derive conclusions that are interesting, based on current literature and that will go beyond obvious statements. Nevertheless I understand that this has been the goal of the thesis.

4) Literature: It seems to me that the author reflects more some popular perception about GDP among journalists and policy makers (maybe), but the perspective on the role of GDP and what it measures is somewhat different in economics. Also, I think that one should not focus on the relationship between GDP and subjective well being only but other aspects, such as relation to competitiveness, business-related rankings such as Doing Business or other issues shall be mentioned as well because these attempts try to reach the goal of evaluation of countries on a basis of more indicators. From my point of view these issues definitively should have been mentioned (see the Detailed review). Nevertheless, the author surveyed solid amount of academic papers and discusses issues that are relevant and can have interesting policy implications.

5) Manuscript form: The structure is not very clear and it is a very weak point of the thesis. I did not understand, why chapters 2, 3 and 4 are not merged into a one chapter devoted to discussions about the concepts of GDP and well-being in the literature because all sections actually discuss issues that appear in the literature. Also, I usually expect different content in chapter devoted to methodology, e.g. description of a formal or empirical model. Here, description of data dominates, but these issues usually appear in Appendix rather within the text itself.

Furthermore, the core of the thesis, Chapter 7, is very much fragmented and quite hard to read. I understand the idea of the author to provide an assessment of each component of the proposal, but that's very ambitious task and one needs to deal with a couple of challenges while writing such piece of work. First, discussing 12 topics requires a deep knowledge of each of it to go beyond obvious statements. Second, one needs to consider the readers' point of view and to avoid fragmented text with no clear glue across subsections (beside the fact that all belong to one family of recommendations). Perhaps, one could have avoided this complication by attempts to group several recommendations together, e.g. household perspective on income and consumption + inequality (1-5), quality of life and subjective well being (7-10), sustainable development (11-12). Right now, it is rather difficult to evaluate all these subsections, let me just point that all of them contain number of interesting observations, but no clear idea stands out and can be considered as *leitmotif* of the thesis.

The thesis contains occasional typos and the style of titles and subtitles is not unified across sections.

Let me also propose a couple of points for discussion for the final defense that shall be decisive for the final grade:

1. Discuss the relevancy of existing indicators mentioned at the end of this review for evaluation of well-being across countries and how well do they reflect the proposed steps towards more nuanced measurement of well-being proposed by the Commission.
2. An interesting point is mentioned in section 3.4, the Goodhart's law. Nevertheless, I'm curious whether the fallacy of idea that we can use one variable both as a target and as a measuring device would not be relevant for any other alternative measures to GDP.

Detailed review.

In this thesis, the concept of GDP and its relevancy for measuring of human well-being are discussed. The core of this thesis is a description of the proposal by the Commission on the Measurement of Economic Performance and Social Progress established by Nicolas Sarkozy, the President of France, after the Great Recession, and investigation of possibilities to implement the 12 main Commission's recommendations.

Presented thesis contains number of interesting observations and comments, its topic is definitively interesting and relevant, however I see a couple of issues that can be considered as somewhat problematic. Nevertheless, let me mention that I consider myself as an economist and so the comments presented below shall be interpreted as comments by economist to criticism against the very basic concept commonly used in the discipline.

First, let me state that it is quite clear that the GDP is not an ideal indicator for measuring well-being. However, up to my knowledge, it hasn't been designed to do this job. Rather than well-being, it has been related to a level of economic development under the assumption that higher amount of goods and services produced in the economy are good for growth. Hence, I cannot really accept one of the two main goals of this thesis - "*to reassert the GDP as an inaccurate figure for representing overall economic well-being*" (Introduction) because the GDP hasn't be intended to measure well-being so from my point of view there is not much to reassert. Even the report by the European

Commission quoted in the introduction calls for frequent utilization of other indicators *complementary* to the GDP rather than replacing the GDP as a whole.

I have similar limitations to other formulations used throughout the paper, e.g. in Ch. 3 on GDP where it is even stated that "*it is problematic to make annual GDP per capita as a synonym for economic growth in general*" and "*it is not true that annual GDP growth will automatically bring welfare for all members of the society*" (ch. 3.1). Or that "*GDP count catastrophes as positive*" - this is simply not true or should be really supported by the data. If I consider floods, earthquakes and other catastrophes, then these catastrophes lead to destruction of existing productive capacities and thus decrease the GDP (both level and growth) because GDP does not measure existing stock of wealth and capital, but a production over specific period of time. It is true that the subsequent reconstruction effort contributes to GDP positively. However "production" is not only about existing physical facilities but about trade linkages that are often seriously damaged, too. Many of existing contracts are not renewed and even relocation of firms occurs and these effects offset the positive effects of reconstruction effort to some extent.

For me statements like these undermine credibility of this thesis seriously, perhaps because I never interpret GDP in a way that might be in author's mind. Nevertheless, I do agree that it is always important to ask whether economists are really measuring what do they should and whether they provide proper interpretation to what they measure. I'm also a big fan of bit unorthodox experiments that aim to test whether the lessons from growth econometrics, labor economics etc. will hold if the dependent variable would have been replaced by any alternative to GDP such as HDI etc.

The conclusion of the thesis is that complex evaluations are more important and that dashboards shall be used more often than any single indicator in isolation. From my point of view this implication is correct and relevant for policy analysis. Let me mention that this is something that the economic profession seem to be reflecting already, my perspective is that this complex approach started to gain popularity after 2000, mainly in international institutions (United Nations and World Bank to name the most important ones), think tanks (World Economic Forum) and, to some extent, in academia as well. Currently, there are several regularly updated rankings of countries that try to exploit information from dozens of variables, let me mention the Global competitiveness report (World Economic Forum), OECD Better Life Index, Gallup-Healthways Global Well-Being Index. Those attempts are, however, not mentioned.

DATE OF EVALUATION:

June 16, 2016



Referee Signature

The referee should give comments to the following requirements:

1) THEORETICAL BACKGROUND: Can you recognize that the thesis was guided by some **theoretical fundamentals** relevant for this thesis topic? Were some important theoretical concepts omitted? Was the theory used in the thesis consistently incorporated with the topic and hypotheses tested?

Strong Average Weak
20 10 0 points

2) CONTRIBUTION: Evaluate if the author presents **original ideas** on the topic and aims at demonstrating **critical thinking** and ability to draw conclusions based on the knowledge of relevant theory and relevant empirical material. Is there a distinct **value added** of the thesis (relative to knowledge of a university-educated person interested in given topic)? Did the author explain **why** the observed phenomena occurred? Were the policy implications well founded?

Strong Average Weak
20 10 0 points

3) METHODS: Are the **hypotheses** for this study clearly stated, allowing their further verification and testing? Are the theoretical explanations, empirical material and **analytical tools** used in the thesis relevant to the research question being investigated, and adequate to the aspiration level of the study? Is the thesis **topic comprehensively analyzed** and does the thesis not make trivial or irrelevant detours off the main body stated in the thesis proposal? More than 10 points signal an exceptional work, **which requires your explanation "why" it is so**.

Strong Average Weak
20 10 0 points

4) LITERATURE REVIEW: The thesis demonstrates author's full understanding and **command of recent literature**. The author quotes relevant literature in a proper way and disposes with a representative bibliography. (Remark: references to Wikipedia, websites and newspaper articles are a sign of **poor research**). If they dominate you cannot give more than 8 points. References to books published by prestigious publishers and articles in renowned journals give much better impression.

Strong Average Weak
20 10 0 points

5) MANUSCRIPT FORM: The thesis is **clear and well structured**. The author uses appropriate language and style, including academic **format** for quotations, graphs and tables. The text effectively refers to graphs and tables, is easily readable and **stimulates thinking**.

Strong Average Weak
20 10 0 points

Overall grading scheme at FSV UK:

TOTAL POINTS	GRADE	Czech grading	US grading
81 – 100	1	= excellent	= A
61 – 80	2	= good	= B
51 – 60	3	= satisfactory	= C
41 – 50	3	= satisfactory	= D
0 – 40	4	= fail	= not recommended for defence