

Wellbeing and productivity

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ABSTRACT

In the widely used capital stocks approach to conceptualising intergenerational wellbeing, the wellbeing of the current generation is considered a function of four key capital stocks: produced capital, human capital (labour), social capital, and natural capital. Most discussion of the sustainability of levels of wellbeing into the future is focused on considering whether the quantity of these capital stocks left for future generations will be the same, larger, or smaller than the quantity available to the current generation (e.g., Arrow et al, 2012; OECD, 2013, 2015; Treasury, 2018; Smith, 2018). However, the efficiency with which the capital stocks are used to produce wellbeing also matters. Because the capital stocks approach is grounded in a framework with strong parallels to that underpinning growth accounting, total factor productivity (tfp) provides a potentially useful way of examining this issue.

This article explores the relationship between wellbeing and tfp. First, it briefly examines the cross-country correlation between standard measures of tfp and satisfaction with life (the most widely used measure of subjective wellbeing). An econometric (regression residual) approach is then used to develop methodologically comparable estimates of traditional tfp (where the output in question is national income) and wellbeing tfp (wtfp, where the output is mean national life satisfaction). The differences between the two measures are compared and the impact on this of confounding factors – including the roles of social capital, natural capital, and cultural bias in responses to subjective wellbeing measures – is explored. Understanding whether cross-country differences in wellbeing are driven by different factor endowments (the capital stocks) or differences in how efficiently these endowments are used (wtfp) has significant policy implications both for evaluating nations' progress and for identifying what can be done to improve wellbeing.