WORKSHOP ON "BEYOND GDP"

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1. Honoured to introduce this workshop. Honoured to do it on behalf of the OECD. The E in OECD stands for **E**conomic, which is often taken to imply a narrow approach to well-being, where economic considerations trump other factors. But it is also an organisation with a broad range of competences, hence well placed to bring together some of the themes that come together under the heading of "progress", "wealth" and "well-being".

2. I offer these introductory remarks with a lot of modesty. The themes of this conference have been the subject of research for many years and they span a very wide field of interest. In the early 1970s, the social indicator movement first brought in the public sphere some of the critical dimensions of well-being that are missed by conventional economic measures, at the same time as the report by the Club of Rome, "Limits to Growth", enlarged what we now understand as the "capital base" that sustain well-being. Since that time there has been much progress but also setbacks relative to the early optimism. What brings us here today is the view that the agenda of measuring "true progress" need new impetus and that this requires the commitment of all partners active in this field.

3. The OECD has organised over the past two years a range of activities on how to measure well-being, which have culminated in the Istanbul World Forum and declaration. We have also undertaken a stocktaking assessment of alternative ways of measuring well-being, whose main elements are summarised in the background document for this conference. I will refer to these activities and what we have learned from them when responding to some of the questions posed by the Chair in his introductory remarks. But let me stress the limits of this introduction: the OECD is only one of the players in this broad agenda: the value added that we can bring to this agenda is the involvement policy makers, government officials, official statisticians, all players that – in our view – are key for progress.

4. What has been driving the OECD interest in this area? In a nutshell, it is the realisation of a large and growing gap between what official statistics tell us about "progress" and the feeling of ordinary people. People are worried about the state of the environment, poverty, lower purchasing power, crime and insecurity, quality of public services – all areas where official statistics have a hard time in accounting for these growing anxieties. The OECD Global Project on "Measuring the Progress of Society" is one step in filling that gap.

5. Let me start by spelling out how the well-being agenda relates to conventional economic measure. Are we arguing that GDP is irrelevant for the assessment of progress? The answer is NO, for reasons that are well explained in the background papers for this workshop. We have simply reminded ourselves of something that well known to National Accountants but whose implications are often put on one side in policy discussions: that GDP is a measure of production and (very imperfectly) of how much a country can afford to consume. It is of limited value for assessing welfare because:

1. first, it does not reflect differences of experiences within a country; and

1. second, because it omits many of the items that matter the most for well-being of each individual, even if they are affected by economic processes.

Developing better measures of well-being requires addressing both of these limits. How can we make progress in these respects?

6. With respect to the first limit, let me be more explicit. SNA aggregates are based on the aggregation of income flows among unattached individuals, with the total then divided among all persons in a country. We may call these "household measures" when they are drawn from the household appropriation account but this is a misnomer.

- First because each person is treated an "island" disconnected from other household members: in this way we neglect the pooling and sharing of resources that occurs within families, and the social costs of family disruptions and lower family size.

- Second because individuals are all assumed to be identical, and each country is effectively treated as one person.

7. I stress these aspects as they relate to a question posed by the BEPA paper on: "*how to deal with distributive questions when discussing well-being"*. My own answer to this question lies in better integrating SNA and household survey data. This was one of the recommendations made by Tony Atkinson as he chaired a workshop organised by the OECD and the Joint Research Centre of the EU in July 2006 in Milan. He recommended "*to do for welfare what the SNA has done for economic production*", i.e. develop accounts for the household sector that give visibility to the experiences of homogeneous groups of people (by age, socio-economic status, or income groupings).

- We should start doing this for money income as conventionally measured.

- We should then extend these accounts to other domains such as public services to households. I think that the UK discussion on measuring government output is critical from the perspective of measuring the well-being, inter alia because it highlights a tension – present since the early days of the SNA – between a perspective focused on production and one focused on welfare. The type of household accounts mentioned above would allow bringing in information on the quality of these activities and how and the contribute to the well-being of individuals.

8. With respect to the second limit, the challenge is to move beyond income to identify those items that matter the most from the perspective of measuring the well-being of individuals and the true progress of society. This requires expanding the traditional boundaries of the SNA with respect to both "asset stocks" and "production flows".

9. With respect to assets, it most critical extension is to develop tools suited to track the health of the natural environment. The natural environment matters for well-being, beyond the services it provides today, because it is critical for sustaining well-being overt time. While we all recognise today the scale of the environmental challenges we face, progress on the measurement of these environmental threats fails to convey the urgency of action. Some progress is however occurring in two main directions:

- The first is represented by the publication in 2003 of manual on a "system of economic and environmental accounting", to which the OECD has contributed in important ways. Wesselink et al. rightly describe this as a "landmark achievement" and this is not an oversell. Today, the creation of the UN Committee of Experts on Environmental Accounting is an important step to mainstream environmental accounting, to elevate the SEEA to an international standard, and to advance its implementation at the national and local level.

- The second is represented by the construction of several composite indices aimed to measure both the impact of human activities on the environment as a whole (e.g. the "ecological footprint") and the state of some specific aspects of the environment's health (e.g. the WWF Living Planet Index with respect to biodiversity). While the first set of measures mainly serve a communication function, those in the second can also be used at the policy level to monitor the results of different strategies.

10. Expanding the "asset boundary" is not limited to the environment but brings us to the broader agenda of sustainable development. The measurement agenda on sustainable development is tightly connected to that on measuring well-being, but there are also differences. Some important work in this area is being pursued by the UNECE/OECD/Eurostat Working Group on Sustainable Development statistics.

As noted in the draft report of the WG, "*the problems with the concept of sustainable development are perhaps not so much with the word 'sustainable' but rather with the term 'development'*". For some purposes it makes sense to separate the two rather than subsume one into the other – not obviously to forget the agenda of measuring "development" but for the sake of making progress one step at a time. The discussion in the WG is still ongoing, and others closer to this process are better placed to inform this workshop about the state of its deliberations. But the option considered by the draft report is to focus on the "requirements for sustainability", i.e. on maintaining a constant level of total assets per capita, as measured through a narrow set of (13) indicators covering the real per capita values of produced, human, natural and social capita, as well as physical indicators covering a small number of critical environmental threats (climate, air, water, landscapes, biodiversity and soil) as well as education and health (8). And let me add that even in the social side, we are still far from having developed suitable tools to track in a comprehensive manner the state of human and social capital.

11. Expanding the "asset boundary" of economic accounts is important from the perspective of assessing "progress" but this is not enough. Also important is to go beyond the "production boundaries" of the SNA to identify those flows that contribute to well-being. The most critical in my view refers to the different uses of time, and here I would like to stress two points.

- First, is that time in paid work contributed to people's well-being via the income it generates, the role-models that it provides, and the socialisation that it offers. But unpaid work and leisure time also contribute to well-being, either directly (in the case of leisure) or indirectly (through the value of what is produced through household production and voluntary work). Much of what families do contributes to the welfare of its members through the care they (mainly women) provide – and a narrow focus on paid work in policy discussion may undermine those immeasurably more valuable functions that parents do for society.

- Second, is that a focus on the diverse uses of people's time is also important because people can substitute income with leisure and because an increase in income achieved through more hours of paid work – i.e. less leisure – has different welfare implications of an increase in income due to higher wages: by conflating the two aspects into the same income measure we cannot have an adequate understanding of people's welfare.

Better measures in this field depend on the availability of suitable surveys. Some OECD countries (e.g. the United States) have done the necessary investment setting in place continuous time-use surveys, which lead a panel of the US National Academy of Sciences to argue in 2005 that "*time is ripe for developing better measure on this front*". Other countries (including Europe) are however lagging.

12. All issues I raised above have to do with "objective" measures of well-being. But "subjective" measures of happiness and life-satisfaction have also driven a large part of the interest on well-being – as witnessed by the increase in the frequency of articles on the subject in economic journals from 1 every 2 months before 2000, to more than 1 every week since then. The OECD, the JRC and the University of Tor Vergata jointly organised a workshop on subjective measures of life satisfaction in Rome last Spring that gathered researchers on "happiness" and people coming from a more policy-oriented background. It has been a fruitful discussion as, beyond these differences in background of various participants, the workshop also highlighted some elements of consensus.

- First, subjective measures have probably only a limited leeway to compare countries at a point in time but could be more useful when used in difference form.

- Second, the use of these measures is much more interesting at the individual level, as they highlight the role of both "adaptation" to life-events and of "comparisons" with other people living in the same community for people well-being.

- Third, statistical offices need to look at this area more than in the past, integrating questions on satisfaction with life as a whole and in specific domains in their surveys.

- A final conclusion is that policy attention to these subjective measures is likely to increase in the near future. The BEPA background paper identifies as one limit of these measures that "*it is not clear how to use them for policy making*". This is a fair comment if it refers to the state of current research. But, let me also add, that (by and large) these measures have not yet been tested this type of use. Survey questions about "work satisfaction" surly tells us something important about the constraints facing working parents, while questions about life-satisfaction for people with disability surely matter for the timing of rehabilitating interventions. Information on business confidence are already part of the day-to-day economists' toolkit and the same could happen for subjective measures on individuals and households satisfaction.

13. Let me conclude by trying to respond explicitly to the questions posed by the organiser:

- *How have recent measurement efforts gone beyond mainstream economic indicators?* It is an open ended question, with many possible answers. But the element that I would like to stress as probably the most important is the development of large set of physical data pertaining to dimensions that matter for well-being: health, education, social, environmental, governance indicators. We have today a rich menu of statistical data to feed our assessment of well-being and how it is changing. This richer set of data reflects the initiatives not just of statistical offices but also of NGOs, business associations, trade unions, and academic researchers.

– *What initiatives are underway to further improve our ability to measure progress, true wealth and well-being?* These initiatives are well described by Wesselink: *single number indicators*, often started from an environmental side, such as "ecological footprints", "genuine progress", "genuine savings"; indicators sets (such as the structural and SD indicators used in the EU); and elements on an accounting frameworks (such as the one proposed by the SEE manual). Hence not a single contender, but a variety of approaches suited for different purposes. We should accept this diversity because, as noted by Wesselink et al., different indicators serve different needs within the broad "policy process".

– *What are the key technical challenges to implementing new measures?* In this respect, the twin challenges that I would like to stress are to achieve parsimony and avoid double counting. There is a trade-off between the two, and the right balance will depend on the use of the indicators. Single indicators achieve parsimony at the risk of counting twice the same element. Accounting framework are better in avoiding double counting but leave open the question of how to get to a synthetic representation. I would argue that single indicators accounting for *all* dimensions of well-being are not well suited for our (OECD) type of policy audience. But we should strive for parsimony within *specific* domains, though either general indicators (such as healthy life-expectancy, which is a synthetic description of both mortality and morbidity, or physical measures of biodiversity and GHG emissions) or non-market accounts (i.e. for health, education, home production, natural environment).

14. I do not pretend these to be the final words. Participants will have different answers to the questions posed by the chair, depending on their perspectives, backgrounds and comparative advantages. But, beyond these differences, I want to stress the points of agreement – which I would hope would be shared by all participants to this workshop:

– Agreement that GDP needs to be complemented by other measures if we want to get a better view of progress, true wealth and well-being.

– Agreement that GDP is only a measure of economic activity rather than well-being.

– Agreement that measuring progress requires environmental, social and governance indicators.

- Agreement that priority is to build consensus among those active in this area: we are not here to engage in a beauty contest among different approaches but to identify priority areas and assess the "comparative advantage" of various partners to move this agenda forward.
- Agreement that improved measures are a necessary condition for re-orientating policies – but not a sufficient one. First, we need need not just to measure, but to get the measures used; this require a closer dialogue between users and producers of the indicators as well as novel ways to present and disseminate results, and is an important part of our Global Project. Second, we need to identify policies that are effective in improving the various items that matter for well-being, and assess their costs, both the costs of policy *actions* and that of policy *inactions* (as dome by the Stern report with respect to climate change). Closer interaction with the policy community is critical for progress and the OECD can play an important role in this respect.