The Regional Index of Sustainable Economic Well-Being (R-ISEW)

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What is it?

The Regional Index of Sustainable Economic Well-being (R-ISEW) is a measure of how much a region's economic activity contributes to, and detracts from, well-being, and how sustainable this activity is. It is an adjusted economic indicator which attempts to incorporate costs and benefits not normally measured in monetary terms. By monetising social and environmental issues, it brings them into a single analytic framework with traditional economic ones, allowing policy makers to explore trade-offs, and to assess whether economic well-being is really increasing sustainably in a given region. At the same time, exploring the twenty separate components of the R-ISEW provides a fuller picture of how economic well-being varies over time.

We have calculated the R-ISEW for the nine regions of England for each year from 1994 to 2008.

Why is this important?

Since just after World War II, we have relied on key economic indicators such as Gross Domestic Product (GDP), and recently Gross Value Added (GVA) to guide policy. However, as politicians from Robert Kennedy to David Cameron to Jose Manuel Barroso have commented, these indicators are not appropriate as measures of progress or well-being: they conflate expenditure that improves our well-being with defensive expenditure, they do not capture our depreciation of economic capital, let alone our natural or social ones, and they make crude assumptions about the value of money and of economic activity. In short, we need to move 'beyond GDP'.

Sustainable development, including social and economic well-being as well as environmental sustainability, has become a central concept in government policy at all levels, with the recent Climate Change Bill being only one of the most visible aspects of this. Whilst indicators exist for measuring certain aspects of sustainable development (for example CO_2 emissions or levels of fear of crime), there is as yet no consensus on a single unifying framework for these issues. For example, an approach that simply compares the number of indicators where there has been improvement with the number where there has been deterioration implies equal weighting for all indicators – which is not always appropriate.

A framework for bringing together the various elements of sustainable development is vital for two reasons. Firstly, such a framework provides a heuristic for resolving inevitable trade-offs. Secondly, for good reason, people (including policy-makers) tend to steer clear of large unstructured sets of indicators and focus on what are perceived to be all-encompassing or 'headline' figures such as GDP per capita, or unemployment rates. Issues not captured by these measures risk being perceived as peripheral, rejected to satellite accounts that attract little attention.

The R-ISEW, as a single figure, allows policy makers to assess overall progress towards sustainable economic well-being, bringing together a wide range of issues, but weighting them appropriately using a single coherent framework.

How is it calculated?

The basis for the index is consumer expenditure. Positive and negative adjustments are made 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. Additional adjustments are made to account for net capital growth and net international position.

What does it tell us?

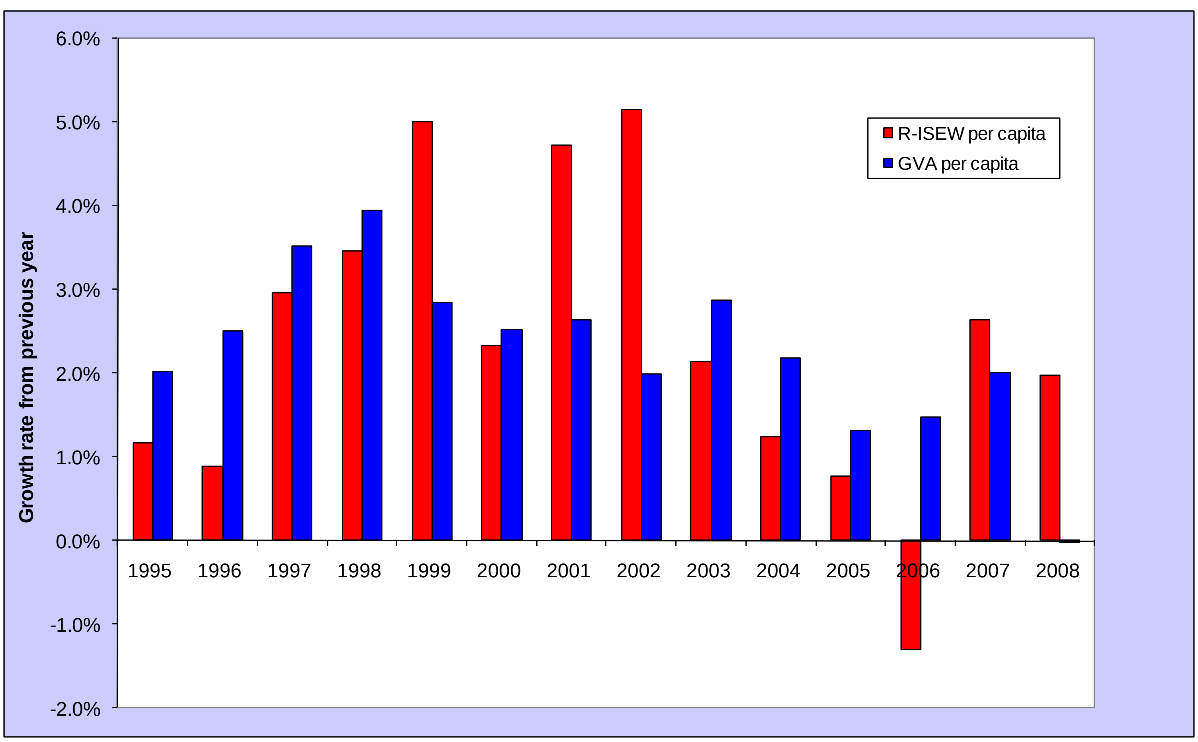

Figure 1: R-ISEW and GVA change over time for England

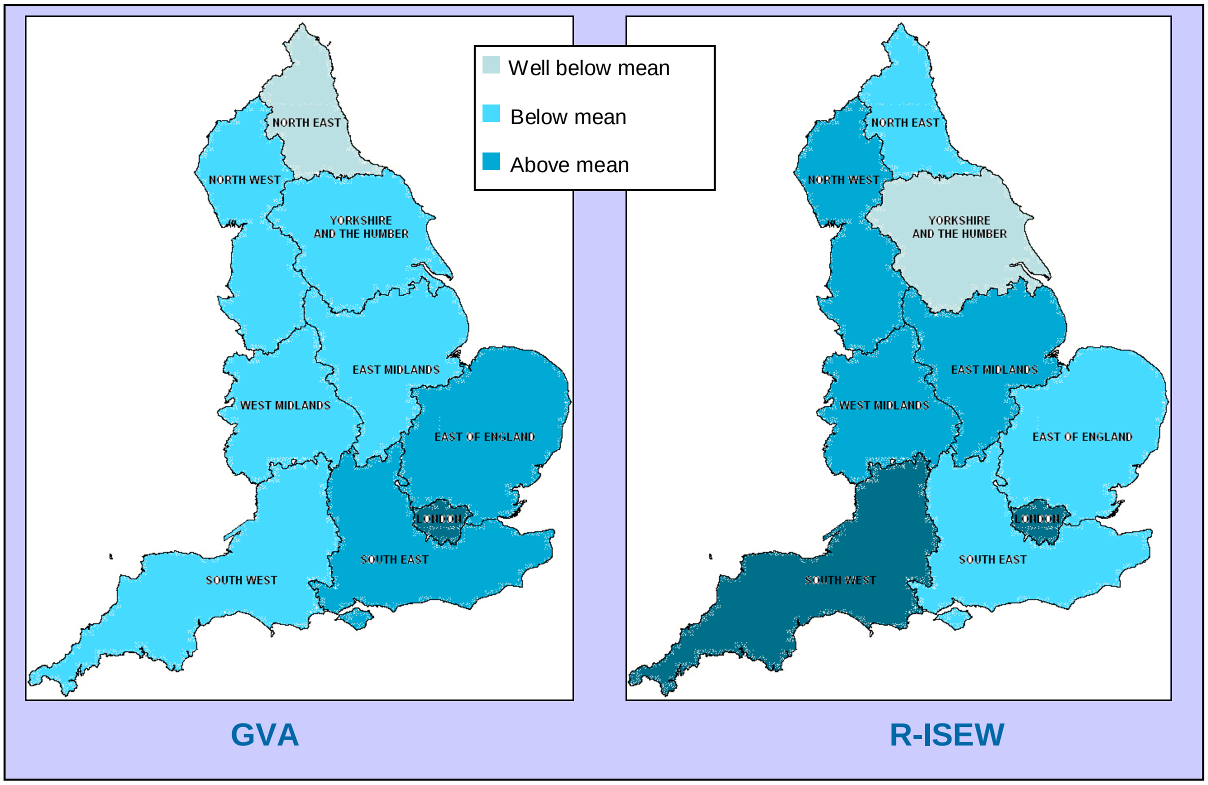

Figure 2: R-ISEW and GVA per capita for the nine English regions

Whilst GVA and GDP have continued to grow in England until only recently, the latest R-ISEW calculations reveal a less stable pattern for sustainable economic well-being (Figure 1). Looking across the country (Figure 2), typically wealthy regions perform worse than more peripheral ones, with the South West having the second highest per capita R-ISEW, and the South East the second lowest.

Box: How is the R-ISEW calculated?

R-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

Who's behind it?

The R-ISEW is the latest in a long line of adjusted economic indicators, beginning with the Measure of Economic Well-Being, developed by William Nordhaus and James Tobin in 1972. The first ISEW was calculated for the USA in 1989, and brought to the UK in 1994 by Nic Marks of **nef** (the new economics foundation) and Professor Tim Jackson, currently at the University of Surrey. Together, these two organisations have pioneered the development of regional ISEWs, with the support of the then East Midlands Development Agency, and later a consortium of several regional development agencies. The first complete set of R-ISEWs for all English regions was calculated in 2007, and data now exists for all English regions from 1994 to 2008.

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