

DRAFT

Beyond GDP

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Overview paper for the Beyond GDP conference

Bureau of European Policy Advisers (BEPA)

European Commission

The European Commission, European Parliament, Club of Rome, OECD and WWF will host a high-level conference with the objectives of clarifying which indicators are most appropriate to measure well-being, and how these can best be integrated into the decision-making process and taken up by public debate. The conference will bring together high-level experts and policy makers to address these critical issues. Over 300 people from economic, social and environmental spheres will attend.

The conference will host several high-level speakers, including internationally recognised leaders and government representatives, members of the European Parliament as well as speakers from civil society, think tanks, industry, and key institutions such as the World Bank and the United Nations. European Commissioners José Manuel Barroso, Joaquín Almunia, Stavros Dimas and Vladimír Špidla are confirmed speakers. Preceding the main political conference, an expert workshop will be held, where leading practitioners will consider progress in the development and policy application of indicators of well-being.

There is a sense of urgency to discuss measures of well-being that move beyond GDP. The interdependent, global and long-term nature of current challenges such as human capital investment, environmental challenges, migration and security issues, requires a broad view on well-being and ways to measure it.

website: www.beyond-gdp.eu

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1. Why we need to move beyond GDP

Beyond GDP

The term 'Beyond GDP' suggests both dominance of GDP (as a measure of well-being) in the public debate and the need to go beyond that measure. The conference is organised to discuss what well-being is and how to measure it. GDP is the best-recognised measure of economic performance in the world, often used as a generic indicator of well-being. GDP is used in a large variety of political and financial arenas. It serves as a criterion to decide who has access to funds at international organisations such as the EU, UN, IMF and World Bank, GDP plays an important part in the Stability and Growth Pact, and it is a lead indicator for forecasts of financial markets and banks, to mention just a few examples. It is also used for international comparison and rankings and plays a crucial role in political debates.

Despite this wide usage, the relationship between economic output as measured by GDP and other dimensions of well-being (social, cultural, environmental) is not straightforward. The European Commission, European Parliament, Club of Rome, OECD and WWF will host a conference, bringing together high-level experts and policy makers from different disciplines, with the objectives of clarifying which indicators are most appropriate to measure well-being, and how indicators can be integrated into the decision-making process and taken up by public debate.

The sense of urgency to move beyond GDP is driven by the interdependent, global and long-term nature of current challenges such as human capital investment, environmental challenges, migration and security issues, which require a broad view on well-being and ways to measure it.

A brief history of well-being

The interest for well-being is not new. Aristotle claimed that the pursuit of 'eudaimonia' was the distinguishing feature of human beings. 'Eudaimonia' is not equivalent to well-being and its meaning cannot easily be captured by a single English word. It has subjective elements (happiness) as well as objective elements (to flourish, to be successful) and can in that sense be seen as starting the discussion on well-being. In a public policy context well-being received attention in the 18th century through Adam Smith (in his *Theory of Moral Sentiments*), the American Declaration of Independence (*'Life, liberty, and the pursuit of happiness'*) and the English philosopher and social reformer Jeremy Bentham (*'the greatest happiness of the greatest number is the foundation of morals and legislation'*).

In the course of history the term 'well-being' obtained a variety of meanings, with both an individual interpretation in the Aristotelian spirit and a collective one to capture the progress of a nation. More recently, there has been broad consensus that 'well-being' should be seen as a multidimensional concept that captures many aspects of human life.¹ The paradoxical situation emerges that there is a wide acceptance to base policies on 'well-being', but at the same time it is not obvious what exactly well-being is, nor at an individual level nor at the level of a society as a whole. Moreover, the transition from individual well-being to collective well-being may be fully understandable from a public policy perspective, for researchers it creates phenomenal (and well documented)² challenges of aggregation.

The urge to base policies on a firm economic foundation became visible in the Great Depression, where politicians found it hard to steer the boat without a compass, i.e. without proper data on the state of the economy they did not know if they were heading in the right or wrong direction. In the 1930s the US Department of Commerce commissioned Simon

¹ See <http://www.wider.unu.edu/publications/policy-brief/pb03-07-well-being.pdf>.

² E.g. Schokkaert (2007).

Kuznets to develop national accounts.³ These national accounts are by itself a rich source of statistical information with many usages. One of its usages is to calculate GDP by measuring final purchases by households, business, and government by summing consumption, investment, government spending, and net exports. The importance of national accounts and GDP for measuring market activities should not be underestimated. In the words of Nobel laureate Paul Samuelson (Samuelson and Nordhaus, 1995):

Much like a satellite in space can survey the weather across an entire continent so can the GDP give an overall picture of the state of the economy. It enables the President, Congress, and the Federal Reserve to judge whether the economy is contracting or expanding, whether the economy needs a boost or should be reined in a bit, and whether a severe recession or inflation threatens. Without measures of economic aggregates like GDP, policymakers would be adrift in a sea of unorganized data. The GDP and related data are like beacons that help policymakers steer the economy toward the key economic objectives.

GDP soon became a globally accepted system that not only served its original purpose of measuring market activities in a country, but moved beyond. It further had (and has) the advantage of being able to enter economic modelling and forecasting, allowing a comparison of countries and developments over time, and being difficult to manipulate by politicians. In absence of other widely accepted measures, GDP (per capita) also became a proxy for well-being of a nation. In historical context this is understandable since the variables that are behind GDP were of crucial importance in the build up after the Second World War. The need to introduce GDP at the time was clear cut, but GDP was never intended to be an accurate measure of well-being. Simon Kuznets himself was fully aware of its limitations since already in 1934 (*Report to the US Congress*) he warned that '*the welfare of a nation can scarcely be inferred from a measure of national income*', and later in 1961:

Distinctions must be kept in mind between quantity and quality of growth, between costs and returns, and between the short and long run. Goals for more growth should specify more growth of what and for what.

Current challenges

These observations are ever so true today. The current challenges of our societies have moved substantially beyond those after WWII. Well-being is now an explicit goal of the European Union: the EU sustainable development strategy aims '*at the continuous improvement of the quality of life and well-being on Earth for present and future generations*'.⁴ Our service economies need highly educated people that face new social and health risks, and are adaptable to change. There are major demographic and environmental challenges, migration needs to be managed, and there are new global security issues.⁵ These challenges are characterized by their interdependent, global and long-term nature: Water scarcity leads to migration; exploitation of natural resources leads to security issues; new social and health risks interact with economic performance.

These challenges imply that people need to be ready for change. More people are travelling, jobs change faster, information is disseminated at high speed, and political and social structures are looser. Therefore well-being is linked with the capability to adapt to change, and measuring it should logically start from individual well-being. While GDP still serves the very purpose it was created for, namely measuring market activities in a consistent way,

³ Kuznets received the Nobel prize in 1971 for his work.

⁴ See <http://register.consilium.europa.eu/pdf/en/06/st10/st10117.en06.pdf>

⁵ See further Liddle R. and Lerais F. (2007).

meeting the new challenges requires strong performance in additional areas that are not adequately picked up by GDP per capita.

The unease with GDP is exemplified by some spiky quotes, such as Robert Kennedy's "*GDP measures everything... except that which makes life worthwhile*"⁶ or the dramatic "*If the GDP is up, why is America down?*"⁷. Dramatic or not, the challenges increase the demand for other indicators. And this is not restricted to the obvious category of environmental issues. GDP does not pick up leisure nor does it measure performance in a variety of social areas. It does not measure government output nor does it facilitate discussions on distribution. Without progress on these issues there is a threat to end up in a political position that is clearly not as dramatic as the Great Depression times, but nevertheless bears one similarity: Thanks to national accounts we know now what economic growth is doing, but we have less knowledge what is going on with society at large.

Consequence of GDP dominance

The inaptness of GDP as an appropriate measure of well-being is well-known and does not imply that politicians necessarily must operate in the dark. While there are many policy areas where well-being and GDP go hand in hand, there are also many cases of policies that contribute to well-being but that slowdown GDP growth.⁸ An example is a policy that triggers people to work less hours: it no doubt reduces GDP but it could enhance well-being. Or take the preservation of a natural forest. So the wood cannot be sold on a market, but the ecosystem is maintained,⁹ including access to the forest for recreation. In political debates it has always been very difficult to defend a policy that improves well-being but hurts GDP. The simple reason is that there is not an equally accepted pendant for GDP in the public debate. As a consequence there is likely to be an underrepresentation of those policies that are beneficial for well-being, but not necessarily for GDP growth. This has recently also been acknowledged by well-known economists and ecologists (Arrow et al. 2006), who calculate that the world is consuming too much if one applies sustainable social welfare instead of the (among economists) more common net present value.

GDP, politics and the media

The political difficulty to 'sell' policies that are 'non-GDP' in flavour matches badly with the interdependent, global and long-term challenges of our societies. This is further aggravated by the interplay between the politics and the media. Since most media rely on advertisement income and have to cater for zapping and browsing customers, there is a natural tendency to go for simple sound bites. GDP or more generally 'income' has that simplicity. Politicians thrive by media attention, such that the interplay between politics and the media tends to overemphasise the importance of GDP. But such a role of the media is not carved in stone. The Al Gore movie showed that the media can also be used to flag issues that would otherwise be more difficult to enter the political arena.

To move forward

The plea for moving beyond GDP is not new. There is a broad consensus now in the world that there is more at the door than material wealth. There are many initiatives, exemplified by the recent 'Istanbul declaration' which stated that:

We, the representatives of the European Commission, the Organisation for Economic Cooperation and Development, the Organisation of the Islamic Conference, the United Nations, the United Nations Development Programme and the World Bank, recognise that

⁶ Speech at the University of Kansas at Lawrence 18-3-68.

⁷ Clifford Cobb, Ted Halstead, and Jonathan Rowe. Atlantic Review October 1995.

⁸ See Boarini et al., 2006.

⁹ Such as air and water purification, watershed and soil protection, carbon storage, biodiversity preservation.

*while our societies have become more complex, they are more closely linked than ever. Yet they retain differences in history, culture, and in economic and social development. We are encouraged that initiatives to measure societal progress through statistical indicators have been launched in several countries and on all continents. Although these initiatives are based on different methodologies, cultural and intellectual paradigms, and degrees of involvement of key stakeholders, they reveal an emerging consensus on the need to undertake the measurement of societal progress in every country, going beyond conventional economic measures such as GDP per capita.*¹⁰

Moreover, in the private sector there is a very active debate¹¹ and many initiatives on corporate social responsibility and sustainable development.¹² But how to move beyond GDP is still an open debate. The "Beyond GDP" conference therefore provides a timely platform to discuss how we can make progress in measuring well-being for individuals and society at large.

2. Why do we need indicators? And what type?

Importance of consensus on indicators

In what direction should we search for indicators that pick up a rich set of factors that are part of well-being? It depends. One needs indicators for different reasons, in different parts of the policy life cycle. Therefore, at first glance there seems no need to look for the Holy Grail in the form of an all encompassing universally accepted indicator of well-being. Yet the need for consensus on indicators - *whichever their usage* - is crucial. Without that there are no real possibilities for cross-country comparisons or for analysing how things have evolved over time. Further, universally accepted indicators create a common language in public debate, provide consistency in policy packages and enable accountability. A plethora of competing indicators will leave too much room for political tinkering and indicator shopping. Consensus on indicators is also useful for the quality development of them. The more people use an indicator the better the data collection (and other aspects of quality) tends to get. Recall that the consensus on national accounts created an enormously rich data base.

Quality criteria

Some quality standards are defined by international organisations. For instance, Eurostat has defined a quality framework, composed of six dimensions: relevance, accuracy, timeliness, accessibility, comparability, and coherence. The IMF has developed something similar but has added integrity of data, which is linked to the governance of the statistical system.¹³

Different dimensions of indicators

There are different dimensions in which indicators can differ. One could employ indicators for forward or backward looking purposes. There is the distinction between one-dimensional and aggregate indicators, between objective and subjective indicators and between partial and all-encompassing. Besides these general differences in scope and methodology, the phase in the policy life cycle also determines which type of indicator is most suitable, as well as the level at which policies are made (local, national, supra-national). Aggregate indicators are

¹⁰ <http://www.oecd.org/dataoecd/14/46/38883774.pdf>

¹¹ E.g. the Deutsche Bank recently published 'Measures of well-being: there is more to it than GDP'.

¹² See e.g. Communication from the Commission 'Implementing the partnership for growth and jobs: making Europe a pole of excellence on corporate social responsibility', 22-3-22-3-2006 and

www.ec.europa.eu/environment/eussd

¹³ See e.g. Laliberté et al., 2004.

useful in the problem analysis phase, while subjective and obviously also backward looking indicators are appropriate in the evaluation phase.¹⁴

Looking for the Holy Grail after all?

However, before concluding that each policy proposal at each phase of its life cycle needs its own indicator, we will first discuss a challenge highly relevant for this debate. One of the benefits of indicators is their wide usage and their potential to help public debate. For this to materialize, one cannot have too complicated indicators and also not too many. So there may easily emerge a trade-off between the accuracy of indicators and applicability. One can criticize GDP for not picking up elements that are important for well-being, but its universal usage and its ability to play a role both in backward looking and forward looking analysis, contributes to its popularity. To effectively meet the future challenges, we need a broad-based indicator with these features. Yet it remains an open question how to find this Holy Grail.

3. Measuring well-being

Dominance of economic indicators

Sometimes it is argued that GDP measures the state of economic activity, and that its dominance goes at the expense of 'non-economic' issues. This view can be nuanced. Economists acknowledge the importance of issues that are not picked up by GDP and have tools to deal with them. This holds for leisure (there is a big literature inspired by the work of Gary Becker on household economics), for environmental issues (there are economic models that incorporate some environmental effects) as well as various social issues.

Utility, welfare and wellbeing

Economists have since long had interest in non-monetary benefits; hence the dominant paradigm of 'welfare' in the economic literature. Welfare theory is derived from 18th century utilitarianism. Utility theory is the economic attempt to formalize the notion of welfare. Utility functions are mathematically derived from preferences and can be translated into demand functions. Welfare has almost always been interpreted as maximizing utility. A social welfare function is the attempt to aggregate individual utility functions. One merit is that utility concentrates on the results of social interactions and the well-being of people rather than the monetary gains.

Micro versus macro

Utility maximization, however, restricts attention to ex-ante defined utility functions, for convenience often the same for everybody, and then checks the realized outcomes of actions, given the initial conditions. The difficulty with this approach is that it requires information on preferences so that heterogeneities between people and between societies are lost in the process of aggregation. Its usefulness for analysing microeconomic questions, in particular competition issues is beyond discussion. But macroeconomists have always struggled with the notion of welfare and the problems of aggregation.

Welfare and policy making

There is a rich philosophical debate on utilitarianism and lack of space prevents a comprehensive discussion on this.¹⁵ The usefulness of utilitarianism for developing the thinking on well-being is uncontested, but its application to policy making is more limited.¹⁶ So despite the fact that so-called 'non-economic' issues are present in the economists' thinking

¹⁴ See Wesselink et al, 2007.

¹⁵ But see Sen and Williams (1982) for a comprehensive discussion.

¹⁶ There are many recent developments in economic theory and thinking that try to cope with these challenges, such as bounded rationality theory, fuzzy utility theory or prospect theory.

and toolkit, there is still need to move beyond the notion of welfare in its customary form of utility maximization. The term 'well-being' is used to flag this need.

Two strategies: overall versus complementary measures

There are two strategies when one wants to measure well-being. The first strategy aims at a full-fledged measure of well-being, either in a single unit, or in a consistent set of measures. The second strategy is to complement GDP either by providing indicators for issues not picked up by GDP, or by modifying GDP. Lacks of space prohibits an extensive discussion on the types of indicators used,¹⁷ so we limit ourselves to a brief discussion of the main indicators.

3.1 Overall measures of well-being

We will discuss four overall measures of well-being.

(i) Sustainable development indicators (SDI)

SDI concentrates on different determinants of well-being, such as social, economic and environmental issues.¹⁸ The research community and international organisations have put a lot of effort recently to try to develop a consensus on some SDI's. The development of SDI has its political starting point at the first Earth Summit in Rio 1992, where 'Agenda 21' was adopted calling for the development of SDI's,¹⁹ building on the work that was done at UN, national and local levels. The early work focused on (large) sets of single issue indicators that cover comprehensively the full scope of Sustainable Development (SD) policies. While there is wide consensus on the main issues of SD, like poverty and the environment, the sets are tailor made to the respective SD policies of nations, regions and cities.

The EU followed the same approach. There exists a comprehensive set of SDIs since 2005 (reviewed in 2007). It is designed to monitor the trends towards SD "at the appropriate level of detail". Therefore it comprises roughly 150 single issue or aggregated indicators organised in 10 themes.²⁰ To allow for a quick overview of major trends a set of 12 headline indicators was chosen out of these 150 indicators. There is now increasing work on SDIs that integrate more than one dimension of Sustainable Development to assess the synergies and potential trade-offs of SD goals.

(ii) Capabilities

The capability approach originates from Nobel Prize winner Amartya Sen. This multi-dimensional approach aims to assess human well-being beyond the realm of GDP, with a special emphasis on freedom. According to Sen, well-being should not be interpreted in a purely subjective way, but should really take into account the living situation of the person. A person's well-being is then an evaluation on the basis of what he or she manages to do or be: their achievements (being well-nourished, well-clothed, mobile, taking part in the life of the community). Because a focus on the possession of material commodities neglects the crucial interindividual differences, it is not acceptable as a single description of well-being. Therefore also, simple comparisons of individual income levels are definitely not sufficient to say something about well-being. The capability approach proposes a richer and multidimensional perspective. Moreover, the focus is on the individual: distributional considerations therefore enter the picture from the very start.

¹⁷ See Wesselink et al (2007) and Boarini et al (2006) for more.

¹⁸ See Hak, et al (2007) and Wesselink et al, (2007) for recent developments.

¹⁹ UNCED (United Nation's Conference on Environment and Development), www.un.org/esa/sustdev/documents/agenda21/english/agenda21chapter40.htm

²⁰ epp.eurostat.ec.europa.eu/portal/page?_pageid=1998,47433161,1998_47437045&_dad=portal&_schema=portal

But Sen goes further: according to him, a description of individual living standards in terms of achievements is not sufficient because one has to introduce the notion of freedom. This leads to the concept of the advantages of a person, their real opportunities. These are called *capabilities*. For example, if a person is undernourished, there is a distinction between a person who is starving without choice, and a person who is fasting for religious reasons. Someone who has ample job opportunities but chooses not to work has a different level of well-being than someone who is involuntarily unemployed.

There have been a number of attempts to use the capability approach to evaluate policies.²¹ Most applications start by selecting a number of relevant capabilities for the policy to be evaluated (e.g. mortality, health, education, employment, civil participation etc) and then try to measure the impact on those capabilities, with extra attention on freedom and distributional aspects.

While the capability approach seems highly promising and has very solid philosophical roots, it is clear that it is not exactly designed for building indicators. The applications are not fully satisfactory in the sense that the choice of capabilities is done on an ad hoc basis, which sharply reduces comparability and leaves room for opportunism (Schokkaert, 2007). The Bureau for European Policy Advisers, together with Erik Schokkaert, is currently developing a format of applying the capability approach for ex-ante policy assessment purposes.

(iii) Human Development Index (HDI)

HDI is a composite measure of life expectancy, literacy & education, and GDP per capita. The index was developed in 1990 again by Amartya Sen (initially as a spin-off of the capability approach) and Mahbub ul Haq. HDI is mainly used in a development context, to verify progress on key indicators of developing countries. It is used by the World Bank and the UN.

The trade-off that we have sketched above, namely between simplicity and accuracy shows up nicely here. Sen even calls his child a "vulgar measure", since it is a simple average between life expectancy at birth, knowledge (2/3 literacy, 1/3 education) and GDP per capita. The 'vulgar' quote can be explained by the fact that HDI is more suited for developing countries (hence the 2/3 weight on literacy in the knowledge pillar), the weights are totally ad hoc and HDI does not contain many aspects that would be part of well-being. One (not easy to avoid) consequence is that if literacy shoots up but life expectancy goes down there could still be measured progress, but the same numerical result might be obtained if both go up a bit, arguably to be preferred. Yet it has a lot of merits in its simplicity and applicability. Certainly for developing countries it is a more useful way of assessing progress than just GDP per capita. For Europe the HDI is not that useful, since all European countries are in the top group. Also, the challenges that Europe faces are not well picked up by HDI.

(iv) Happiness/life satisfaction

Motivated by psychological literature on what drives individual happiness, there is now a whole literature on subjective happiness. At the individual level the work by Kahneman, Diener and Schwarz is seminal, and the Nobel prize in economics by Kahnemann and Tversky helped to put the topic on the economic agenda as well. The same applies to the popular book by Layard (2005). There is now even a Journal of Happiness Studies.²²

The last decade has seen large investments in improving the methodology of subjective happiness indicators, e.g. in order to make them more comparable between countries and to

²¹ For a survey see Robeyns, 2003.

²² For a review see Davoine, 2007.

improve the reliability. Happiness in this sense is understood as 'enduring satisfaction with one's life-as-a-whole' (Veenhoven, 2004). Happiness is measured by self-reports, e.g. by asking a question, 'on a scale from 1 to 10 would you consider yourself dissatisfied... satisfied?'

The happiness literature draws the following conclusions²³: (i) On average countries become happier over the years (last fifty years) but the increase is unspectacular (which gives rise to the so-called Easterlin paradox, which states that people become wealthier but not much happier;²⁴ (ii) 87% of European citizens expressed themselves as satisfied with their lives; (iii) the difference between developed and developing countries is surprisingly small; (iv) the best way of improving overall life satisfaction is to attack poverty.

As a single indicator that encompasses a lot of information that is inherently difficult to measure or to aggregate, the subjective happiness indicator possibly combined with the number of life years, does pretty well. What are the possible points of critique to the happy life years indicator?

A first difficult point about happiness is that it is a relative notion. Things that make people happy when they have a certain income, job or status, change when they climb the ladder. So even when people are 'objectively' better off, since they adapt their expectations and their peers change as well, they are not necessarily happier. But this is not fully symmetrical. Downward mobility does make people unhappier. Given that one adapts to new situations if changes are gradual, making people happier is easier when changes are radical. A second point of critique is that happiness is a bad predictor: we do not know what makes people happy tomorrow and the subjective element does not help here: people do not perfectly discount the future. Third, there is Sen's critique that what counts is not necessarily happiness but capabilities or opportunities. Sen's favourite example is that there were happy slaves, but that does not point at well-being.

There exists an increasing research on the sources of happiness (Veenhoven, 2005), but this is still at an infancy stage and the results tend to be too general to be of operational use. Nevertheless, happiness research is important as it can identify drivers that make people happy or unhappy that may otherwise be overlooked.

There is also a trend of including subjective elements in national well-being research. For instance, since 2002 the government of New Zealand publishes an Economic Living Standard Index (ELSI) based on a survey of 7,000 people. It covers consumption, ownership of durable goods, social participation and a self-assessment of the living standard. Equally so, the Australian Centre on Quality of Life has published a National Well-being Index since 2001 which is based on a sample of 2,000 who assess the economic situation in Australia, the state of the environment and of social conditions, the satisfaction with government and business, and national security (Deutsche Bank, 2006). The UK has just started publishing subjective measures of well-being, including measures based on life satisfaction surveys.²⁵ These subjective measures are still in their infancy stage, and there are well-known methodological problems associated with them, but they could nevertheless be useful complements to GDP per capita, in particular at identifying areas where further progress is needed.

²³ Reviewed in Veenhoven 2005 and 2006.

²⁴ This could be related to the fact that unlike wealth the happiness scale has an upper bound.

²⁵ See DEFRA (Department for Environment Food and Rural Affairs): sustainable development indicators in your pocket 2007, UK.

3.2 Complementary indicators

Complementary indicators can take two forms. In the first one there are attempts made to use existing national accounts (or update versions of it) to include other factors of well-being. This has been a topic of vigorous academic debate for a generation, starting with the path breaking US critiques in books like John K. Galbraith's 'The Affluent Society' or Vance O. Packard's 'The Waste Makers'.

Boarini, Johansson and Mira d'Ercole (2006) review various ways to modify GDP. Within the context of national accounts there are other ways to approach well-being than GDP, e.g. households' disposable income per capita or final consumption expenditure of households per capita. A problem with these measures is that they often strongly correlated to GDP (although less so in recent years) which weakens their case as candidates for real improvements. Other adjustments of GDP try to incorporate the value of the environment.²⁶ Examples are Sustainable National Income (SNI) and Index of Sustainable Economic Welfare (ISEW). The corrected GDP indicators are interesting ventures but have the take up the challenge to deal with issues such as sensitivity for statistical errors and the specificity of choices. At this stage, the lack of consensus on methodology may hamper comparability between countries and might open up the risk of manipulation. However, if these problems can be overcome, it would entail an improvement over GDP while still using the national account base.

In 2003, the United Nations Statistical Commission (UNSC) called for an update of the System of national Accounts (1993 SNA Rev.1) to bring the accounts into line with the new economic environment, the advances in methodological research, and the needs of users. The process as a whole is managed by Group in which UNSD, IMF, World Bank, OECD and Eurostat are represented. In 2007 the UNSC adopted the report on the SNA update covering recommendations on five issues: (i) government employer pension schemes and social security schemes; (ii) research and development; (iii) goods for processing; (iv) military expenditures; and (v) of capital services on non-market production (not adopted).

Further issues to be discussed would include: the need to balance the needs of various users; the choice between imputed versus observable transactions; and the role of satellite accounts vis-à-vis the core accounts.

Finally, already many countries apply the Handbook of Integrated Economic and Environmental Accounting, which provides a combination of data on the use of environmental resources with data from the National Accounts. In line with its objective to elevate the System of Integrated Environmental and Economic Accounting (SEEA) to an international standard, the United Nations Committee on Economic and Environmental Accounting and the so-called London Group (on environmental accounting) now envisage a revision of the Handbook.²⁷

Various attempts have been made to measure well-being not using national accounts or GDP. E.g. Osberg and Sharpe (2001) work from the basis that there are many different dimensions to well-being, which are valued to different degrees by different observers. They use a multiple index of consumption, accumulation, inequality and insecurity, with the explicit recognition that the weights attached to each component will vary. Others have tried to attach monetary values to leisure time, household size or inequality.²⁸

²⁶ See Fleurbaey M. and Gaulier G.(2007)

<http://www.cepii.fr/anglaisgraph/workpap/pdf/2007/wp07-03.pdf> and Van der Bergh (2007)

²⁷ It is planned that the Standard (SEEA) will be adopted in the United Nations Statistical Commission by 2012 the latest.

²⁸ See e.g. Nordhaus, W.D. and E.C. Kokkelenberg (1999). For a review see Boarini et al (2006).

A second strategy is to develop indicators that measure well-being aspects that are not picked up by GDP. There is a whole plethora of such indicators, e.g. on environmental performance, a variety of social indicators, with or without attempts to aggregate them. The European Environment Agency updates regularly its Core Set of 37 environmental indicators.²⁹ In their 'Society at a Glance' the OECD collects social indicators of a large variety. There is a European Foundation on Social Quality which attempts to come up with an aggregate social indicator, with the purpose of cross-country comparisons. But the results of this work cannot conceal the inherent problems with that approach. It is highly sensitive for choices made, and therefore less suited for international comparisons or comparisons over time.

The challenge of composite indicators is that researchers have to decide on the weights between entities that are difficult to compare. As long as it is sufficiently simple (as in the HDI) such a disadvantage can be accepted as an unavoidable consequence of the system. But if the composite indicator becomes more ambitious the disadvantage aggravates. Progress is possible if the weights themselves become part of political debate and or if they are directly related to revealed or stated preferences by the people. Concluding, most attempts to come up with social indicators or other non GDP per capita compound indicators have certainly partial usefulness, but as yet there is no consensus which one to choose and how to overcome the weaknesses. Also the more indicators exist, the least any individual is likely to have world wide impact.

3.3 Distributional concerns

The consequence of discussing well-being of a nation is that issues of distribution tend to get lost in the process of aggregation. Distributional concerns can be approached from different angles. How to measure the distribution of well-being? What are the consequences of a more or less skewed distribution of well-being for overall well-being? How to measure the distributional impact of individual policy measures?

There are several ways of measuring distributional impact. There are overall measures such as the Gini coefficient or 'real national income', where GDP is corrected for income distribution. It is also quite common to concentrate on the lower tail of the distribution, either by using headcount, i.e. the number people whose income falls below some arbitrary poverty line or more sophisticated variants of this (which can include the depth of poverty or the distribution within the tail).

There could be merit in concentrating on the tail. From above we can infer that happiness can best be increased by concentrating on the tail, and the literature on developing countries supports this. In a developed world context there are also examples for concentrating at the tail, hence the focus on policies on e.g. reducing child poverty or school drop outs. Notice though that international comparisons will become very difficult since relevant poverty lines are not uniform across countries.

Overall it is not clear what the consequences of distribution on well-being are, particularly in the developed world. It is e.g. not clear that a country like the Netherlands (with a relatively flat distribution) is necessarily better off in terms of well-being than Ireland (which has a more skewed distribution). Equally so, for both countries it is not clear whether shifts in distribution will benefit or hurt overall well-being. Moreover, one cannot simply shift distribution in a mechanistic way, i.e. leaving the rest of the society constant. Often, making the distribution flatter has consequences for incentives, which is one of the reasons that the overall result is so difficult to assess. One thing should be clear. Issues of distribution always enter political debates, which makes it important to make distributional impacts transparent.

²⁹ <http://themes.eea.europa.eu/IMS/CSI>.

This holds for overall distribution, distribution of the tail, as well as for the impact of distribution of individual policies. Notice that most discussions on distribution refer to income one way or the other. The focus on income is understandable, but overlooks other important distributional concerns, such as education, living and environmental conditions.

4. How can policy makers move beyond GDP?

Summary

The following Table summarises the advantages and disadvantages of the various discussed indicators.

Indicators	Main advantages	Main disadvantages
Sustainable Development Indicators	Broad basis, including GDP	Too many indicators, aggregation problem
Capabilities	Broad basis, solid foundation on individual well-being and freedom	Lack of practical experiences, aggregation problems
HDI	Simplicity, usefulness for developing countries	Arbitrary weights, not very useful for developed countries
Subjective happiness	Solves the aggregation problem, focus on categories that people find important	Not clear how to use it for policy making, difficult to forecast
Corrected GDP	Improves on GDP	Unsolved methodological problems, consensus still needed
Composite indicators	Broad basis, recent improvement in methods	Arbitrary weights, aggregation problems

The way forward

Many international organisations join forces with scientists to discuss ways how to move beyond GDP. While this is positive news, until now this has not led to concrete success in the sense of consensus on indicators. There has been a lot of progress on satellite accounts (especially environmental accounts), which will facilitate consensus on non-GDP indicators, but more is needed.

So it seems natural for policy makes to try to make progress on finding consensus on well-being indicators. The discussion on well-being should not be limited to indicators and measurement issues. In political debates it is already highly worthwhile that issues such as freedom, health, environment, distributional impact and ethics are being taken seriously, and are being part of policy assessments. Yet, the real political breakthrough needs accepted communication tools that show performance in these fields. Performance can only be verified through indicators; hence the timeliness of the 'Beyond GDP' conference that aims exactly at this consensus building. But what is needed to make further steps?

Experimentation

Although the literature on well-being is getting larger by the day, and conferences on well-being and happiness mushroom, there is relatively little real experimentation with alternative indicators of well-being over a long period. Eurostat publishes sustainable development indicators from 2001 onwards and for some subcategories much longer. In the US the Interagency Working Group on Sustainable Development Indicators started in 1997 to select a

small group of indicators to measure progress towards sustainable development. And the UN uses their own set, existing of a set of 50 core indicators, which are part of a larger set of 96 indicators. This means that unless they can be aggregated in some intelligent way they can only be useful as additional indicators. Streamlining of environmental indicators is a continuous process, and progress has been in this field.³⁰ SDI does not need to be the same across the world, since e.g. South Africa has other concerns than Sweden, but consensus on how to measure similar phenomena is key.

A first step in experimentation is to make a systematic overview of the experiments so far and verify the strength and weaknesses of existing experiments in the policy world. For instance there have been serious attempts in the U.K., Canada, Australia and New Zealand with well-being measures, but how do they compare? Can they be used on broader context? These questions need to be resolved first. And the experimentation should not be restricted to policy makers or country levels only. NGO's and the business community are also very active in this field and should be involved.

Since well-being is a crosscutting issue, academics tend to find it difficult to come to a consensus. There is a capability community, a happiness community, sustainable development clubs and composite indicators devotees, but until recently they did not interacted very actively. The conference should be a natural meeting place for the different directions. The lack of scientific consensus also creates an opportunity for policy makers such as the European Commission and others to lead the way and start controlled experiments. One of the merits of the conference could be that it creates a momentum for such experimentation.

Leverage and consensus

After the experimentation stage, it is time to select potentially attractive indicators. The next step is then to see how to leverage the usage of the indicators and to see whether consensus can be build to use them. One has to bear in mind that there are many potential users of indicators, each with different goals. So indicators need to be sufficiently flexible to cater for different goals. This is important since well-being issues often cut across ministries and policy levels, adding to the importance of consensus.

One of the fathers of the GDP success was the national account data base. A difficulty with consensus building in e.g. SDI is exactly the lack of uniform data availability. The same applies for other types of indicators. So as a first step to pave the way for consensus the question has to be answered which type of data base needs to be built. Eurostat is active in this field by building data sets on structural indicators and SDI and the OECD has data sets on many fields, but more can be done to reach consensus. The EU is well placed together with their partners to push on with this.

If data availability is covered, the next step is to determine the needs at different levels of policy aggregation. What is needed at the global level, what at the European level, what at the national and local levels? After that it is time to develop strategies that can create political mass and media attention. The "Beyond GDP" conference is one way to gain this mass.

Radical or gradual

A final discussion issue is whether one goes for gradual changes (in improving other indicators, in modifying national accounts, in 'spreading the news') or radical changes. The protagonists of radical changes argue that the dominance of GDP creates policy mistakes, and gradual changes have proved to be unsuccessful in the past. Abolishing GDP altogether will

³⁰ E.g. the SEBI 2010: Streamlining European 2010 Biodiversity Indicators ([http://biodiversity-
chm.eea.europa.eu/information/indicator/F1090245995](http://biodiversity-
chm.eea.europa.eu/information/indicator/F1090245995); updated 28/09/2007)

force the international community to think about well-being and about appropriate ways of measuring it.

People who believe in the gradual approach do not want to abolish GDP before a well established alternative exists, following the Dutch proverb "don't throw away your old shoes before you have new ones". The fact that GDP provides a common language in the world facilitates communication and helps achieving international agreements.

5. Discussion points for the conference participants

The conference could have two sets of discussion points. The first set is on the substance, while the second one deals with the process.

How to measure well-being?

Q1 Which elements of well-being are 'suffering' most from being currently omitted?

Q2 Which indicator is likely to become successful as a measure of well-being?

Q3 How to deal with distributional issues when discussing well-being?

Process

Q4 Which current experiments with alternative indicators have proved successful?

Q5 What data development should the international community invest in?

Q6 How to get political or media attention? How to move the political agenda forward?

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