Growth, Inclusion, and Human Satisfaction

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Abstract

How do income growth, socio-economic equality, and inclusion interact to determine levels of satisfaction? This paper makes three main points. First, economic growth by itself is not a secure route to human happiness. Though growth that occurs within conducive societal structures no doubt brings important benefits, the generality of this outcome cannot be assumed, given the centrality of relative income and status to people's satisfaction levels. Second, though equality and inclusiveness are obvious potential contributors to happiness, inclusiveness can sometimes take socially damaging forms, highlighting the need to draw on the nuances of the psychology literature in integrating the concept meaningfully into social science thinking about
the economy and welfare. Third, given that preference formation is endogenous to a society, the challenge of increasing human satisfaction inevitably raises the question of how deliberate an effort should be made by "society" to tilt preference systems toward ones which make satisfaction easier to experience.

**Keywords:** inequality, inclusion/exclusion, happiness, affirmative action, discrimination, relative status


Introduction

Many economists have presumed that the main societal “good” to which the discipline can contribute is economic growth. The necessary, albeit delayed, retreat from that presumption has been helped along both by the recognition that other economic outcomes matter to human welfare and by the claim by some students of the happiness literature that economic growth does not, on average, raise human satisfaction. As well as naturally casting some doubt on the desirability of growth per se, perhaps more importantly this latter claim underlines the importance of the search for (i) economic systems better capable than the current ones of responding to existing human needs, and (ii) ways in which humankind can learn to get more out of whatever the economy does produce.

In the context of existing market systems, it is generally accepted that societal welfare is greater when economic growth is pro-poor and, more generally, when it is egalitarian. It is also accepted that the availability and quality of employment matter greatly to people for the direct satisfaction that employment provides, and that for most people a solid sense of inclusion is important, whether mainly through their family, their community, or some other group.¹ Economic equality,
social equality, and political equality are all likely contributors to a sense of inclusion, and each may be important to welfare through other mechanisms as well.

This paper considers some of the ways in which income growth, socio-economic equality, and healthy inclusion interact to determine levels of satisfaction and happiness in a society. In so doing it makes three main points. First, the case that economic growth is by itself a secure route to human happiness is relatively weak. Second, equality and inclusiveness are obvious candidates as contributors to that happiness, making it therefore necessary to understand how they may best be fostered and how they relate to the rate and pattern of economic growth. Third, partly because people are influenced by the character of the society and economy within which they live, it is important that the economy and public policy foster the better side of human nature and discourage the dark side.

**Background ideas and concepts**

Over the last sixty years many countries have achieved good to very good growth rates, such that average per capita income in the countries of what was formerly called the Third World has risen
about fourfold over that period, from about $580 U.S. (of year 2000) to around $2,300—a rise heavily influenced by the strong performances of the two biggest countries, China and India. In a number of countries, however, periods of economic growth have been accompanied by widening economic inequality (China is the most notorious recent case); the population-weighted average Gini coefficient for this same set of nations rose markedly over 1980–2000, and many of them have been facing severe challenges on the employment front.

Much concern has also been expressed about the extent and trends of exclusion, marginality, and socio-economic insecurity. Some of the links between economic growth and certain aspects of income (or consumption) equality are reasonably well understood, but those between growth and more sociological and psychological phenomena, such as sense of satisfaction and inclusion/exclusion, are harder to nail down, in part because such concepts are by nature somewhat subjective and in part because their links to economic processes and economic growth have thus far received little in-depth analysis.

The literature based on “happiness” surveys now provides considerable evidence on how absolute income, relative income, employment, age, and various personal and family circumstances affect people’s self-reported welfare. The literature on inclusion/exclusion is more
varied in focus and emphasis. Exclusion from public services or other benefits received by most members of a society is objectively measurable and can be built into estimates of overall economic inequality. Analysis that aims to identify the mechanisms leading to inclusion or exclusion in a more general sense and to consider the direct psychological benefits and/or costs that affect satisfaction/happiness is more difficult. "Psychological inclusion"—defined here as the state of feeling part of a social group (as small as the nuclear family or a group of intimate friends or as large as the nation or the world) in ways that are conducive to personal well-being—matters differently across people, groups, and cultures. Psychological exclusion may be active or passive, according to whether a person suffers aggressive exclusion (e.g., overt and maliciously hurtful discrimination) or simply the absence of active inclusion. Historically, in most cultures a key unit has been the extended family or clan. Larger social groups tend to become more important as societies evolve, with the community important in some and the country in others. Exclusion can be experienced at either the individual or the group level. The collective character of much exclusion focuses attention on group or horizontal inequalities. Inequality is causally tied in both directions to exclusion, whether the focus is at the group level or the individual level. Group exclusion is strongly intergenerational since, even more than family poverty, it involves multiple mechanisms of self-perpetuation.
One person’s inclusion in a group is often the other side of another’s exclusion. The overall societal implications of groups capable of providing a sense of belonging thus depend on whether and to what degree that sense is defined in reference to others who constitute the out-group or the even the enemy. Many groups compete in ways that engender a sense of inclusion related to that competition; others do not compete, as for example in a neighborhood whose members mutually support each other and provide a sense of inclusion independent of relationship to any other groups.

Inclusion or societal cohesion brings other benefits than the psychological boost from interaction and comradeship. Thus worker cohesion often raises group productivity; such “social capital” may be a significant determinant of aggregate productivity in an economy (Hall and Jones 1999; Isham, Kelly, and Ramaswamy 2002). Alternatively, association and interaction with others help build social networks that may provide support when it is needed. On the economic side, such networking may be essentially functional, creating a sort of intangible personal or family capital that is parallel to a firm’s intangible capital in the form of goodwill (whose economic value is reflected when it changes hands in the marketplace). Some mutual support networks are horizontal, involving people of roughly the same socio-economic status who may be best placed to help each other. Very low income families, however, are often precluded from participation in
networks because they cannot reciprocate; at the limit their members may have only each other to rely on for support in difficult times, since collective support strategies are not feasible (Pahl 1984; Gonzalez de la Rocha 1986). All three conceptually distinct types of benefits may (and presumably frequently do) arise from the same associations.

Approaches to and scope for policy to promote social inclusion vary according to, among other things, the weight societies place on psychological/sociological welfare. In France, where the term “social exclusion” originated, it referred to a “rupture of the social bond” or solidarity between the individual or group and the society. The European welfare state eventually grew out of the concept, with the idea of mutual obligation between individuals and the larger society. Many contemporary social protection policies can be seen as involving both a fulfillment of this sort of social contract by the government on behalf of the society and an attempt to counteract and weaken the society’s cultural and institutional sources of exclusion. They thus aim both to counteract such direct economic correlates of exclusion as poverty and lack of access to social services (like health and education) and to lessen its sociological and psychological costs (Abel and Lewis 2002). The mechanisms of social exclusion (e.g., class and caste systems, ethnic divides) act as natural barriers to the effectiveness of such social protection policies (Barry 2002).
In the now industrial countries, social policy to foster inclusion (or combat exclusion) has often been associated with urbanization and the emergence of working-class interests (Dani and de Haan 2008: 8). An important characteristic of the welfare state as it emerged after World War II was the association of delivery of services with the extension of citizenship and rights. Social homogeneity made a higher level of taxation palatable as a quid pro quo for the social contract of the welfare state. The welfare crisis of the Great Depression was a powerful factor in creating an awareness of the need for social protection.

The processes have been very different in the global South. Contextual factors include colonialism, slavery, and ethnic exclusion. With the boundaries of many new countries not defined in ethno-linguistic terms and many tribal and ethnic conflicts still unresolved, social integration has been enormously challenging. Social policy has often been grafted onto still weak institutions. Unions have played a different and smaller role and non-governmental organizations (NGOs) a bigger one, and global influences have been more important. The special challenges confronting social policy in developing countries are exemplified by the extremity of the caste system in India and the ethnic rivalries in many of the artificially created African countries emerging from former colonial empires, and by the fact that in several Latin American countries
the indigenous majority group(s) has suffered severe exclusion. In such settings social integration would be very challenging even if institutions were strong and accountable.

**Empirical relationships**

**Growth and economic equality**

In the early days of development thinking, it was often held that the goals of growth and equality were at odds with each other, and that in order to permit an adequate level of investment it was necessary to allow and foster the wealth of a few capitalists—the savers, innovators, and inventors. This view may have had some validity at certain points in the history of the now industrial countries, but it is now quite clear that inequality is not a generally necessary condition for fast growth, which can occur with either low or high levels of inequality and in a context either of rising inequality (as recently in India and, more dramatically, in China) or falling inequality (Taiwan and Indonesia during various periods). Some policy packages may achieve equality in ways that promote growth and others in ways that deter growth. In technical economic terms, achieving growth with equity does not appear to be a very difficult challenge. It
is the exception rather than the norm in the real world for political and institutional reasons: the pressures in favor of growth paths that favor the few, and the sometimes ideological belief that only the rich can save and create jobs.

**Income level and happiness**

Surveys of people’s self-reported satisfaction or happiness provide a useful form of evidence with which to analyze questions like the extent to which higher and better distributed income fosters happiness and a sense of inclusion among the members of a society. Such surveys provide pro-growth people with some grounds for optimism. All studies report a positive cross-section relationship between absolute income and happiness; for example, in the U.S. the share of respondents reporting that they are very happy rises from 16% for the bottom income group to 44% for the top group, while the share who are not very happy falls from 23% to 6% (Easterlin 2001: 468). For many people, having a job is a requirement for personal fulfillment. Many other things matter as well. The analytic challenge is to sort out how the range of factors that contribute to human satisfaction interface with and are affected by economic processes.
One step involves the interpretation of another key finding: that the average level of satisfaction in a country does not rise as much with over-time increases in per capita income as does the point-of-time cross-section relationship—in fact it may not rise at all. Average reported levels of well-being declined over 1972–98 in the U.S. and have been approximately flat in Britain (Blanchflower and Oswald 2004: 1359). One plausible explanation for such constancy is that relative income is very important to most people. Among economists, major forerunners who have stressed its importance and that of conspicuous consumption are Veblen (1973) and Duesenberry (1949), together with many sociologists and psychologists.

Easterlin’s (1974) hypothesis that happiness is experienced in relation to expectations or aspirations and that these are largely defined in reference to people and groups close to one and to one’s own personal trajectory predicts no large systematic difference in average happiness across countries with different income levels, other things held constant; it also implies that economic growth may have no net benefits at either a country or a world level. The evidence most relevant to the developing country context is the over-time data for those countries, but its scarcity precludes any very general conclusions at this time. Among the optimists, Inglehart et al. (2008: 264) report that “Data from representative national surveys carried out from 1981 to 2007 show that happiness rose in 45 out of 52 countries where substantial time series data were
available,” something they attribute to economic development, democratization, and increasing social tolerance. Veenhoven (2010: 120) similarly concludes that the quality of life has been rising significantly in a good number of countries, and attributes this partly to the fact that “modern society provides a challenging environment that fits an innate human need for self-actualization.”

Such optimists see a direct role for non-economic factors, though the changes in some of those factors may depend on rising incomes. Easterlin and Sawangfa (2009) criticize these and other studies for failing to take fully into account the lack of comparability across surveys from given countries. Their more restrictive set of criteria leaves just twelve developing countries, and although in most of these there was at least some increase in average life satisfaction, three of the fastest growing (China, Chile, and India), having among them nearly half of the developing world’s population, recorded declines. Easterlin and Sawangfa’s main contention, however, is that across these countries there is no correlation between changes in per capita income and in life satisfaction. If true, this would leave open the possibility that the last half-century or so has seen an upward trend in life satisfaction in the developing countries (or a significant number of them), but that this has been due to things other than growth of GDP per capita, e.g., falling poverty achieved through social policies, rising economic security, better employment
conditions, or a variety of non-economic variables. This possibility underlines the need to better understand what other social and economic factors may have been at work.

**Inequality and happiness**

The happiness surveys provide no clear story on people’s feelings about inequality in their society (Stewart and Samman, this volume). Cross-country analysis led Berg and Veenhoven (2010) to the conclusion that living in an unequal society has if anything a small positive effect on happiness, whereas within-country analyses for Latin America and China led Graham and Felton (2006) and Knight and Gunatilaka (2011), respectively, to judge that greater inequality has a modest negative impact. Other studies hint at factors that might underlie a variety of relationships: people and groups no doubt vary in their aversion to or tolerance of inequality according to their own experience, and to their perception of what is fair and of whether inequality plays a useful role in society or is substantially the result of corruption and waste. Analysis of this relationship is at a very early stage.
**Inclusion and happiness**

The happiness literature throws some quantitative, albeit often indirect light on the role of belonging as a source of satisfaction (e.g., the strongly negative impact of losing a spouse or being unemployed). Psychologists are unambiguous in their view that group identity is central to most people’s lives. Schoolyard bullying, the subject of a recent wave of attention, exemplifies both the psychological costs of aggressive exclusion of individuals and the group membership needs that help to induce such behavior. In the case of group exclusion, a key phenomenon is structural inequality—the attribution of an inferior status to a category of people, especially severe when the stronger group also dominates state institutions. Such inequality is reproduced through a wide range of mechanisms, often adding up to a vicious circle. Ethnicity clearly plays a major role.  

Important to the role of economic structure in the various forms of inclusion/exclusion is their links to economic inequality, as where poverty prevents a person or group from accessing a public service supposedly available to everyone or to poor people in particular; the more important these links, the more likely is it that raising the relative income of currently excluded groups will weaken the mechanisms and effects of that exclusion. Marquez et al. (2007: 33–5)
present systematic evidence (from Latinobarometer surveys\textsuperscript{13}) that poverty is seen by the populations of Latin America and the Caribbean as the main reason people are discriminated against, with lack of education second, followed by being old and by “lacking connections.” Experiment-based evidence points to the fact that trust is reduced among people with widely varying levels of education (Marquez et al. 2007: 140). They conclude (2007: 71) that the labor market is one of the social loci where modern exclusionary forces have heightened the impact of social exclusion.

**Policy in a broader societal perspective**

It remains a matter for empirical analysis to what degree an economically egalitarian society also fulfils the non-economic requirements for societal satisfaction, including the need for inclusion or, alternatively, the extent to which social policy instruments are more effective in achieving those social goals and possibly economic ones as well. Economics is involved in several different ways in policies directed at broad societal goals; here we distinguish four categories.
First are traditional economic policies relating to output variables and to primary income distribution. Second is tax and transfer policy, usually directly redistributive in character (at least in stated purpose), though as with any policy there may be effects on traditional economic variables as well. The last few decades have seen a considerable expansion of initiatives within this area: countries with new non-contributory pension systems, expanding public health systems, etc. The large size of the urban informal sector has led to a debate on the economic effects of an extension or universalization of already existing social protection systems.\(^{14}\) A third category of policies aims to attack the underlying socio-economic inequalities that cause the observable inequalities in income, educational attainment, etc. Affirmative action programs like ethnic quotas for education and public sector jobs, etc., fall into this category.\(^{15}\) Finally there are the policies directed (whatever the instruments involved) specifically at the social and psychological determinants of life satisfaction, including a sense of inclusion: for example, reforms of educational curricula and teaching practices to emphasize anti-racism and thus influence how people live together.

Policies to promote inclusiveness fall into the last two categories. Students of such policies distinguish several steps, including fostering general recognition of there being a problem, civic action to pressure and induce governments to act, and the establishment and clarification of
rights (e.g., judicial, access to public services) that are desirable or even essential preludes to policy design and implementation. Deepening the recognition of structural inequality and thereby softening societal attitudes helps to pave the way for change. This makes visibility of gender and ethnic inequalities important, including such basic steps as local data collection to help end the invisibility of socially excluded groups (Buvinic and Mazza 2008: 125). Partly through such pressures, the role of ethnicity in equality has come to be increasingly recognized in some Latin American countries (including Brazil). The Chinese government has started to promote the concept of a harmonious society, building on or actively promoting traditional values (Dani and de Haan 2008: 10).

Globalization and information technology have seen the emergence of global networks and the internationalization of ideas, with much potential to accelerate normative changes. In India, where progressive policies have been on the books for a long time with only limited action taken, the government has since 2004 felt compelled to deliver more to the poorest groups, partly through new schemes but also by introducing rights-based approaches promoted by sustained civil society advocacy—as, for example, with the employment guarantee scheme (Dani and de Haan 2008: 18). Sometimes the initiatives are generated by the groups themselves, though to be sustained they usually need support at the national level. Though laws and conventions are
seldom sufficient conditions to achieve progress, they may be useful or even necessary. The
group aspect of discrimination suggests the need for a framework based on collective rather than
individual rights. Several Latin American countries have adopted constitutional frameworks that
recognize excluded groups as distinct groups within the nation, sanctioning ethnic and cultural
diversity. Failure of policies to be built on an understanding of power and discrimination can of
course lead to unexpected results (Dani and de Haan 2008: 17).

Though naturally very resistant to change, structural inequality can be attacked through a variety
of internal and external factors, some planned, some accidental. Sometimes transformation
occurs through conflict and violence. Sometimes a softening of societal attitudes helps to pave
the way for change. Dani and de Haan (2008: 14) note that the temporary emigration of millions
of Pakistani and Indian workers to the Middle East has allowed many landless people to escape
feudal bondage. Historically, many forms of discrimination have been eroded by a demand for
labor strong enough to counteract the pressures for discrimination and exclusion. Improving
access to decent employment often constitutes a mechanism to facilitate group identity and
inclusion. This, together with the income generated and the self-esteem implicit in being able to
carry out some socially valued activity, helps to explain why employment emerges as so
important to so many people. It also suggests that great potential for reducing economics-based
exclusion is lost when, as is usually the case, countries do not have well-designed
or -implemented employment strategies (Berry 2012).

**Affirmative action**

Affirmative action may improve both economic equality and social inclusion in a variety of
social policy areas, such as education (various levels and different instruments like quotas and
conditional cash transfers), health and pensions, food distribution, input subsidies, and the labor
market (via quotas for government or other employers, special training, programs to assist in the
transition from school to the labor force, etc.).

Affirmative action programs require especially careful design, efficient administration, and good
monitoring and evaluation. Sometimes the ongoing exclusion of the intended beneficiaries makes
them hard to reach, and usually the opposition of the excluders constitutes a serious barrier.
Effective policies often need to involve both the excluded group and the excluding society.
Exemplifying this in the area of health, Jenks (2003) argues that the rehabilitation and
reintegration of individual patients suffering from leprosy and the society’s education on this
health issue are best done in such a way as to involve the same actors that promoted exclusion, and thus create bridges across the divide separating the two groups.

When circumstances are particularly difficult it may be important to avoid aiming for the unattainable and in the process generating a counterproductive response. Evaluation, and the data base it calls for, can be especially important either in cases where progress toward equality is likely by nature to be slow—this makes it essential to know whether small improvements are occurring—or in cases where it is unclear \textit{ex ante} whether the design itself is good, as might occur with some labor market policies, like high minimum wages in countries with large informal sectors. In such cases it is pivotal to have data not just on the average access or income of an excluded group but also on the variance of that access or income within the group, to guard against the danger that policy may favor a few winners at the expense of a larger number who may even fare worse than before.

India exemplifies such challenges. In response to extreme social inequality, the country has pursued various affirmative action programs. But even with a commitment from higher levels of government, it is not easy to circumvent both the elites who make up the “excluders” and the corrupt local officials who appropriate public funds when possible. Thus Jeffrey et al.
(2005: 2085) conclude that the rural elite use their superior wealth, connections, and social status to ensure their sons’ privileged access to schooling and government employment, and that the political rise of lower castes and the greater availability of educational opportunities, though allowing a small group of Dalits to raise their social standing, has failed to alter the broader historical relationships of exploitation. This study, however, lacks a sufficient time dimension to provide a confident assessment of whether the affirmative action is having an impact which, though gradual, might over time be significant.

In their more detailed analysis of eighty-nine West Bengal villages over 1978–98, Bardhan and Mookherjee (2006: 303) test the hypothesis that local elites through their control of local government prevent the benefits of targeted credit, agricultural input kits, employment programs, and fiscal grants from reaching their intended targets. They reject the hypothesis that higher poverty, land inequality, and an overlap between low caste and poverty in a village were systematically associated with measurable adverse effects on the targeting of private goods to the poor, though they did lead to lower employment generation out of allotted funds and to significantly lower allocation of resources to the village as a whole. Bardhan and Mookherjee (2006: 324) suggest that the intra-village targeting of credit and agricultural input kits occurs “in a context of rich information shared within the community concerning relative entitlements and
allotments of different claimants.” For public goods, however, the scope for elite capture is
greater and the allocation of resources across villages, made by officials of higher-level
governments (block, district, and state), is more influenced by the lobbying power and
negotiating skills of the village representatives, which presumably depend on land and caste
status.

Desai and Kulkarni’s study (2008) of affirmative action on education in India over 1983 to
1999–2000 highlights the nature of societal response. Over the course of its implementation.
higher-caste resentment against the program grew, culminating in widespread riots in 1990. The
government’s attempt to introduce quotas for “backward” castes in highly competitive
engineering and management schools saw the resentment flare up again, leading to increased
sabotage and to a public discourse rife with prejudice against steps that “give to the undeserving
classes and take away from the deserving.” Professors reported problems in teaching lower-caste
children on scholarship who are ill prepared (because the village schools continue to discriminate
against them). Meanwhile, Dalit and Adivasi spokespeople complained that the policies were
poorly implemented and hence had very little effect. Clearly, in cases like this a deep
understanding of the social dynamics involved is necessary to ascertain the optimal route toward
a reduction of injustice.
Affirmative action on labor

Overall employment strategies around the developing world are weak even when measured against the standard labor market target variables—quality and quantity of employment, working conditions, etc.; it is thus no surprise that they have typically not been carefully designed, analyzed, or evaluated in terms of promoting greater equality or greater inclusion. But affirmative action programs do exist; on the demand side they include ethnic or caste–based hiring quotas, usually for public sector jobs, and guaranteed work schemes targeted to lower-income families. By far the largest of these is India’s national program, with an estimated 52.5 million beneficiary families in 2009–10 (Zepeda, forthcoming: 13). On the supply side there have been new policy developments, such as training programs for people with disabilities (e.g., an Inter-American Development Bank-funded program in Mexico). Traineeships can sometimes improve labor market insertion of youth, though it is important to avoid the error of believing that what is mainly a labor demand problem can be resolved mainly by acting on the supply side.

As with other areas of affirmative action, having better data (and better analysis of it) is important in order to underpin the need for policy, to help sort out what the policy should be, and
to provide the material for monitoring and evaluation. Labor market data on excluded groups needs to be much improved; information is usually available only on gender (Buvinic and Mazza 2008: 157).

Two tricky challenges warrant mention in this area. First, for employment guarantee systems to work well, it is necessary to keep the wage low enough to avoid mis-targeting and political corruption. Well-intentioned pressure to raise the wage runs the risk of undercutting the economic logic of such programs—that only a relatively low wage will keep the needy from being squeezed out. That risk is exemplified to some degree by the experience of India’s famous Maharashtra Employment Guarantee Scheme, which after pioneering guaranteed work programs on a large scale from the mid–1970s, implemented a large wage increase in 1988 with negative effects on employment and the access of the poorest (Ravallion et al. 1993).

Second, pressing too strongly against discrimination in hiring can, depending on the setting, discourage employment of disadvantaged groups, especially on the part of the micro-, small, or medium enterprises (SMEs) that generate a considerable share of the paid jobs in developing countries. In the industrial countries, governments and larger firms have usually set the pace on
the hiring of minority groups. Micro- and small enterprises are often ethnic based, as well as living closer to the margin of profitability, so this is not one of their strengths.

Social programs aimed at equity and inclusion usually face serious dangers on the corruption front, in part because the direct political weight of the beneficiary groups is low. Mobilization of those groups can help to counteract this problem, especially after a program has been going on for a period and comes gradually to be seen by them as a right (which brings its own dangers). Civil society groups can also help. The potential of low-cost technology to circumvent corrupt officials is exemplified by the current proposal to use direct transfer of funds to the bank accounts of the beneficiaries of the Indian work guarantee program. Time and experience will tell how successful such a reform may be; it is part of the continuous cat-and-mouse game between the supporters of such programs and those who try to benefit illicitly from them. It may even sometimes be necessary to recognize that the corrupt officials, as co-beneficiaries of a program, do provide support for it.
Using aggregate evidence to gauge progress and success

The analysis needed to backstop good social policies (affirmative action and other) involves not just the identification of the underlying problems that lead to exclusion and the monitoring and evaluation of programs put into place, but also the monitoring of the broader trends and patterns that reflect the severity of the exclusion and may therefore be used to measure progress at an aggregate level.

Consider, for example, ethnic and gender inequality in Latin America. Despite a relatively good database, too little analysis has been undertaken to quantify the degree of progress. Hall et al. (2006: 21) note the remarkable growth in the political influence of indigenous peoples, and the specially tailored health and education programs. There are data on the indigenous/non-indigenous gaps at specific points of time but too little analysis of trends over time in those gaps (or in other relevant outcomes) and in what may underlie them.

The advance of women in Latin America is another complicated and somewhat ambiguous story. Buvinic and Mazza (2008: 127) note that the situation of the average woman has improved markedly in recent decades but that black, indigenous, and other socially excluded women have been left behind; and that, more generally, the labor market gains of women have not been
commensurate with their rising educational level “because of persistent exclusion from key occupations, formal sector employment, and better and higher quality jobs.”

Meanwhile, aggregate income data suggest a reasonably positive story. Over the 1990s, together with a very rapid increase in female participation rates, there appears to have been an increase in female relative earnings (among all workers, paid or not), suggesting a significant increase in women’s share of urban income and hence of total income (Berry 2012: 26). In Mexico, for example, that share of total (reported) urban income rose from about 19 percent in 1989 to about 25 percent in 2002; in Venezuela the rise was more dramatic, from 24 percent in 1990 to 34 percent in 2003. Such figures do not capture economic insecurity, however, and the high proportion of women in the urban informal sector is cause for concern, especially among the indigenous. Age discrimination is particularly relevant for women. Keeping all of these patterns in mind at once is a major analytical challenge.
Improving the social efficiency of market economies

Some policies to advance equality and inclusiveness are designed to work within an existing society/economy, while others (some affirmative action programs, for example) aspire to change the attitudes of those responsible for the exclusion, i.e., to alter society itself. Another approach is to tinker with those features of an economy’s functioning that are most likely to negatively affect variables like inclusiveness.

Among the features deserving attention in this connection are:

1. taste formation through advertising designed to drive business profits, especially with a focus on affording a sense of “exclusivity;”

2. greed as a desirable personal trait (at least to a point) on the grounds that it drives the economy;

3. competition as a generally desirable feature of a society and an economy.
Each of these three features may have significant direct human welfare costs involving exclusion (or lack of inclusion); this makes it particularly important to understand whether they have important upsides in terms of contribution to economic growth, job creation, or other economic “goods.”

Advertising can heighten unhappiness for people unable to acquire an advertised item or a certain overall consumption level by encouraging comparison with others, as well as inducing some to go into debt in a way that is ultimately damaging to them. But there is no reason to believe that this sort of advertising adds to economic efficiency.

Personal greed has been defended as what drives entrepreneurs to provide a key input necessary to economic growth and dynamism. Greed may be defined as the desire for more than one needs, or an insatiable desire to accumulate wealth or other things of value, or a desire to have something to which others also aspire. In the latter guise it is a form of interpersonal competition. Adam Smith’s “person acting in his own interest” was not necessarily greedy, but simply giving due weight to his own welfare. For markets to parlay individual actions into societal welfare through the benefits of specialization and economies of scale certainly does not require that their actions be motivated by greed; very plausibly, markets work better when not so motivated.
Market-oriented societies are characterized by high levels of competition at many levels, each with some negative and some positive effects on societal welfare. At the personal and family level, people strive to outdo others (through conspicuous consumption or wealth, purchasable status, etc.). This competition can take the form of a “zero sum game,” in the sense that for one person to feel good (from “winning”) someone else must feel bad.\(^\text{19}\) Competition among people for jobs can improve resource allocation and hence overall production, as well as maximizing a form of personal freedom. But where many people strongly prefer and wind up competing for the same job(s) for which few are needed, the competition itself can extinguish friendships and contribute strongly to tension, uncertainty, and feelings of inferiority, while not necessarily contributing to economic efficiency.

**Conclusion**

Equity and inclusiveness are logical goals of economic policy, both because they are likely to contribute to human welfare and because there is considerable uncertainty as to the extent and the mechanisms through which growth (the traditionally accepted route) advances that welfare.
Growth probably does have important positive effects when it occurs in conducive societal structures; otherwise it may not. Doubts about the value of growth in and of itself flow both from the multidisciplinary evidence on the centrality of relative income and relative status to people’s satisfaction levels— with the implication that if average relative position is unaffected by growth, then average satisfaction may not be much changed either—and from the empirical evidence which, while it sometimes shows a positive trend in self-reported happiness as growth occurs, remains open to the possibility that such correlation may be due mainly to other changes occurring simultaneously (for example, in societal structure).

Thus, while the evidence does not suggest giving up on growth as a source of benefits, it does argue for a more cautious stance on that front and a better understanding of how economy and society can best interact for the common good. It is clearly necessary to unpackage the concept of inclusiveness, drawing more on the nuances present in the psychology literature but not easily integrated into the sort of statistical analysis reviewed here.

Preference formation, with respect to both what one wants to consume and what makes one happy, is endogenous to a society’s development. How much of the challenge of raising human satisfaction could or should come from a deliberate effort by society (as opposed to those always
ongoing efforts of business, religions, philosophies, and other actors) to change preference systems toward ones which make satisfaction easier to achieve?

At the practical level, exclusion and the economic inequality to which it contributes are often so deeply ingrained in both the economy and the society that policy instruments falling outside the normal economic tool kit (e.g., affirmative action) are likely to be important to healthy and equitable development in both the economic and social domains. Their currently early stage of development implies a major challenge over the coming decades.

1 “Social exclusion” refers to the inability of a person or of the members of a group (e.g., an ethnic group) to participate in the basic political, economic, and social functioning of the society.
2 See, for example, Hills et al. (2002).
3 See Mauss (2011) for a classic treatment of reciprocity as a form of association.
4 A concept that many trace back to Rousseau (1762).
5 A prominent statement was Galenson and Leibenstein (1955).
6 Among many authors discussing this are Acemoglu and Robinson (2012) and Easterly (2001).
7 An early discussion from the psychological literature is Jahoda (1981).
8 Point-of-time surveys typically find that 25 to 30% of variance in reported happiness/satisfaction is associated with income. Industrial country analysis throws up some intriguing looks at trade-offs between income and other sources of satisfaction. Blanchflower and Oswald (2004: 1373) report that in the U.S., on average it takes considerable additional income ($100,000 per annum, according to their first-cut estimates) to compensate for a life-changing event like being widowed or suffering a marriage break-up. Compensating for unemployment takes $60,000 per year, and for being black, $30,000. These large sums reflect both the significance of such personal conditions and the modest impact on happiness of more income. It remains to be seen how similar are the patterns in developing countries.

9 Presumably imposing some limit on the extent to which satisfaction levels are likely to change in response to economic or other factors is a person-specific genetic proclivity to a given level of satisfaction. De Neve et al. (2012) conclude that about 33% of the variation in the baseline level of happiness is explained by genes. This finding, however, leaves plenty of space for other determinants of happiness to play a role.

10 The life cycle pattern of happiness for individuals also fails to match the cross section; as income and economic circumstances improve there is typically little or no corresponding advance in subjective well-being (Easterlin 2001: 469). Psychologists draw a distinction between “decision utility” (ex ante satisfaction associated with choice among several alternatives) and “experienced utility” (ex post or realized satisfaction) (Kahneman and Krueger 2006), whereas economists have tended to assume that these are the same.

11 Contrasting with the simple assumption that, economically speaking, “more” automatically produces “happier” is the (perhaps extreme) view from the psychology side that “The single most remarkable fact of human existence is how hard it is for human beings to be happy” (Hayes et al. 2003: 1).

12 Gill (2012) studies the complex linkages between poverty and ethnicity. Ethnic values are also seen to play an important role in the social exclusion and isolation of some people within their own ethnic group.

13 Latinobarómetro™ is an annual public opinion survey of more than 400 million inhabitants in 18 countries in Latin America. It measures attitudes toward democracy, trust in institutions, and other topical issues.

14 See, for example, Levy (2008).

15 Policies in these different categories may overlap in many ways. Thus, effective functioning of redistributive policies like India’s work guarantee system may require attacking the administrative corruption that prevents benefits from reaching the intended parties.

16 There may be “tipping points” in the growth of resistance, above which the negative response multiplies quickly and becomes a major threat to success.

17 A point made by Buvinic and Mazza (2008: 157) in the context of Latin America.


19 The American psychologist Madeline Levine (2006) details how, for example, tremendous parental pressure to get into a good university leads to grief, self-loathing, cheating, and drug use on the part of their children and, in her view, contributes powerfully to unhappiness.
References


