

Contribution to Beyond GDP „Virtual Indicator Expo“

Name of the indicator/method: **(Regional) Index of Sustainable Economic Welfare (ISEW)**

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Few people would now disagree that we need to move beyond GDP if we are to make any meaningful assessment of society's overall well-being. In particular, we need measures which will account for changes in societal welfare and environmental impacts.

Clearly, any credible alternative to GDP will have to pass tests of rigour and objectivity. It will also probably be asked to impart a simple message about the direction of progress to a general audience. Delivering this simple headline trend must happen without losing focus on the constituent elements of the indicator. If the first question is "Are we *really* making progress?" then the second is: "*Where* are we doing well, and *where* do we need to try harder?"

What is the ISEW?

The Index of Sustainable Economic Well-being is an adjusted economic indicator which attempts to incorporate costs and benefits not traditionally measured in monetary terms. It brings together a wide range of economic, social and environmental issues into one analytic framework. Time series data are drawn from robust sources, typically from government statistics. Non-monetary statistics are converted to cash values based on unit costs from credible government or academic sources.

The basis for the index is consumer expenditure. Positive and negative adjustments are made to this basis to account for a series of social, economic and environmental factors. For example, the values of household labour and volunteering are added to the index, together with public expenditure on health and education. On the negative side, the ISEW subtracts environmental costs associated with habitat loss, localised pollution, depletion of non-renewable resources and climate change; social costs associated with crime, divorce, commuting and unequal income distribution; and the health costs of accidents on the road and in the workplace. Some additional adjustments are made to account for net capital growth and net international position. These may be positive or negative depending on the particular economic situation in each year.

In summary:

- ISEW = Personal consumer expenditure**
- adjustment for income inequality**
- + public expenditures (deemed non-defensive)**
- + value of domestic labour & volunteering**
- + economic adjustments**
- defensive private expenditures**
- costs of environmental degradation**
- depreciation of natural capital**

Why monetarise – and how?

There is a danger in replacing GDP with any other one-dimensional measure, even if the replacement is more in tune with our current understanding of well-being. But replacing GDP with a suite of indicators covering a range of disparate factors also has problems. How do you compare different metrics? How do you balance the loss of 500 jobs against an increase of 10mg nitrates per litre of river water? Is it preferable to reduce 600 tonnes of carbon dioxide, or avoid 16 car accidents? Although there are problems inherent in monetarising certain social or environmental costs and benefits – establishing a unit cost sometimes involves subjective valuations – this does offer a coherent framework for the kind of holistic analysis needed to guide policy. For each component of the ISEW where unit cost estimates are required, we draw on the relevant literature to establish suitable working values. For instance, the costs of climate change are based on a Treasury / DEFRA meta-survey of the literature on the social cost of carbon. Air pollution costs are based on average costs taken from several studies which assess their impacts on health, buildings, crops and natural habitats.

A brief history of monetarised indicators

In 1972, Nordhaus and Tobin published a landmark paper entitled *Is Growth Obsolete?*, in which they constructed a 'measure of economic welfare' (MEW) by adjusting GDP to account for certain economic and social factors. They concluded that GDP still represented a robust indicator of well-being. When Nordhaus re-examined the question from an environmental perspective in 1992 (*Is Growth Sustainable?*), he discovered that the new MEW began to diverge significantly from GDP.

The ISEW was first posited by Daly and Cobb in their 1989 book *For the Common Good*. They laid down the framework of consumer expenditure plus services from the informal economy, plus public expenditure on certain public goods; economic corrections to account for capital flows; and deductions for 'defensive' expenditures on social and environmental problems. The original model was revised a little in 1990 by Cobb and Cobb to address some criticisms of the original methodology. Since then, ISEWS have been produced for countries as different as the USA, Thailand and Chile. The ISEW has proven particularly popular for European researchers, and has now been constructed for a number of countries and regions. To date, the list includes Austria, Belgium, Germany, Italy, the UK, Wales, Scotland, Sweden and several English regions. An attempt at constructing an ISEW for Lombardia in Italy was made in 2006 by a Milanese research institute with **nef** assistance, but has now been put on hold due to limited data availability.

In each case, some revisions to the original Cobb and Cobb methodology have been made to tailor the indicator to specific national requirements or data sources. In Thailand for instance, an estimate of the social cost of sex tourism was included. In 1994, Jackson and Marks produced the first UK ISEW for **nef** (the new economics foundation) and the Stockholm Environment Institute. This was updated by Jackson and colleagues at the University of Surrey in 1997 and again in 2004 – when the updated version was released as the MDP (Measure of Domestic Progress).

Measuring regional progress: the R-ISEW

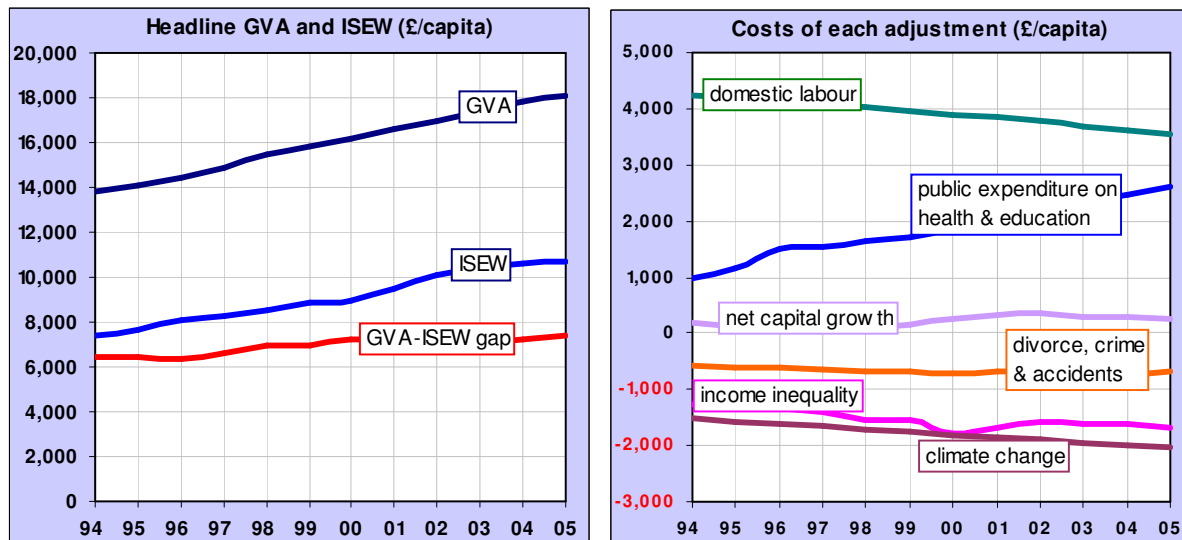
Together with the University of Surrey, **nef** has recently pioneered the development of a regional variant of the ISEW. The R-ISEW allows individual regions within a nation to monitor progress within the region and compare progress against other regions. The R-ISEW was developed with the backing of the UK Regional Development Agencies, with particular support from the East Midlands Development Agency (emda). emda commissioned a think piece from **nef** in late 2004, on the relationship between well-being, quality of life and regional development, which led to a pilot R-ISEW for the East Midlands in 2005, developed with the University of Surrey. emda incorporated the R-ISEW into their Regional Economic Strategy as the top level indicator of progress towards their vision of a "flourishing region". In the National Audit Office's 2007 performance assessment of emda, the development of the R-ISEW was welcomed as a positive and innovative step.

Over the next two years, **nef** and the University of Surrey constructed R-ISEWs for five other regions, and in 2007 a complete suite was calculated for all English regions, plus an ISEW for the whole of England on the same basis. For the first time, R-ISEWs were calculated for all the regions of one country, using exactly the same methodology, allowing direct comparisons to be made between them. The R-ISEW revealed that traditionally 'wealthier' regions are not always performing better than poorer ones in terms of sustainability. However, it did not simply reduce cross-regional differences. Some poorer regions perform much better than others.

Yorkshire Futures, the Regional Intelligence Network for Yorkshire and the Humber, are keen proponents of the index, noting that it would be "an opportunity missed... if the ISEW is not seriously incorporated into policy and planning procedures."

Results of the English ISEW

The structure of the ISEW allows two levels of analysis. In the first graph overleaf, the ISEW for England is plotted against GVA showing a simple headline trend: growth in both measures, but with a wide and growing gap between 'conventional' and 'real' progress. In the second graph, a more detailed story unfolds, in which some components of the ISEW are enjoying progress and others are deteriorating. This second graph also illustrates the relative importance of different components in the overall ISEW.



The future of the ISEW

In 2007, a seminar was hosted by the Sustainable Futures division of the Welsh Assembly to present a recent attempt to construct an ISEW for Wales. Economists and statisticians from the Assembly discussed the possibility of adopting the ISEW as an official Welsh Assembly statistic. Although they decided against this, it is worth noting that the only significant objection was the lack of methodological consensus amongst ISEW researchers. Herein lie the key challenges for the future development of the ISEW: collaboration and consensus-building around the assumptions used in the index. Firstly, what is the definitive set of economic, social and environmental factors to be included in the index? Then, how exactly do we value certain non-monetary factors included in the account? These are significant hurdles, but by no means insuperable: GDP has faced and overcome similar issues. Like the ISEW, GDP also makes potentially arbitrary exclusions of certain goods and services; and where the ISEW wrestles with subjective valuations of social and environmental factors, GDP simply refuses to address them. By recognising, and placing a value on social and environmental outcomes, the ISEW represents a significant advance on GDP as a measure of genuine progress. Its logic of adjusted economic well-being translates easily into the language of policy makers.

References

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