Time to focus on what matters: an agenda for measurement and policy

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Measuring well-being and progress "beyond GDP"

For many decades, the traditional approach for assessing countries' success has largely been by using indicators of economic growth (GDP) as a proxy measure for overall well-being and progress. In the 1930s, the economists Simon Kuznets, in the U.S., and Richard Stone, in the U.K., developed the system of national accounting, on which GDP is based. They were not really concerned with measuring overall welfare or progress - their main goal was to make it easier for policy makers to manage a national economy at a macroeconomic level. By adding the value of all final goods and services that are produced and traded for money within a given period of time, typically a quarter or a year, GDP represents a good measure of market production. It has the advantage of allowing to aggregate entities with different units and to summarize them in one single monetary figure. Moreover, once the figure is adjusted per capita and purchasing power parity, it can be easily compared across nations.

The rationale behind using GDP as a proxy measure for overall well-being or progress is that GDP growth can be associated with other important aspects of societal progress, such as increased life expectancy, reduced child mortality, and higher literacy rates. This correlation is far from perfect however, and GDP growth and better living standards are not synonymous: if the benefits of growth are too highly concentrated, or if growth comes with high social and environmental costs, for example, the relationship between growth and well-being can be put at risk.

Indeed, GDP presents many shortcomings as a measure of well-being. At the level of society as a whole, GDP interprets every expense as positive and does not distinguish welfare-enhancing activities from welfare-reducing ones. For example, environmental damages such as an oil spill increases GDP because of the associated cost of clean-up and remediation, but it obviously detracts from overall well-being. GDP also leaves out many components that enhance well-being but do not involve monetary transactions and therefore fall outside the market. For example, the act of picking vegetables from a garden and cooking them for family or friends is not included in GDP, while buying a similar pre-prepared meal in a grocery store involves an exchange of money and a subsequent increase in GDP. Moreover, at the level of the person, GDP says nothing about how economic resources are distributed across population groups nor on the many aspects beyond monetary metrics that are important for their well-being, such as the need to feel valued and respected by others, the extent to which aspirations are fulfilled, and the care and affection that are provided by close family and friends. It says nothing either about the sustainability of economic activities, in particular whether these occur at the expense of the natural environment.

In fact, GDP's inventor, Simon Kuznets, warned against the misuse of GDP. He stressed that GDP is a measure of output, not of well-being. And in 1968, in one of his most famous speeches, Senator Robert Kennedy eloquently highlighted the limitations of traditional economic metrics:

"[Gross National Product] counts air pollution, and cigarette advertising, and ambulances to clear our highways of carnage…It counts the destruction of the redwoods and the loss of our natural wonder in chaotic squall...Yet, [it] does not allow for the health of our children, the quality of their education, or the joy of their play… It measures neither our wit nor our courage neither our wisdom nor our learning, neither our compassion nor our devotion to our country. It measures everything in short except that which makes life worthwhile."

When the first criticisms to GDP were raised in the 1970s, amid worries about ecological limits to growth, some attempts were made to correct GDP for its most evident flaws. In the late 70s, however, the interest in alternatives approaches to GDP diminished, with other issues taking centre stage, such as stagflation or rapid increases in unemployment rates.

Interest in alternatives or complements to GDP resumed progressively during the 1990s. Emblematic of this new trend was the creation of the United Nations *Human Development Index* (HDI), which combines GDP with measures of health and educational achievement. Although synthesising only a limited amount of information and being more relevant for comparisons of developing countries than for comparisons of more advanced countries, it remains one of the few composite indexes that are regularly compiled and widely disseminated to allow systematic cross-country comparisons. In 1992, the *UN Earth Summit* in Rio de Janeiro brought the notion of Sustainable Development into the policy debate and promoted the use of sustainable development indicators. This was followed by the adoption of Agenda 2030 by all UN countries in 2015 who agreed on 17 Sustainable Development Goals, 169 targets and a set of 232 indicators

The 2008 financial crisis gave further impetus to the quest for more comprehensive measures of well-being and progress. The perception that the economic growth of the early 2000s had not lifted all boats, and that the costs of the crisis have disproportionately fallen upon those who had least benefited from the preceding economic expansion has progressively led to a re-assessment of the goals of human progress. In recognition of GDP's inadequacy to capture many of the critical dimensions of human lives, a strong movement has emerged to go "beyond GDP" and bring into greater focus other measures that capture people's living conditions and the quality of their lives. The discussion and research on well-being measures has found expression in a number of initiatives. The report by the Commission on the Measurement of Economic Performance and Social Progress, (the Stiglitz-Sen-Fitoussi report) published in 2009 concluded that the time was "*right to shift emphasis from measuring economic production to measuring people's well-being*". A significant body of research and statistical work has thus been developed aiming to provide alternative or complementary metrics of human progress. Many countries have developed frameworks for measuring various aspects of well-being, aimed at gaining a better understanding of people's lives at the individual, household, community and territorial levels. At the international level, other initiatives, such as the European Commission's *Beyond GDP,* added to the impetus to look for – and to use – new approaches to the measurement of quality of life and progress.

In 2011, the OECD, which had been leading the international work on well-being measurement and policy for over a decade, launched a new project to produce better indicators of progress across the different areas that matter for people's well-being. The *OECD Better Life Initiative* takes a broad approach to defining social progress by focusing on 11 dimensions of individual well-being, *i.e.* income and wealth; work and job quality; housing; health; knowledge and skills; environmental quality; subjective well-being; safety; work-life balance; social connections; and civic engagement. In line with the recommendations in the Stiglitz-Sen-Fitoussi report, *the OECD Better Life Initiative* : i) focuses on the individuals, rather than on the economy, ii) considers the distribution of well-being in the population alongside average achievements in each country; iii) is multidimensional; and iv) balances objective measures and subjective judgements. Importantly, it also stresses the need to assess both current and future well-being, considering the latter in terms of a number of key resources (economic, social, natural and human capital) that have the potential to generate well-being over time.

The *OECD Better Life Initiative* has been an ambitious undertaking, but an important one, as its aim is not only to produce well-being evidence using the best currently-available data, but also to ensure that over time the new metrics are effectively used to inform policy-making. Indeed, ultimately, the goal of most governments is not just to grow economies, but rather to improve the lives of citizens. And while GDP growth is critical for achieving a number of important objectives, including adequate financing of social programmes and public investments, it should always be recognized as a means to other ends rather than as a goal in itself, and that the quality of economic growth matters, not just its quantity.

From measurement to policies

One reason the 2008 financial crisis morphed into a social and political crisis is that relying on GDP not only gave a false picture of the overall state of well-being, it also contributed to the decline of trust in governments and experts, as people saw that their own situation was not improving despite the fact that, based on GDP figures, it was stated that a recovery was underway. If we had used better metrics, we might have realized that the effects of the crisis on people's economic well-being and quality of life were much deeper than the GDP statistics indicated. And if that had been the case, perhaps governments would have responded more strongly to mitigate the negative impacts of the crisis.

Indeed, measuring well-being cannot be an end in itself. For well-being indicators to contribute to better lives, they must be used in decision-making by policy makers and by the general public. Although more and more countries have taken on the challenge of developing well-being frameworks, less have taken steps to use these indicators more systematically in their policy settings and decisions. While developing a better 'compass' or a new 'GPS' is essential to provide a more comprehensive diagnosis of the state of a country now and in the future, it would be naïve to think that indicators and statistics will be the only factor at play. As noted by J.M. Keynes, "The real difficulty in changing any enterprise lies not in developing new ideas, but in escaping from old ones".

What is needed is a new dashboard of well-being indicators combined with a new approach to policy-making that takes a more holistic view of policy challenges and puts in place more integrated mechanisms for addressing them. Building on the 2009 Stiglitz-Sen-Fitoussi report and subsequent work by the OECD and others, last year, the *High-Level Expert Group on the Measurement of Economic Performance* (HLEG) published a report highlighting the need for both further improvements in well-being measurement in a number of areas (such as income and wealth inequalities, economic insecurity, inequality of opportunity, subjective well-being, trust, and sustainability and resilience), and for anchoring these new measures in policy processes that survive the vagaries of electoral cycles.

The world today faces profound challenges. While in some respects, well-being has improved since 2010 when the impacts of the financial crisis continued to be deeply felt in many countries, including Portugal, much more needs to be done. According to the just released OECD *How's Life 2020* report, reductions in greenhouse gases emissions in the OECD are far from sufficient to meet climate policy goals while in almost half of OECD countries, more species are at risk of extinction. And nearly two-thirds of people in OECD countries are exposed to dangerous levels of air pollution. Life remains financially very precarious for many households across the OECD, with almost 40% at risk of falling into poverty if they had to forego three months of their income, and 21% reporting having difficulties making ends meet in European countries.

At the same time, rapid technological change is transforming many aspects of our lives. Digitalisation brings new opportunities, from new consumer goods to new ways of doing business. But there are significant challenges too. The development of automation technologies, particularly artificial intelligence, is changing both the numbers and kinds of jobs our economies generate and the ways they are organised, leading to widespread concerns about the 'future of work'. There is also an increasing debate about how new technologies are impacting our quality of life, ranging from cybersecurity to less family interactions and increasing mental health disorders. In addition, many developed countries are ageing very rapidly, raising questions about the ability of those of working age to support non-working age populations, not only financially: older people are almost three times more likely to lack social support, relative to younger people, underscoring the importance of addressing old-age loneliness.

Inequalities persist in most countries, with people in the top 20% of the income distribution still earning more than five times more than people in the bottom 20%, and women earning on average 13% less than men. Wealth inequality is even more concentrated than income, with the wealthiest 10% of households owning 52% of total wealth on average in the OECD. Regional well-being disparities are also widespread, weighing on social cohesion, and while trust in government has increased since 2010, less than half the population across OECD countries trust their institutions, with only 1 in 3 people feeling they have a say in what the government does.

Overall, from financial insecurity in households, through to climate change, biodiversity loss and threats to social cohesion and how democratic institutions perform their functions, there is a need to take bold and integrated action to ensure continued prosperity for people and the planet. Many of the policies which have been implemented across the OECD, not just over the last decade but over the last forty years or so, appear no longer able to improve economic and social outcomes in the ways they once promised. Economic growth cannot continue to be the primary goal of economic policy, from which it is assumed other objectives will flow. Social and environmental considerations can no longer be dealt with 'after the event' but should be integral to economic policy. New economic theories, evidence and techniques need to be developed. Since 2012 the OECD's *New Approaches to Economic Challenges* (NAEC) initiative has attempted to bring together much of the new thinking in this field and these reflections need to continue.

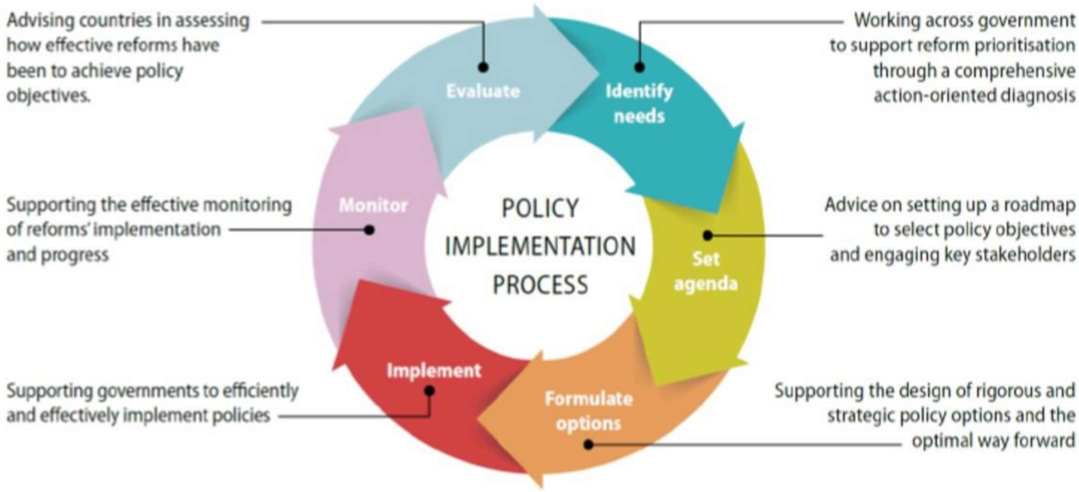
Some examples of mechanisms for applying a well-being lens to policy-making

Several governments have developed formal and concrete mechanisms to embed well-being and sustainability metrics beyond GDP in their policy processes in a structured and integrated way. When it comes to formulating and testing policy options, it is important to think about interdependencies among outcomes and anticipate both positive and negative externalities. These mechanisms can target a specific stage of the policy cycle depicted below. They provide a good entry for a *Beyond GDP* analysis as they allow to ascertain whether adequate weight and attention is given to various aspect of well-being beyond economic efficiency.

Taking the specific case of *agricultural policies* for instance, such an approach allows to give appropriate weights to environmental and social impacts, not just economic impacts as would be the case with traditional cost-benefit analysis that would effectively give a negligible weight to environmental impacts several years from now.

A well-being lens can be applied to understand specific policy challenges, such as those related to agriculture, from a multidimensional perspective, an approach that has been used in a range of OECD analysis. Examples include the OECD's work on digitalisation, which uses the OECD well-being framework as a way to understand the various threats and opportunities created by digitalisation; and that on climate mitigation, where the same well-being approach has been used to broaden the assessment of how climate mitigation actions could impact on people's lives, beyond their effects on GDP. A well-being approach has also been used in OECD analysis of migration and housing policy in certain countries, and of how government procurement can be used to support well-being and growth objectives. 5

Well-being metrics support an integrated policy-making process



At the more macro level, the budget process and the allocation of resources represent a powerful mechanism to broaden decision making "beyond GDP". This includes monitoring a dashboard of well-being indicators to frame (ex ante) the budget discussion, and to complement the standard economic and fiscal reporting that typically accompanies the budget. Steps in this direction have been taken in France since 2015 (the "New Wealth indicators", led by the Prime Minister's Office); in Italy since 2017 (the "Economic and Financial Document", led by the Ministry of the Economy and Finance) and in Sweden also since 2017 ("New Measures for Well-being", developed by Statistics Sweden and coordinated by the Ministry of Finance). In some countries (e.g. Italy), budget proposals are also assessed for their expected impact on different well-being outcomes over a certain period, as compared to a business-as-usual scenario.

In New Zealand, the government used an analysis of well-being evidence, including the Treasury's new Living Standards Framework Dashboard, to identify five priorities for the 2019 "Wellbeing Budget". At a more granular level, the New Zealand Treasury adapted their cost-benefit analysis template for ministerial submissions of spending proposals to explicitly include well-being and sustainability considerations.

Focusing on a longer term perspective, well-being indicator dashboards have also been developed to reflect the way a country thinks about progress and what it means to have a good life today and in the future. Countries that have explicitly introduced well-being frameworks and indicators into their long-term strategic development planning, often aligned to the UN Sustainable Development Goals, include Colombia (through "Presidential Dashboards" developed by the Ministry for National Planning), Slovenia (in the Slovenian National Development Strategy 2030, adopted by the Slovenian Government in 2017), and Latvia 2030 (Sustainable Development Strategy of Latvia until 2030).

Finally, some countries have created new institutional positions or structures to promote the use of well-being evidence in government and to give a central place to well-being metrics in public policies. These institutions allow to break the silo approach that prevail in most countries, and promote an integrated view of objectives and means of reform implementation. Examples of the creation of specific high-level positions include the Future Generations Commissioner in Wales or the What Works Centre for Wellbeing in the United Kingdom. New responsibilities can also be assigned as part of reforms to existing structures, such as giving the Treasury or Ministry of Finance a cross-cutting responsibility for well-being or sustainability, as has happened to some extent in New Zealand and Italy.

Conclusions

The 2009 Stiglitz-Sen-Fitoussi (SSF) report was hugely influential within the statistical community, leading to a range of national and international initiatives to implement its recommendations. Almost 10 years later, two reports by the OECD-hosted "High-Level Expert Group on the Measurement of Economic Performance and Social Progress" (HLEG) take stock of the developments in the '*Beyond- GDP'* agenda that were sparked by the SSF report and provide a roadmap for the decade ahead.

If measurement is the point of departure of these reports, their ambition goes much wider. Their central message is rather that *"what we measure affects what we do. If we measure the wrong thing, we will do the wrong thing. If we don't measure something, it becomes neglected, as if the problem didn't exist"*. In other terms, measurement issues are not only technical, but go to the root of how our democratic system functions.

This is not to dismiss the importance of GDP, which is a critical measure for assessing economic conditions and the effects of a range of policies. But GDP keeps being used for purposes that it was not designed to meet, i.e. as the single yardstick to gauge the overall success of a country and the well-being of its people. What is needed is a broader range of well-being statistics, including more granular and timely data that better capture the state of the economy, the diverse situations of different population groups and regions, and the threats to the long-term sustainability of our development model.

But while better measures of progress are needed, they are surely not enough. Having the right set of indicators and diagnosis is just the beginning. What matters is to ensure that these measures are actually used in the design of policies. Several countries have recently engaged in using well-being indicators in the different phases of the policy-making process, from identifying priorities for action, to assessing the advantages and disadvantages of different strategies in a more holistic way. While recent, these experiences hold the promise of delivering policies that, by going beyond traditional silos, are more effective in improving people's life and ensuring sustainability. 7

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