Work and Well-Being

John Stutz
Tellus Institute

In an economy focused on growth and individual gain, it is difficult to question the primacy of compensation among the indicators of welfare and create space for a broad discussion of the factors that contribute to well-being. Yet doing so is essential to corporate redesign. Earnings are but one contribution to a worker's well-being. A long and satisfying work experience, rich in opportunity and fulfillment, depends on a host of tangible and intangible factors. The current economic crisis provides a rare opening for rethinking the linkage between well-being and work. Doing so is long overdue. This paper aims to get the discussion rolling.

What Is Well-Being?

The study of well-being focuses on an individual's prospects for a long, healthy, and satisfying life. It provides a framework within which quantitative assessments can be developed. Like the acreage of a field, well-being is quantified based on its "length" and breadth." The preferred measure of length is the World Health Organization's Healthy Life Expectancy (HLE) at birth. This is the number of years of healthy life a newborn can expect given current patterns of illness and death. Because it reflects current patterns not their evolution over the infant's life, HLE provides an indicator of physical well-being for the current population.

The measure for breadth, referred to as Subjective Well-Being (SWB), is the average level of life satisfaction determined on the basis of a standard survey question scored on a scale of one to ten. (Layard 2005) Using these measures overall Well-Being (WB) is quantified using the following formula:

$$WB = (HLE \times SWB) / 10$$

The division by 10 is an adjustment made so that the values of WB lie in the same numerical range as human life spans. WB has a simple meaning. It is the satisfaction-adjusted healthy life span.

There is a tendency to think that well-being as just defined fails to reflect many aspects of life because they are absent from the WB equation. In fact, that isn't the case because of the way the survey question used to assess SWB is framed. The question asks how satisfied is the respondent is with life **as a whole**. Thus, in principle, all aspects of life are taken into account.

Physical and subjective well-being are separate but overlapping areas of scholarly interest. The section of the *Measure of America* (Burd-Sharps et al. 2008) captioned, "A Long and Healthy Life," provides a good introduction to physical well-being. The recent book, *Happiness – Lessons from a New Science* (Layard 2005), provides an introduction and overview of major results concerning SWB. The construction of an overall well-being index as the product of physical and subjective well-being is discussed in the paper by Nic Marks on the *Happy Planet Index*. (Marks 2006) Use of the product is the idea of Ruut Veenhoven, a well-known expert on well-being, who argues that it provides the best overall measure available. When other references are not provided, results on physical and subjective well-being can be assumed to come from Burd-Sharps et al. and Layard.

Well-being, as just described, is an individual attribute. Both of its components—HLE and SWB—are in part genetic. However, unlike hair and eye color, economic and social conditions have important effects on each of them. It is these effects which are relevant to the exploration of the linkage between work and well-being.

How Much Does Compensation Matter?

Compensation—consisting of wages and benefits as well as bonuses, profit sharing and stock options—is assumed to provide the most important linkage between work and well-being. This view is reflected in the efforts of individuals and households to "get ahead," and in negotiations between labor and management. If, however, gains for some are not to be offset by losses for others or eaten up by inflation, then income, defined as the average real Gross Domestic Product per capita, needs to grow. Thus, it is growth in income that is the focus in national and multi-national economic policy.

The focus on income growth reflects a broad consensus that the way to increase well-being is to have vigorous income growth which permits real growth in compensation. In the face of this consensus, the results obtained from the study of well-being are somewhat surprising:

- Historical analysis shows that while increases in income have accompanied gains in lifespan, they are not the cause of such gains and indeed have played a modest role in producing them.

- It remains an open question whether increases in SWB accompany gains in income over time. The importance of relative income and adaption suggest that any effect of income growth on SWB will, at most, be modest.

HLE and Income Growth – Correlation But Not Causation

The historical record shows a clear association between income and lifespan. This has led historians to investigate the role of income growth in causing the increase in lifespan. Medical scientists, for whom distinguishing causal relationships from mere statistical associations can be an issue of life or death, have developed standard criteria to apply in such investigations. The only mandatory criterion is "temporality"—the cause must precede the effect. Careful historical studies show that, for a number of nations, increases in lifespan have occurred with only minor gains in income. Further, for the rich nations which currently enjoy the longest lifespans, much of the increase in lifespan took place while income was low.

Medical scientists also look for a general mechanism which links cause and effect. Historical studies show that the developments that led to gains in lifespan were quite diverse. The studies reveal neither a "general mechanism" nor even a common role for income. Instead, what they show is that gains in lifespan depend on the existence of nation-specific social structures and relationships which are utilized to produce changes—more frequent hand-washing, human waste disposal away from drinking water, acceptance of immunization, etc.—which in turn increased lifespan. (Riley 2008)

Insight into the relationship between income and HLE can be gained by considering the situation in the U.S. The U.S. has a significantly higher income and spends much more per capita on health care than Japan or the nations of Western Europe but has a lower HLE than either. HLE varies across the states in the U.S. as does income. Statistical analysis shows that only 12 percent of the variation in HLE is explained by the differences in income. What explains the other 88 percent? The answer is a variety of factors. Some are things one would expect, such as the extent of health insurance coverage.

SWB and Income Growth – A Weak Relationship at Best

Unlike lifespan, there is very little long-term historical data on SWB. The best data available is for the U.S., Western Europe, and Japan. It covers only the period from 1950 to the present. During this period the gains in income for these three nations ranged from roughly three- to ten-fold. (Maddison 2007) For the U.S., experts have been unable to find any evidence of accompanying gains in the average level of SWB. For Western Europe and Japan researchers have recently found some evidence of very modest increases in SWB. However, this finding is controversial. There is no explanation why Japan and Western Europe would behave differently than the U.S. Nor is there the type of historical analysis required to explain the role that income gains play in causing increases in SWB.

Why massive gains in income were not associated with clear, substantial increases in SWB has been the subject of much research. The results highlight the importance of relative income and adaption in limiting change in SWB. To appreciate the importance of relative income in determining SWB, a well-known research result will be helpful:

- College students in the U.S. were asked to imagine two different outcomes when they entered the work force. Either they would earn $50,000 while their classmates would average $25,000 or they would earn $100,000 while the others would average twice that. The students were asked which outcome they would prefer. Most chose the first.

The preference expressed by the students is typical. In determining SWB relative income generally matters quite a bit. As a result a large increase or decrease in income over time that leaves the income distribution relatively unchanged has little effect on the average level of SWB.

Adaption leading to growing expectations also helps to explain how massive shifts in income may be accompanied by little or no change in SWB. Here again consideration of a bit of research conducted in the U.S. is useful.

- Between 1955 and 1985 the Gallup Poll asked respondents to indicate the smallest amount of income a family of four needed to get along in their community. The required real income rose, tracking the growth in actual real income.

What this result shows is that simply having the “necessities of life” was seen to require substantial income growth. Of course, had income growth been lower, expectations would likely have remained lower, and adverse impacts on well-being would have been avoided. Thus, through adaption, changes in SWB decouple from changes in income over time.

Looking Beyond Income Growth

Research on well-being shows that income growth has, at best, a limited impact on well-being. This is not a reason to ignore income gains, and particularly the workers’ share of them. Indeed, standard economic theories of wage determination stress the importance of perceived fairness in setting wage levels. (Akerlof and Shiller 2009) Rather, the point here is that to adequately address well-being, corporations must look beyond income growth and consider working conditions.

Occupational health and safety regulations are found in virtually all nations, rich and poor, though enforcement of course varies widely. However, the focus of those regulations is generally quite narrow. If the design of future corporations is to effectively foster worker well-being, a broader focus is essential. Two key aspects are hours worked and job security. Both have a significant effect on both SWB and physical well-being in the U.S., and lesser effects elsewhere.

In the U.S., between 1970 and 2000 the percentage of men working 50 hours per week or more increased significantly. For women the percentage more than doubled. Toward the end of the period a survey was conducted in which participants were asked to compare their ideal and actual hours of work. Roughly 60 percent said the ideal was lower, while less than 20 percent said it was higher. 28 percent said their ideal was at least 20 hours less than actual. It is fairly easy to understand how working more than one considers ideal might adversely affect SWB. (Jacobs and Gerson 2004) Outside the U.S. work time is less of an issue. However, the increasing intensity of work is a concern both within and outside the U.S. (Green 2007). In general, this increase has the same adverse impact on SWB as long hours.

Job insecurity, or simply a significant increase in the unemployment rate, has been shown to have a significant adverse impact on SWB. Here much more than concern about a drop in income is involved. Employment provides an important part of an individual’s identity and sense of self-worth. In rich nations other than the U.S. there is generally greater job security. However, it is often more difficult for those entering the job market, initially or after a job loss, to find employment. This is simply a different sort of “job insecurity,” with the same adverse impacts on SWB.

There are a variety of connections between long hours and insecurity and workers physical well-being. Some, such as the adverse impact of long hours on time available for exercise, are relatively direct. Others are more subtle. Long hours and insecurity are sources of stress which, in turn, have adverse physical effects. In addition, working more hours than desired or worrying about job security can make individuals less able to maintain a satisfactory marriage and friendships, both of which contribute to physical well-being, in part by helping the individual cope with the impacts of stress. (Helman 2007)

Redesign Raises the Well-Being Issue

The principles developed by Corporation 20/20 begin with the observation that the purpose of the corporation should be to harness private interests to serve the public interest. After addressing fair returns, sustainability, equity, and governance, the principles conclude with the requirement that the corporation not infringe on universal human rights. Well-being is certainly part of the public interest. The right to pursue it is arguably a universal human right.

Redesign is the principal strategic approach put forward by the Corporation 20/20 project. The mission statement for the project makes it clear that Corporate Redesign is to shift the focus from the production of goods and services to the nature of the corporation, particularly its purpose, its character, and its architecture. (Corporation 20/20) This framing of redesign raises two questions related to well-being:

- **Purpose.** Should part of the corporate purpose be to help workers maximize their well-being?

- **Character and Architecture.** How does the current character and architecture of the corporation need to change in order to fulfill its legitimate purposes relative to workers' well-being?

The Corporation 20/20 principles show that the answer to the first question is "yes." Turning to the second, the issue is how and to what extent the current character and architecture of the corporation be changed.

What Is the Scope for Action?

Long hours in the U.S. and the more general increases in the intensity of work reflect the increasingly competitive nature of the global economy. Dealing fully with these issues leads to a discussion of the desirability of such an economy. However, even accepting the highly competitive global economy as a given, there are measures that corporations, acting individually and collectively, could undertake to enhance worker well-being. Doing so is not a matter of altruism; such measures arguably have positive consequences for productivity and long-term prosperity of the organization.

In the U.S, working "long hours" (i.e., 50 or more hours per week) is most common among highly educated management or technical personnel in whom a firm has a substantial investment. The corporation pays the costs in absences from work and turnover associated with the hours they work. Similar costs are associated in general with intensity of work.

Job insecurity is also due in part to structural features of the modern economy. Consider for a moment the pace of change. In the U.S., between 1990 and 2003, the net change in the number of jobs was modest, averaging growth of .3 percent per quarter in the private sector. However, that .3 percent was the difference between job destruction of 7.7 percent per quarter and job creation of 8.0 percent. (Cahuc and Zylberberg 2006) With such turbulence, job insecurity will, of necessity, be a continuing worry.

Workers' concern about possible job loss is increased by typical labor practices. Faced with a downturn, employers typically choose layoffs rather than reductions in hours and wages spread across most or all segments of the workforce. The rationale is that, while both have adverse effects on workplace morale, with layoffs most of the problem goes "out the door." If the well-being of workers is a concern, reductions in hours would be the preferable option. If the reductions were made and conveyed in a way that increased worker security, well-being would likely be enhanced.

Individual firms can assess what actions to reduce hours and increase job security might be cost-effective and feasible for them. The ability to take such actions is, of course, limited by the behavior of competitors. Here, following the model established by the Global Reporting Initiative (GRI), it may be possible for the firms in various industries to come together and jointly adopt standards or practices which, if adopted individually, would lead to a competitive disadvantage.

Is This the Time for Change?

To the extent that well-being is addressed in the corporate world today, the focus is on increases in compensation for the workers, returns and appreciation for the "owners," and benefits in the form of enhanced product quality and diversity as well as declining unit costs for customers. This approach reflects a tacit judgment that, if the corporation is contributing to the growth in income, it is doing what it can (and should) to foster well-being. Workers and those who represent them may question the sharing of gains with the owners, but they generally do not question the importance of increasing the incomes available for division.

The results on income and well-being discussed in this paper put all of this in question. Given the weak role of income in fostering well-being, the emphasis on growth is misplaced. A shift, based on an understanding of the ways the corporation affects the complex web of mechanisms and relationships which determine well-being is needed. In the U.S. hours of work and job insecurity must be addressed if a more effective approach to well-being is to be embedded in future corporate forms. .

While the challenge of addressing working conditions through corporate redesign is significant, the current financial turmoil may make action easier. There is a long history of social progress during times of financial crisis. The best-known example is the U.S. New Deal that changed key elements of the relationship between labor and management. (Friedman 2005) A more recent example is the work of Green New Deal Group in the U.K., which links progress on energy and climate issues to the resolution of the current financial crisis. (Elliott et al. 2008) Changes that under normal circumstances may appear to be impossible may be moved into the realm of plausibility when economic distress is widespread and business and political leadership are forced to re-examine the conventional wisdom.

References

Akerlof, George A. and Robert J. Shiller. 2009. *Animal Spirits – How Human Psychology Drives the Economy, and Why it Matters for Global Capitalism.* Princeton and Oxford: Princeton University Press.

Burd-Sharps, Sarah, Kristen Lewis, and Eduardo Borges Martins (eds). 2008. *The Measure of America – American Human Development Report 2008-2009*. 2008. Social Science Research Council and Columbia University Press.

Cahuc, Pierre and André Zylberberg. 2006. *The Natural Survival of Work: Job Creation and Job Destruction in a Growing Economy*. Cambridge, MA/London, England: The MIT Press.

Corporation 20/20. www.corporation2020.org

Elliott, Larry et al. 2008. *A Green New Deal – Joined-up policies to solve the triple crunch of the credit crisis, climate change and high oil prices*. London, UK: New Economics Foundation.

Friedman, Benjamin M. 2005. *The Moral Consequences of Economic Growth*. New York: Alfred A. Knopf.

GRI. Global Reporting Initiative. www.globalreporting.org.

Green, Francis. 2007. *Demanding Work – The Paradox of Job Quality in the Affluent Economy.* Princeton and Oxford: Princeton University Press.

Helman, Cecil G. 2007. *Culture, Health and Illness*. London: Hodder Arnold.

Jacobs, Jerry A. and Kathleen Gerson. 2004. *The Time Divide: Work, Family, and Gender Inequality.* Cambridge, MA/London, UK: Harvard University Press.

Layard, Richard. 2005. *Happiness – Lessons from a New Science*. Penguin Books.

Maddison, Angus. 2007. *Contours of the World Economy, 1-2030 AD*. Oxford, UK: Oxford University Press.

Marks, Nic. 2006. *The Happy Planet Index*. London, UK: New Economics Foundation.

Riley, James C. 2008. *Low Income, Social Growth, and Good Health – A History of Twelve Countries*. University of California Press and Milbank Memorial Fund.