



Going beyond and complementing GDP: Brief overview of developments at the European Union level

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Introduction

This document provides an overview of attempts to define well-being/quality of life, framed within a brief history of GDP, moves to go “beyond” - or more properly “complement” - GDP at the European Union level and concurrent moves at Member State level.

It is not an attempt to exhaustively document any aspect of the debate, but instead to provide an overview of where the EU stands on the issue at the moment and openings for potential future research or activity.

It is not clear whether adoption of agreed indicators for aspects of “well-being” will lead to a clarification of the term’s general use though the approach taken by the Stiglitz Commission in treating quality of life and well-being as synonymous certainly does simplify matters a bit. But with the EU process in full-swing, agreements on indicators of well-being may well be of consequence to future work and funding.

A very brief history of GDP

Simon Kuznets first presented the idea of an overall measure of a country’s economic well-being in 1934. His idea was to measure the market value of all final goods and services produced in a country in a given period, calling this Gross Domestic Product (GDP). Following adoption of GDP by the International Monetary Fund and World Bank at the Bretton Woods conference in 1944, it quickly became the standard tool for assessing the health of countries’ economies. Beyond its original purpose, it also quickly became a ‘clear and simple’ figure used to gauge the general health and well-being of a country.

Adoption of GDP by important economic institutions and the media reflects the political decision to modernise the industrial fabric following the upheavals of the first half of the twentieth century. In another sense, its (mis)application to represent “welfare” or “well-being” reflects the notion that increased GDP leads (directly or indirectly) to the increased welfare of a nation.

Doubts were voiced early on about the appropriateness of using GDP as a measure of a country’s well-being, particularly since it was never meant to be used as such. By 2007, the President of the European Commission was arguing that “it’s time to go beyond the tools developed for the very different world of the 1930s. It’s time to go beyond today’s situation with important amount of not well structured data [sic]. It’s time to go beyond GDP”¹.

¹ “Beyond GDP – Opening speech” (SPEECH/07/734), available at http://www.beyond-gdp.eu/download/barroso_speech.pdf.

Catalysts and shortcomings of GDP

Catalysts of the debate

1) Increased awareness of environmental issues (e.g. the ozone layer, carbon emissions and mass extinctions). In Joseph Stiglitz's words, "our metrics are faulty: our measures should tell us that what we are doing today is not sustainable, that current consumption is at least partly at the expense of future generations; in that sense we may be living beyond our means"².

2) Recent economic crashes including Mexico (1994), Russia (1998) and USA/Europe (2008) that have highlighted the need to re-examine the main tools used for assessing the health of economies. The latest crash influenced the French Government to institute the influential Commission on the Measurement of Economic Performance and Social Progress³. Interestingly, moves to go 'beyond GDP' come at a time when increases in GDP seem ever more elusive.

3) Public opinion, which is increasingly alienated by the use of GDP and distrustful of official statistics⁴.

Criticism levelled at GDP

Economic

- GDP does not measure the value of non-market goods and services (such as volunteering, childcare, free time activities, etc.);
- GDP does not distinguish between the impacts of spending (high transport and commuting costs, money spent on ill-health, spending on wars and recovery from natural disasters can all contribute to an increase in GDP);
- GDP does not reveal differences in consumption between poorer and richer citizens, inequalities more generally, and poverty;
- Although investments contribute to GDP, they only apply the year when the spending takes place.

Social & Environmental

- GDP does not measure the environmental and social impacts of economic activities, such as resource depletion, ecocide, ill health, urban concentration and rural depopulation;
- GDP does not measure the sustainability of environmental and social resources (a country can increase its GDP by over exploiting its natural resources to such an extent that they completely run out).

² From <http://www.stiglitz-sen-fitoussi.fr/documents/overview-eng.pdf>.

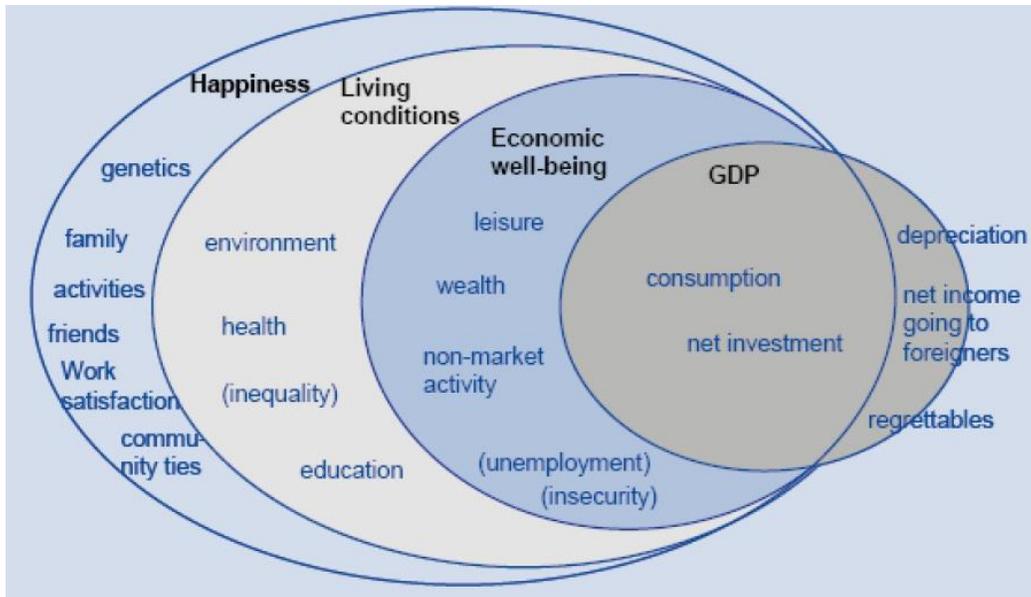
³ See <http://www.stiglitz-sen-fitoussi.fr/documents/overview-eng.pdf>.

⁴ See "Continued Public Support for Going Beyond GDP" (GlobeScan), http://www.globescan.com/news_archives/ethicalmarkets2011/.

Quality of life and well-being

While the Stiglitz report uses the terms “quality of life” and “well-being” interchangeably, other approaches differentiate between them. For example, some consider quality of life to be quantitative in nature and well-being to be qualitative (possibly requiring quantification)⁵.

The following diagram is one conceptualisation of these overlapping factors:



Source: Measures of well-being (Deutsche Bank Research, 2006)⁶

Existing and proposed alternatives to GDP

Existing measures

Existing alternative measures to GDP include the UNDP’s Human Development Index⁷, the World Wildlife Fund/Carbon Footprint Network’s Ecological Footprint⁸, and the New Economics Foundation’s Happy Planet Index⁹. A recent report by the Wuppertal Institute details findings of a SWOT analysis of these and other existing alternatives to GDP, concluding that supplementing GDP through ‘an

⁵ For a thorough discussion on these terms in the academic literature, it may be useful to refer to Scottish Executive Social Research (2005) - Quality of life and well-being - Measuring the benefits of culture and sport of culture and sport. Available at <http://www.scotland.gov.uk/Publications/2006/01/13110743/9>.

⁶ Available at http://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD0000000000202587.PDF.

⁷ See <http://hdr.undp.org/en/statistics/>.

⁸ See <http://www.footprintnetwork.org/en/index.php/GFN/>.

⁹ See <http://www.happyplanetindex.org/>.

overarching, transparent and popular reference indicators system for EU policies would be the most favourable means of improving decision-making in support of sustainable development¹⁰.

Recent proposals

Monitoring economic performance, quality of life and sustainability: Joint Report as requested by the Franco-German Ministerial Council (2010)¹¹

This report concludes that any single-indicator approach to measuring “human progress” is insufficient and that demands on statistical reporting are too diverse to allow meaningful condensation into a single comprehensive indicator. Instead, it suggests a “dashboard” of indicators:

| Economic Performance (A) | Quality of Life (B) | Sustainability (C) |
|---|--|--|
| GDP per capita | Health: Potential years of life lost | Private sector net fixed capital formation (% of GDP) |
| GDP per hours worked | Education: Students (ISCED 1-6) aged between 15 and 24 years | R&D investment (% of GDP) |
| Employment rate (15 - 64 age group) | Personal activities: Employees working on shift work | Cyclically adjusted fiscal balance (% of GDP) |
| Net national income per capita | Political voice and governance: Voice and Accountability | Fiscal sustainability gap S2 |
| Final consumption expenditure per capita (including government consumption) | Social connections and relationships: Frequency of time spent with people at sport, culture, communal organization | Total private credit to GDP gap |
| Distribution measure of net income per consumption unit (income quintile share ratio (S80/S20); internationally harmonized) | Environmental conditions: Urban population exposure to air pollution by particulate matter | Real equity price gap |
| | Personal and economic insecurity: Not-at-risk-of-poverty rate | Real property price gap |
| | | Level of greenhouse gas emissions |
| | | Greenhouse gas emissions per capita |
| | | Resource productivity (GDP relative to non-renewable Domestic Material Input, DMI) |
| | | Resource consumption (non-renewable Domestic Material Consumption - DMC, per capita) |
| | | Biodiversity (preliminary indicator: bird index) |

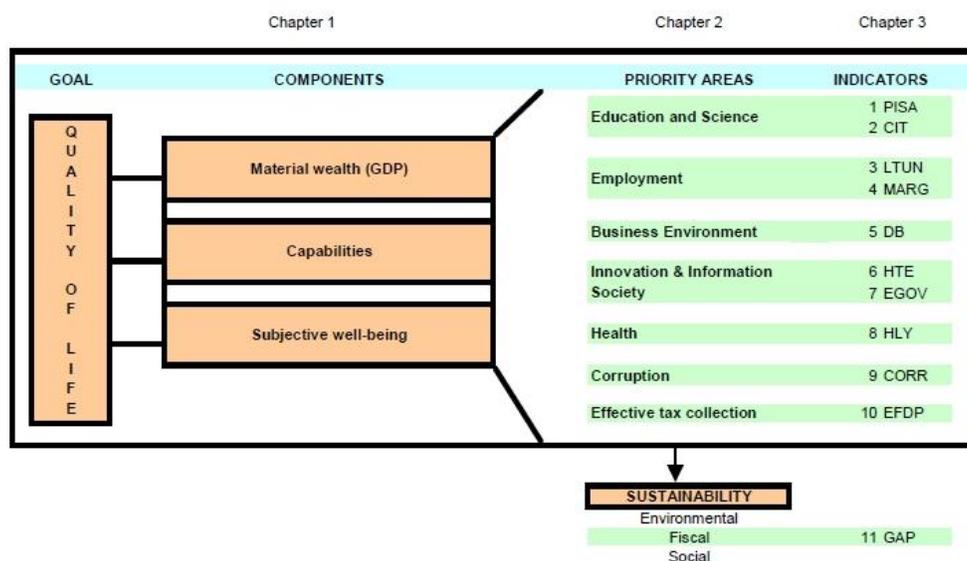
¹⁰ See Wuppertal Institute (2010) - “Towards Sustainable Development – Alternatives to GDP for measuring progress”. Available at http://www.wupperinst.org/uploads/tx_wibeitrag/ws42.pdf.

¹¹ Available at http://www.sachverstaendigenrat-wirtschaft.de/fileadmin/dateiablage/Expertisen/2010/ex10_en.pdf.

Structural Policy Challenges in Slovakia (National Bank of Slovakia, 2010)¹²

This report identifies ten outcome indicators for setting targets and enabling structural policy evaluations in Slovakia.

Scheme : Our approach to measuring the quality of life



Measuring Sustainable Development - Report of the Joint UNECE/OECD/Eurostat Working Group on Statistics for Sustainable Development (United Nations, 2008)¹³

Small set of sustainable development indicators proposed by the UNECE/OECD/Eurostat working group on sustainability measurement

| Indicator domain | Stock indicator | Flow indicator |
|-------------------------|---|--|
| Foundational well-being | Health-adjusted life expectancy | Index of changes in agespecific mortality and morbidity (place holder) |
| | Percentage of population with post-secondary education | Enrolment in post-secondary education |
| | Temperature deviations from Normals | Greenhouse gas emissions |
| | Ground-level ozone and fine particulate concentrations | Smog-forming pollutant emissions |
| | Quality-adjusted water availability | Nutrient loadings to water bodies |
| | Fragmentation of natural habitats | Conversion of natural habitats to other uses |
| Economic well-being | Real <i>per capita</i> net foreign financial asset holdings | Real <i>per capita</i> investment in foreign financial assets |
| | Real <i>per capita</i> produced capital | Real <i>per capita</i> net investment in produced capital |
| | Real <i>per capita</i> human capital | Real <i>per capita</i> net investment in human capital |
| | Real <i>per capita</i> natural capita | Real <i>per capita</i> net depletion of natural capital |
| | Reserves of energy resources | Depletion of energy resources |
| | Reserves of mineral resources | Depletion of mineral resources |
| | Timber resource stocks | Depletion of timber resources |
| Marine resource stocks | Depletion of marine resources | |

Source: UNECE/OECD/Eurostat (2008)

¹² Available at http://www.nbs.sk/_img/Documents/PUBLIK/DP_1-2010_non-technical%20summary.pdf.

¹³ Available at <http://www.oecd.org/dataoecd/30/20/41414440.pdf>.

The Measurement of Economic Performance and Social Progress Revisited - Reflections and Overview (Joseph Stiglitz, Amartya Sen, Jean-Paul Fitoussi, 2009)¹⁴

Reflections on the work of the 'Stiglitz Commission' suggests indicators for various domains:

| Domain | Indicators |
|-----------------------------------|--|
| Health | Life expectancy, morbidity, access to health services, health outcomes |
| Education | Level, length, quality |
| Balance of time | Paid work, commuting, unpaid work, leisure time |
| Housing | Homelessness, housing quality, quality of service |
| Political voice and governance | Ability to participate, freedom of expression, level of trust, functioning of universal suffrage, inequalities in access/representation |
| Social connections/social capital | Density, quality, local community ties, civic and political participation, membership and voluntary work in various organisations, relationship with neighbours and family members |
| Environment | Premature deaths from exposure to air pollution; numbers lacking access to water services and to nature; number exposed to hazardous levels of noise and pollution |
| Personal insecurity | General mortality/crimes, victimisation surveys, domestic violence, wars & other conflict |
| Economic uncertainty | Job insecurity, share of people without health insurance, sufficiency of pension, income inequality, security of pensions systems |

Measuring Well-Being and Exclusion in Europe's Regions (Kitty Stewart, 2002)¹⁵

This paper concentrates on measuring well-being and exclusion on a regional basis. Although slightly dated, disparities and differences between regions are undoubtedly still relevant.

| Domain | Indicators (and data source) |
|----------------------------------|--|
| Material well-being | * Average equivalised household income (Luxembourg Income Study) * Poverty rate measured against a national poverty line (LIS) * Poverty rate measured against a region-specific poverty line (LIS) * Decile ratio (LIS) * Measure of housing quality (European Community Household Panel) |
| Participation in productive life | * Unemployment rate (European Labour Force Survey) * Long-term unemployment rate (European LFS) * Share of working age adults 'not in employment' (European LFS) |
| Education | * Share of adult population with ISCED 3 qualifications or below (European LFS) * Share of 17 year olds in full-time education (European LFS) |
| Health | * Infant mortality rate (Eurostat) * Standardized mortality rate (Eurostat) * Self-assessed health measure (ECHP) |
| Social participation | * Club membership (ECHP) * Social contact with friends, relatives and neighbours (ECHP) |

¹⁴ Available at <http://www.stiglitz-sen-fitoussi.fr/documents/overview-eng.pdf>.

¹⁵ Available at http://eprints.lse.ac.uk/6395/1/Measuring_Well-Being_and_Exclusion_in_Europe%27s_Regions.pdf.

The EU's approach: GDP and beyond

The EC published its action plan in 2009, entitled “Communication from the Commission to the Council and the European Parliament - GDP and beyond - measuring progress in a changing world”¹⁶. It includes five action points:

- **Action 1:** Complementing GDP with environmental and social indicators (a comprehensive environmental index, quality of life and well-being);
- **Action 2:** Near real-time information for decision-making (more timely environmental and social indicators);
- **Action 3:** More accurate reporting on distribution and inequalities;
- **Action 4:** Developing a European sustainable development scoreboard (co-ordinated by Directorate General for Environment¹⁷);
- **Action 5:** Extending national accounts to environmental and social issues.

Most of the work is being addressed by Eurostat, which outlines its four actions for 2011 as follows:

- **Action 1:** Improving analysis of already available statistics on the different dimensions of quality of life; preparation of additional sets of topical questions (i.e. a 2013 EU-SILC ad-hoc module on aspects of well-being);
- **Action 2:** Environmental accounts; development of a methodology for calculating CO2 emission inventories;
- **Action 3:** Improvement of cross-cutting analysis and of key distributional issues from available sources (EU-SILC); establishment of micro-data sets, data matching between existing social surveys.
- **Action 5:** Quarterly updates of the statistics on real disposable income (first delivered April 2010); bridging social surveys with national accounts (NA) data¹⁸.

¹⁶ COM/2009/0433 final, available from <http://eur-lex.europa.eu/Notice.do?checktexts=checkbox&val=499855>.

¹⁷ More information available from http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/European_Commission_goes_beyond_GDP.

¹⁸ From http://epp.eurostat.ec.europa.eu/portal/page/portal/gdp_and_beyond/next_steps.

Institutional follow-up on the EC Communication

| Date | EU Institution | Details |
|------------|--|---|
| 20/08/1999 | European Commission | Communication from the Commission to the Council and the European Parliament - GDP and beyond - measuring progress in a changing world (COM/2009/0433 final). |
| 23/03/2010 | European Commission | Speech by Janez Potocnik (Commissioner for Environment) on "Resource efficiency as a driver for growth and jobs" (SPEECH/10/118). |
| 29/04/2010 | European Economic and Social Committee | Opinion NAT/453 : Welcomes the EC's Communication, stresses the importance of piloting aggregate environmental indicators and quality of life indices in consultation with stakeholders. |
| 05/10/2010 | Committee of the Regions | Opinion 2011/C 15/04 : Welcomes the EC's Communication, stresses the need to align process with the "2020 Strategy" and the importance of the regional dimension, argues that structural and cohesion funds should not be based on GDP alone and proposes a European-wide regional social survey to serve as a reference for decision-making. |
| 11/03/2011 | European Commission | Speech by Olli Rehn (Commissioner for Economic & Monetary Affairs) on "Economic Growth for Better Quality of Life in Europe" (SPEECH/10/432). |
| 07/06/2011 | European Parliament | Regulation on Environmental Economic Accounts adopted (L192). See also Opinion (published 04/10/2010) on the same Regulation. |
| 08/06/2011 | European Parliament | Resolution adopted (EU INI/2010/2088): Recognises the limits of GDP, the need to measure quality of life (incl. factors such as health, education, culture, employment, housing, environmental conditions), and the challenge of developing a clear and consistent set of indicators to ensure comparability between countries and regions. |

Forthcoming activities

European statisticians led by Eurostat and INSEE have set up a high-level group. The EC intends to report on implementation of the 2009 Communication by 2012 at the latest.

A key conference will take place on 12 October 2011. Organised jointly by INSEE (the French Ministry for the Economy, Finance and Industry) and the OECD, it aims to take stock of current initiatives and reflections at national and international levels to measure progress and sustainability. ([Conference website](#)).

Annex: Developments at the Member State level

| Date | Member State | Details |
|------------|------------------|--|
| 17/11/2009 | France | France's statistical office presents roadmap on implementation of the Stiglitz-Commission recommendations (INSEE). |
| 06/02/2010 | Germany | German Chancellor Angela Merkel urges the EU to reflect on the outcomes of the Stiglitz-Commission (Bundeskanzlerin). |
| 01/03/2010 | Wales | The Welsh Assembly starts work on gauging life satisfaction (Western Mail). |
| 01/04/2010 | Slovakia | Study by the National Bank of Slovakia discusses the weaknesses of GDP and suggests alternative approaches to measure quality of life (National Bank of Slovakia – Full report (Slovakian), Summary (English)) |
| 02/04/2010 | France / Germany | French President Nicolas Sarkozy and German Chancellor Angela Merkel propose new growth indicators for the EU (RFI). |
| 30/07/2010 | United Kingdom | UK publishes its annual statistical review of the country's progress (Measuring progress: Sustainable development indicators 2010 , DEFRA) |
| 18/08/2010 | Austria | Austrian Foreign Minister calls for different measurements of economic growth (Die Presse). |
| 25/11/2010 | United Kingdom | Speech by Prime Minister David Cameron on well-being (No. 10 Downing Street website). This follows on from DEFRA's measurement of well-being that have taken place since 2007 (DEFRA). |
| 01/12/2010 | Germany | The German Bundestag establishes a new study commission on growth, prosperity and quality of life in terms of sustainable development and social progress (Bundestag website). |
| 10/12/2010 | France/ Germany | Publication of joint report on " Monitoring economic performance, quality of life and sustainability ". |
| 21/01/2011 | Germany | German parliamentary committee starts developing new indicators of prosperity (Handelsblatt). |
| 28/04/2011 | United Kingdom | Reports – 1) Well-being and life satisfaction, 2) Attitudes to the natural environment (DEFRA). |
| 24/05/2011 | Germany | German chancellor Angela Merkel supports efforts to develop a new, alternative measure of prosperity. (Federal Chancellor's website). |
| 05/07/2011 | Finland | Report proposes a new set of indicators be developed to improve assessment of well-being. According to the expert group, any one indicator, such as the most common reference GDP, is an insufficient basis for decisions on well-being, and in addition to economic prosperity, there are other factors, such as health, meaningful employment and a clean environment that affect citizens' well-being. Press Release – English , Report – Finnish . |

Note: Information adapted from <http://www.beyond-gdp.eu/news.html>.