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## **Measuring progress, true wealth and well being**

*Check Against Delivery  
Seul le texte prononcé fait foi  
Es gilt das gesprochene Wort*

Conference beyond GDP 2007

**Brussels, 19 November 2007**

Ladies and Gentlemen,

Let me start by expressing my gratitude for the opportunity to speak this afternoon here in the European Parliament.

The range of partners involved in today's conference and the participants that have joined us from all over the world are proof of the importance we now place on finding accurate measurements of societal progress and well being.

Having the right indicators is essential at every stage of policy making. Statistics describe a phenomenon at hand, analyse the related issues and help select policy proposals. They facilitate the implementation and then the monitoring of those policies and they communicate the outcome to the general public. Adequate statistics are therefore indispensable.

In my comments this morning I will consider the importance and the limitations of the Gross Domestic Product as a statistical measure and I will explore what other indices would be appropriate to measure progress.

Let me start by clarifying what GDP does and does not do.

As President Barroso has indicated, GDP was introduced following the Great Depression, in order to help politicians steer the economy towards key economic objectives and provide a solid basis for sound economic policy decisions. Today GDP has become the foremost measure of economic activity.

As a universally recognised and accepted system, it allows us to compare the economic performance of different countries worldwide and to track economic developments over an extended period of time.

In Europe, GDP underpins the instruments and criteria we use to make vital economic policy decisions. For example, whether or not a country meets the Maastricht Criteria to adopt the euro or complies with the requirements of the Stability and Growth Pact is judged using a reference value based on GDP. And around  $\frac{3}{4}$  of the member states contributions to the EU budget is based on GNI.

GDP was never intended to be anything but an indicator of economic performance. It cannot distinguish between activities that have a negative or a positive impact on wellbeing. In fact, war and even natural disasters may register as an increase in GDP.

Also, GDP does not take into account the non-economic factors that add to wellbeing. And many policies that contribute to wellbeing may not be adequately reflected in GDP growth. For example, GDP does not take into account the sustainability of production and consumption patterns. While investing in low carbon energy solutions may be essential for the environment and long term sustainability, it may not be the policy option preferred for short term economic growth, as measured by GDP.

These limitations do not undermine the intrinsic value of GDP per se. But it should not be considered as a benchmark of the overall progress of a society as is sometimes the case. Of course, economic growth can bring about an improvement in quality of life, but only up to a point. Indeed, many studies of affluent countries do not register an increase in happiness in line with wealth.

Thus there is a clear need to find measures that go beyond GDP. Today more than ever before, faced as we are with major environmental and demographic challenges and rapid changes in our societies.

To address these challenges, we need to gain a better understanding of what is happening in society at large and the impact these transformations are having on citizens and on the broader environment.

We need to find measures that will complement GDP and build a more nuanced and accurate understanding of economic and societal progress.

This is not an easy task as there is no universally accepted measure of well being, not least because there are many definitions of what this concept actually entails.

Consensus has been building on the need for a more comprehensive measure of wellbeing for some time and a certain amount of progress has already been made on this front.

On its side, the EU has been working on extending its use of statistics beyond GDP.

A striking example of this has been the development of a set of indicators to monitor, assess and review the EU's Sustainable Development Strategy, our approach to reconciling economic development, social cohesion and protection of the environment.

In this context, we have developed approximately 150 indicators organised along 10 themes that look at economic development in parallel with issues such as climate change, management of natural resources, public health, social inclusion, demographic change and global poverty.

Despite the progress up to now, time is ripe to take the measurement of wellbeing one step further.

With this in mind, some argue that a better approach would be via so called aggregate or composite indicators. This involves combining indicators to produce a bottom line – a summary statistic that can encapsulate complex or multi-dimensional issues, giving a sense of the bigger picture.

The advantage of this type of measure is that it is very effective at attracting public interest and focusing debate. An example is the ecological footprint, which was developed in the early 90s and is now widely used around the globe as an indicator of environmental sustainability.

But composite indicators are also controversial. This is largely because the compilation of these indices implies making a judgement on the weight of each individual variable. Thus, composite indicators are criticised for lacking neutrality and transparency. In the worst case scenario, they could send misleading messages and thus invite users to draw overly simplistic conclusions.

Despite this there are useful examples of effective composite indicators such as the Human Development Index or the Ecological Footprint and improved techniques in their construction could go a long way to overcome their limitations.

Taking all this into account I continue to believe that composite indicators have a valuable role to play, especially raising awareness of specific developments and challenges.

But I also consider it necessary to build a more overarching framework where environmental and social issues are integrated altogether with economic ones. Today the abundance of official statistics provides a wealth of information. However, the lack of integration of these statistics means that developments that are interrelated can only be studied in isolation.

This is why we promote setting-up satellite accounts like the System of Integrated Environmental and Economic Accounting aiming to overcome this very problem in the field of environmental issues. It builds on the European System of National Accounts - which has evolved to become a robust and highly credible statistical system - and links the economic data in the national accounts to non-economic environmental data.

Integrated Economic and Environmental Accounts are a very effective tool to analyse the connections between the environment and the economy. As a complement to environment statistics, environmental accounts allow for a more in depth examination of environmental concerns as the different modules are broken down by other, non environmental variables, such as industry. Because of its integrated nature, this system allows a wide range of relevant indicators to be extracted.

These environmental accounts will allow us to answer urgent political questions. For example, they will help ascertain whether economic growth is having less impact on the environment. They will also help establish whether we are respecting the Kyoto targets in terms of greenhouse gas emissions or are simply exporting the emissions following delocalisation of production.

Eurostat is leading efforts both at EU and international level to develop environmental accounts and progress thus far has been encouraging. Already, 24 EU Member States have developed Air emission accounts, while two more are planning to do so in the near future. A total of 23 countries are involved in compiling economy wide material flow accounts or are planning to do so while 21 countries are collecting data on environmental expenditures.

However, we need to further intensify our efforts. Gaps remain in terms of data availability among Member States and in different areas of environmental accounts. For the forthcoming years, a key priority will be to identify where data is missing and assist member states in their efforts to fill these gaps.

Eurostat will also work alongside Member States to develop comparable accounts for air emissions, economy wide material flows and environmental expenditure. A second set of priorities will be to achieve good coverage for the accounts on waste, water and environmental taxes.

## **Conclusion**

Ladies and gentlemen, let me conclude.

Gross Domestic Product is an indispensable measure of economic activity that has successfully steered our economies through the post-war period, underpinning the prosperity we enjoy today.

However, new challenges of the 21st century require new statistical instruments. Only this way can we both build our understanding of the shifts in our societies and develop our capacity to respond effectively.

In the short term, key sets of indicators and composite indicators can play a valuable role both informing and raising public debate on social and environmental challenges. However, in the long term, Integrated Accounting proves to be the strongest tool for developing policy relevant statistics and for supporting a comprehensive approach to the promotion of wellbeing and progress. In the environmental sphere, our best option for accomplishing this goal is through the System of Integrated Economic and Environmental Accounts.