



# Inequality and «Beyond GDP»

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## The last ten years: a transformational movement

- In October 2014 we celebrated the tenth anniversary of the first OECD World Forum on “Statistics, knowledge and policy”
- The Palermo Forum was the starting point of a process that today, thanks to the efforts made in all continents to take the “Beyond GDP” agenda forward, the world has recognised as vital

## The last ten years: a transformational movement

*Work on developing **alternative measures or progress, beyond GDP**, must receive the dedicated attention of the United Nations, international financial institutions, the scientific community, and public institutions. These metrics must be squarely focused on **measuring social progress, human wellbeing, justice, security, equality, and sustainability**. Poverty measures should reflect the **multi-dimensional nature of poverty**. New measures of **subjective wellbeing** are potentially important new tools for policy-making.*

*Ban Ki-moon, SG of the United Nations*

## The last ten years: key steps

- October 2004: First OECD World Forum on “Statistics, knowledge and policy”
- 2005: “Global project on measuring the progress of societies” established
- July 2007: Second OECD World Forum and “Istanbul Declaration”
- November 2007: European Conference “Beyond GDP”
- January 2008: Establishment of the “Stiglitz-Sen-Fitoussi Commission”
- August 2009: EC Communication on “GDP and Beyond”
- September 2009:
  - OECD Framework on “Equitable and sustainable well-being”
  - SSF Report
  - G20 Communiqué
- October 2009: Third OECD World Forum and OECD Roadmap
- ...: OECD Better life initiative and Better life index
- ...: Fourth OECD World Forum
- August 2013: EC Report on ESS work

# Theoretical background

- Economic literature:
  - Role of information in “Games Theory” (Nash, Akerlof, Rothschild and Stiglitz, etc.)
  - Role of information in rational expectations models (Muth, Lucas, etc.)
- Political sciences literature:
  - Role of information in models for democratic choices (Downs, Wittman, Alesina, etc.)
  - Role of information in political process and elections (Swank, Visser, etc.)

Clear conclusion: “shared information” is fundamental to improve markets functioning and minimise social welfare losses

## The value added of official statistics

$$V_{tsu} = P_{tsu} - C_{tsu}$$

$V_{tsu}$  = value added at time  $t$

$P_{tsu}$  = value of production

$C_{tsu}$  = intermediate costs

Where do we classify the production of statistics?

----> ISIC: public services

Where does the value of a service come from?

----> SNA: change in the consumer

What kind of change should happen in a consumer of statistics?

----> more knowledge

## The value added of official statistics

$$Ptsu = \sum_{i=1}^n f_i [(Qsu \cdot Rmsu) \cdot Rsu_i \cdot Fsu_i \cdot Ls_i]$$

Q = statistics produced

Rm = role of media

R = relevance

F = trust

L = literacy

i = consumer

n = number of consumers

## Some references

- *“We have used GDP to determine wrongfully what is in fact the state of well-being of a country ... GDP is necessary but inadequate, and we need to develop additional indices that would tell a more comprehensive, a more holistic story about how human society is progressing ... The human being has two needs, the needs of the body and the needs of the mind, and what we have focused on so far is mostly the body, perhaps only the body ... So, it’s a paradigm shift that we need to make”.*
- *“We have a very different measure of what constitutes progress in this country. We measure progress by how many people can find a job that pays the mortgage; whether you can put a little extra money away at the end of each month so you can someday watch your child receive her college diploma ... not by the number of billionaires we have or the profits of the Fortune 500, but by whether someone with a good idea can take a risk and start a new business, or whether the waitress who lives on tips can take a day off to look after a sick kid without losing her job an economy that honours the dignity of work”.*
- *“Many people looked at US GDP growth in the 2000s and said: ‘How fast you are growing – we must imitate you.’ But it was not sustainable or equitable growth. Even before the crash, most people were worse off than they were in 2000. It was a decade of decline for most Americans.”*

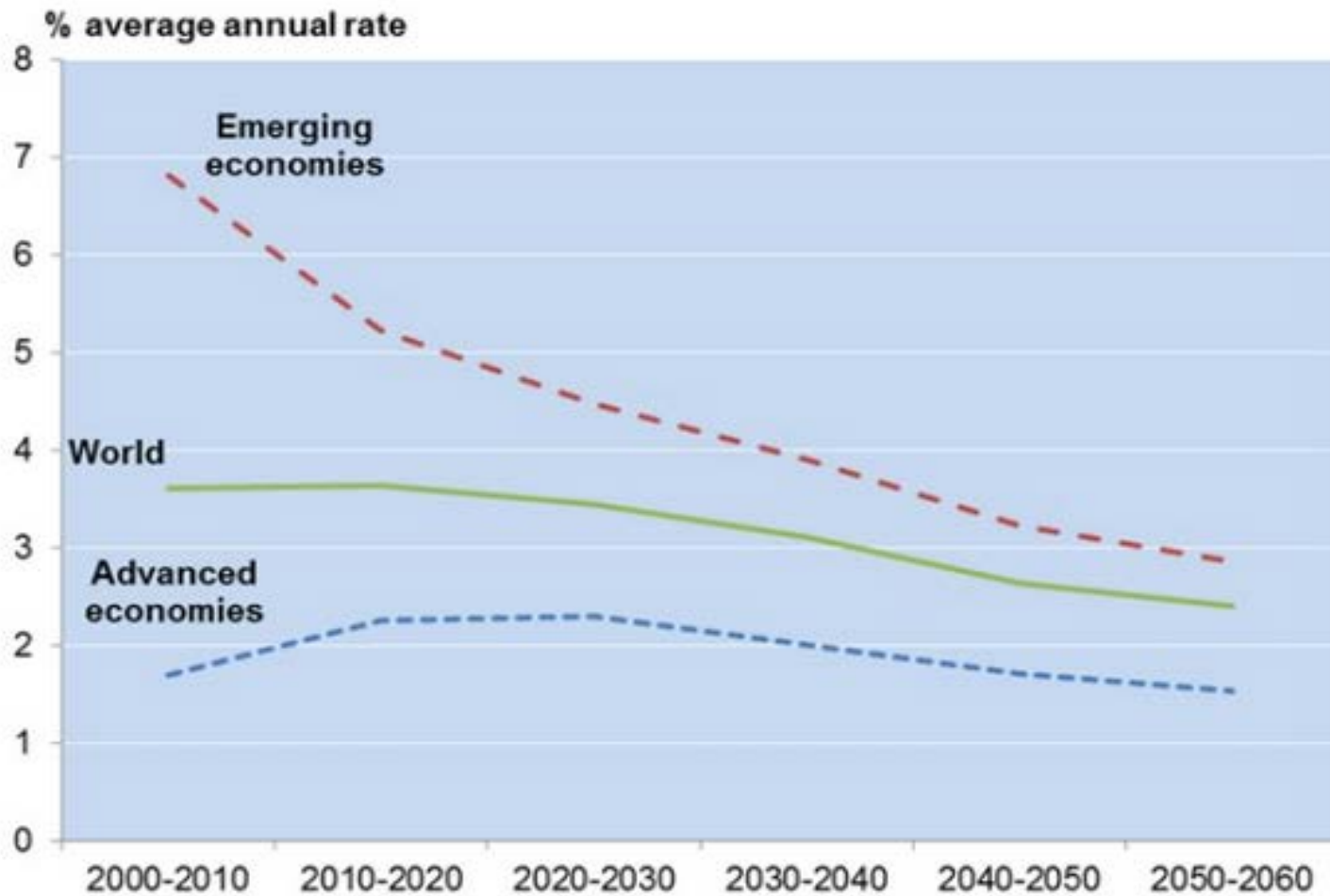


# The Istanbul declaration

- A **culture of evidence-based decision making** has to be promoted at all levels of government, to increase the welfare of societies.
- We affirm **our commitment to measuring and fostering the progress of societies** in all their dimensions and to supporting initiatives at the country level.
- We **urge statistical offices, public and private organisations, and academic experts** to work alongside representatives of their communities to produce high-quality, facts-based information that can be used by all of society to form a shared view of societal well-being and its evolution over time.
- To take this work forward we need to:
  - **encourage communities** to consider for themselves what “progress” means;
  - **share best practices** and **increase the awareness** of the need to do so using sound and reliable methodologies;
  - **stimulate international debate**, based on solid statistical data and indicators, on both global issues of societal progress and comparisons of such progress;
  - **advocate appropriate investment in building statistical capacity**, especially in developing countries, to improve the availability of data and indicators needed to guide development programs and report on progress toward international goals, such as the MDGs.

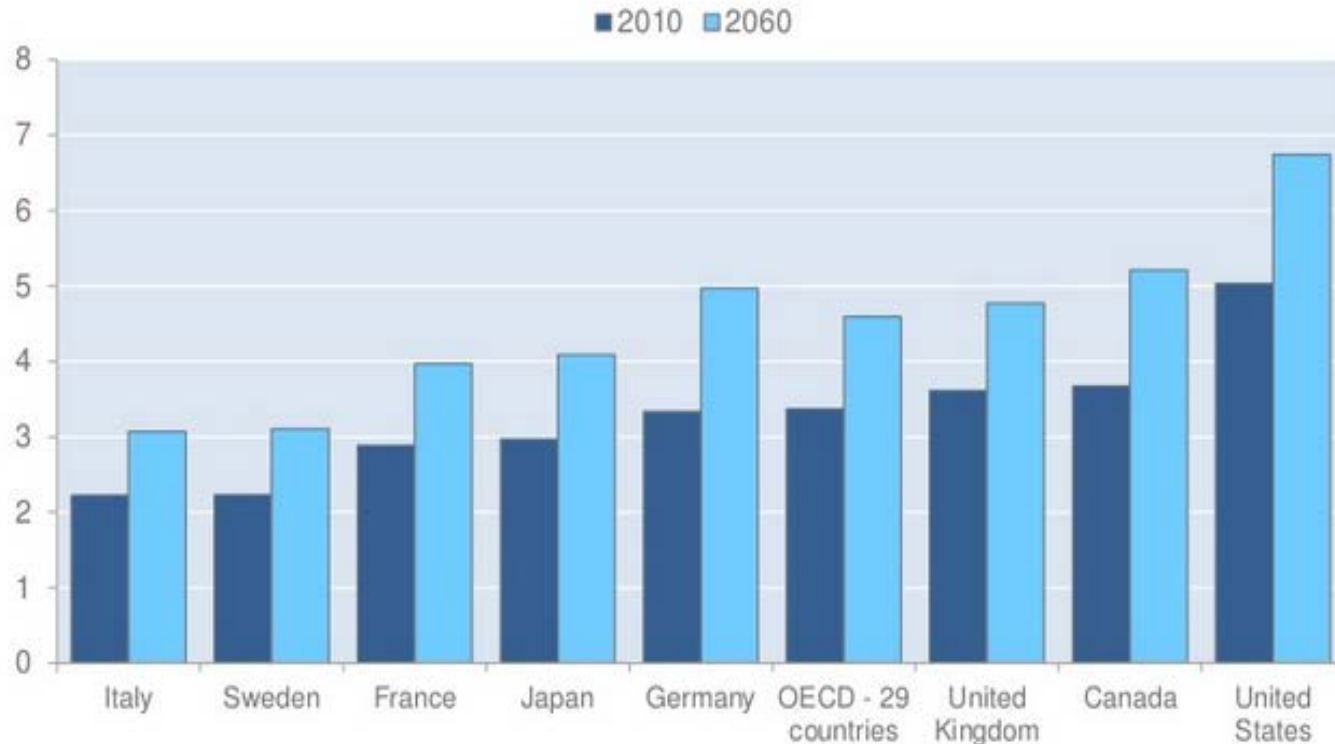
# Some references

GDP growth



## Some references

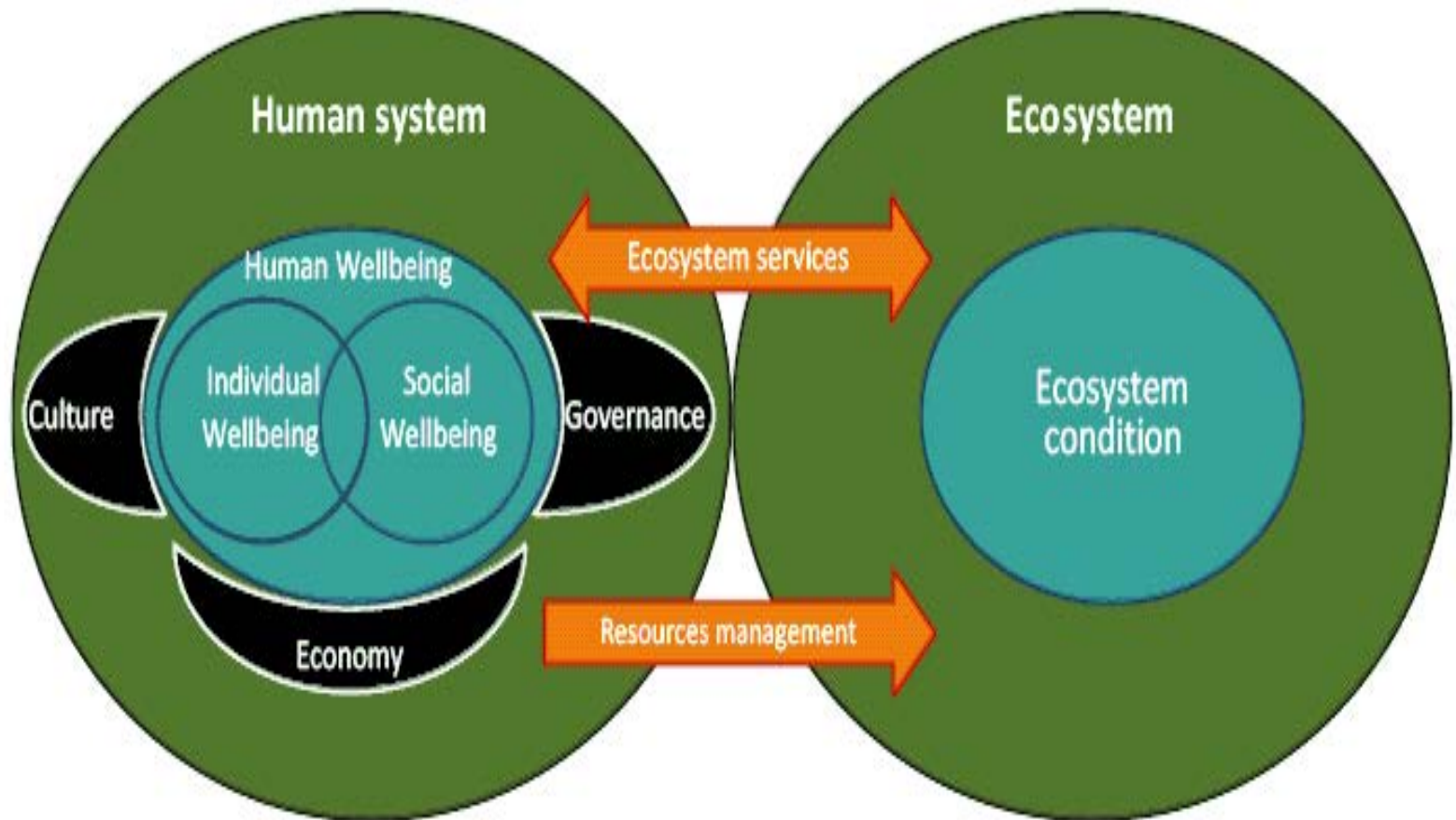
Ratio of gross wages of the top 90<sup>th</sup> to the bottom 10<sup>th</sup> percentile



Rising wages for high-skilled workers

Incomes of low-skilled in advanced economies fall behind

# The OECD framework to measure progress (2009)



# The OECD framework to measure progress (2009)

## *FINAL GOALS*

### *Ecosystem Condition: outcomes for the environment*

- land (geosphere)
- freshwater, oceans and seas (hydrosphere)
- biodiversity (biosphere)
- air (atmosphere)

### *Human well-being: outcomes for people*

- physical and mental health
- knowledge and understanding
- work and leisure
- material well-being
- freedom and self-determination
- interpersonal relationships

### *Human well-being: cross-cutting goals*

- intra-generational aspects: equity/inequality
- inter-generational aspects: sustainability/vulnerability/resilience

# The OECD framework to measure progress (2009)

## *INTERMEDIATE GOALS*

### *Economy*

- national income
- national wealth

### *Governance*

- human rights
- civic and political engagement
- security
- trust
- access to services

### *Culture*

- cultural heritage
- arts and leisure

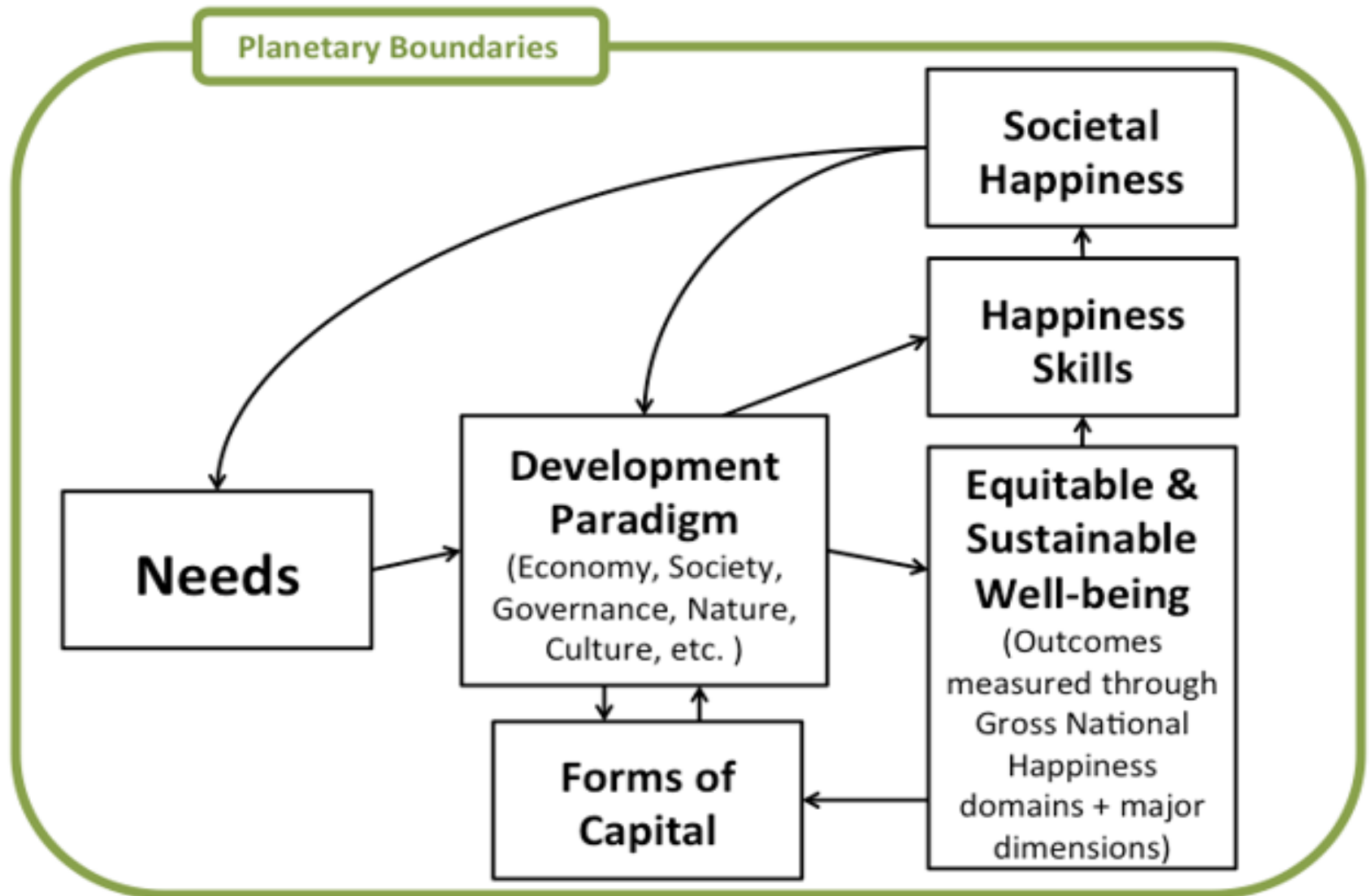
### *Resource management, use, development and protection*

- resource extraction and consumption
- pollution
- protection and conservation of economic and environmental assets

***The progress of a society is an increase in equitable and sustainable well-being***



## One additional step





# Sustainable Development Goals: A Universal Agenda

- |         |  |
|---------|--|
| Goal 1  | End poverty in all its forms everywhere  |
| Goal 2  | End hunger, achieve food security and improved nutrition and promote sustainable agriculture   |
| Goal 3  | Ensure healthy lives and promote well-being for all at all ages  |
| Goal 4  | Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all   |
| Goal 5  | Achieve gender equality and empower all women and girls  |
| Goal 6  | Ensure availability and sustainable management of water and sanitation for all   |
| Goal 7  | Ensure access to affordable, reliable, sustainable and modern energy for all   |
| Goal 8  | Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all   |
| Goal 9  | Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation  |
| Goal 10 | Reduce inequality within and among countries   |
| Goal 11 | Make cities and human settlements inclusive, safe, resilient and sustainable   |
| Goal 12 | Ensure sustainable consumption and production patterns   |
| Goal 13 | Take urgent action to combat climate change and its impacts <sup>+</sup>   |
| Goal 14 | Conserve and sustainably use the oceans, seas and marine resources for sustainable development   |
| Goal 15 | Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss |
| Goal 16 | Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels            |
| Goal 17 | Strengthen the means of implementation and revitalize the global partnership for sustainable development   |

# The Istat-Cnel initiative on Equitable and Sustainable Well-Being (BES)

- The project was designed to produce a dashboard of indicators able to provide a shared view of the progress of the Italian society.
- It was built on a process that involved:
  - a) Steering Committee: with the participation of stakeholders and Istat experts, to identify the domains and to agree on the final list of indicators;
  - b) Scientific Commission: with the participation of experts in different fields, to select potential indicators based on quality concerns;
  - c) Public consultation.
- Biennial reports.
- Widely quoted, especially by media and civil society.

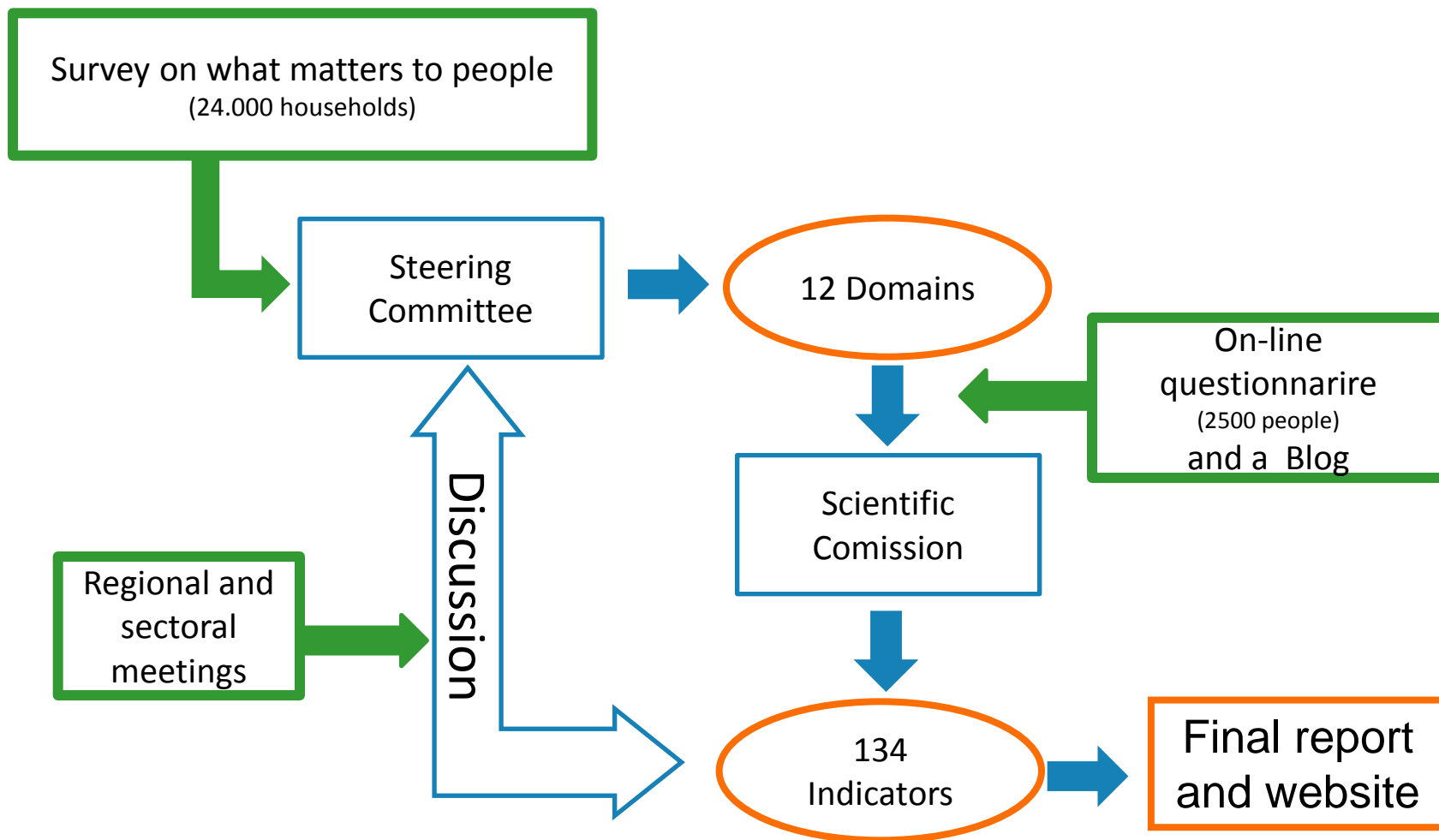
**bes** | benessere  
equo  
sostenibile

misurare e valutare  
il progresso della società italiana



Istat

# The Istat-Cnel initiative on Equitable and Sustainable Well-Being (BES)



# What is important for your well-being?

Score from 0 to 10 given to wellbeing dimensions – Year 2011

	Mean	% of 10
Being in good health	9,7	79,9
Guarantee the future of you children socially and economically	9,3	66,1
Have a decent work of which being satisfied	9,2	59,5
Have an adequate income	9,1	56,0
Good relationships with friends and relatives	9,1	53,2
Be happy in love	9,0	53,6
Feeling safe with respect to criminality	9,0	56,3
Good education	8,9	48,8
Present and future environmental conditions	8,9	48,3
Live in a society in which you can trust others	8,9	48,8
Good governance	8,8	46,6
Services accessible and of good quality	8,7	43,9
Adequate free time and of good quality	8,5	37,4
Be able to influence local and national policies	7,8	30,6
Participation to community life	7,1	18,7

# Key domains for the Italian BES

## The individual sphere

1

ENVIRONMENT

2

HEALTH

3

ECONOMIC WELL-BEING

4

EDUCATION AND TRAINING

5

WORK AND LIFE BALANCE

6

SOCIAL RELATIONSHIPS

7

SECURITY

8

SUBJECTIVE WELL-BEING

## The context

9

LANDSCAPE  
AND CULTURAL HERITAGE

11

QUALITY OF SERVICES

10

RESEARCH AND INNOVATION

12

POLICY AND INSTITUTIONS

## Further steps

**15 major Italian cities joined the URBES project**, in order to make the 134 BES indicators available at local level.

The “**Digital Agenda**” legislation asks for the measurement of the impact of “Smart City” initiatives on citizens’ wellbeing at city level.

The “**2014 Economic and Financial Document**” contained a section on BES and proposed to use it to make the impact assessments of the reforms.

Continuous research, especially on **sustainability** and **resilience**, as well as on the use of composite indicators.

Tuscany will use the BES framework for strategic policy planning. Other regional administrations are thinking to follow the same approach.

# Lessons learned

- **Need for a broad discussion with different actors:**
  - The deliberative process led to a 360° discussion over each theme, taking advantage of available information and analytical models;
  - The debate made reached an agreement over a number of difficult and new issues, such as Landscape and cultural heritage, soil use, quality of services, research and innovation;
  - It granted strong legitimacy to the final output.
- **Increasing interest at local level and chance for convergence:**  
several local institutions are following closely the process, in order to apply the set of indicators in their territories.
- **Important tool to strengthen the position of the NSI** vis-à-vis users, researchers and the society as a whole.
- **It is a long and delicate process.** After nearly two years, the scientific part hasn't ended yet; its policy application is just beginning.
- **Evidence-based decision making is the real challenge**, and we have to better understand how it works.

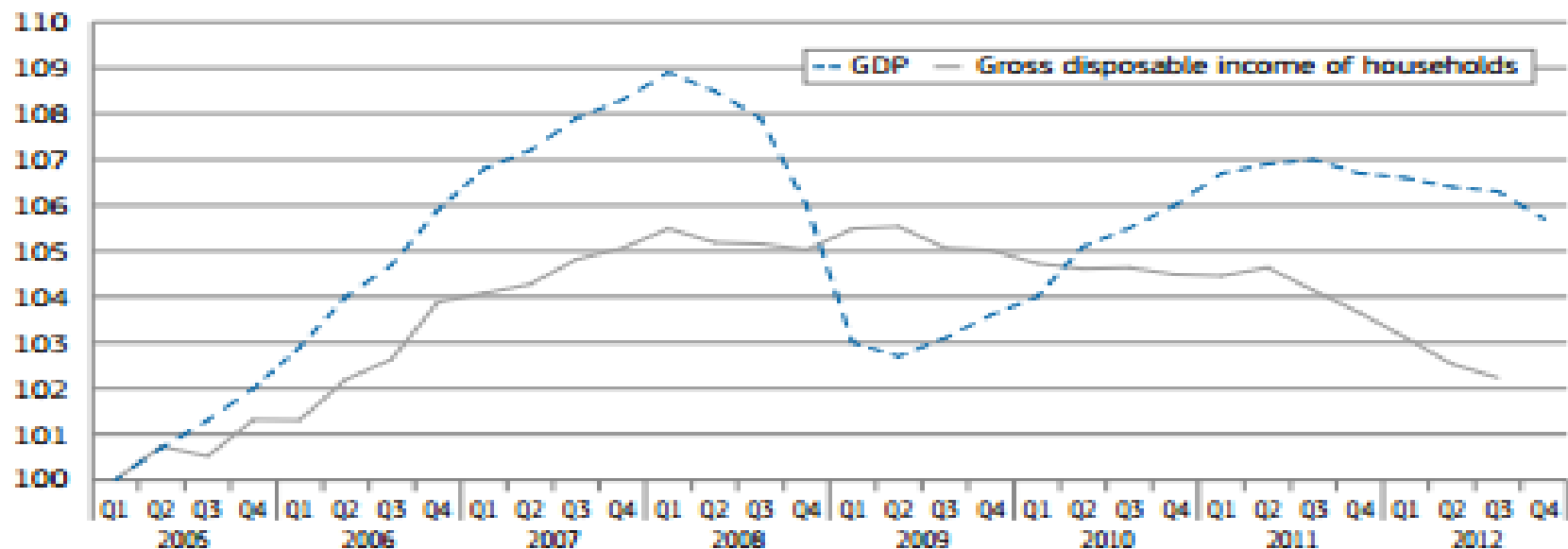
# The international measurement agenda

- **Eurostat and ESS**
  - Quality of life
  - Sustainable development
- **OECD**
  - “High-Level Expert Group on the measurement of economic performance and social progress”
    - Subjective well-being
    - Inequality
    - Sustainability
- **UNDP**
  - Human development indexes
  - Multidimensional poverty
- **ISI-IEA Strategic Forum**
- **National initiatives:**
  - Italy
  - UK
  - Germany
  - ...



# Does the well-being perspective change the picture?

**Chart 1: Cumulated real growth of GDP & aggregate Gross Disposable Income for Households in the euro area (2005q1=100)**



Source: Eurostat, National Accounts.

Note: Cumulated growth since the first quarter of 2005 of GDP volumes and of aggregate household gross disposable income in real terms (i.e. deflated by price index for final consumption expenditure of households).

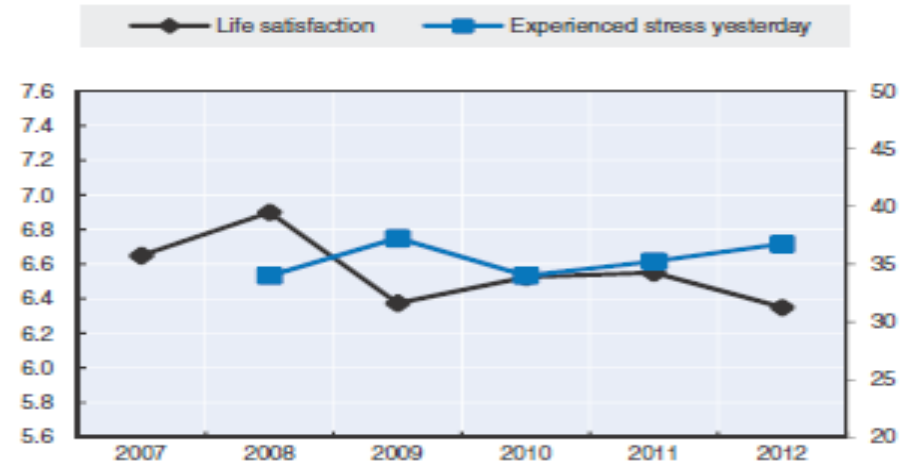
# Does the well-being perspective change the picture?

Figure 3.16. Subjective well-being and the crisis

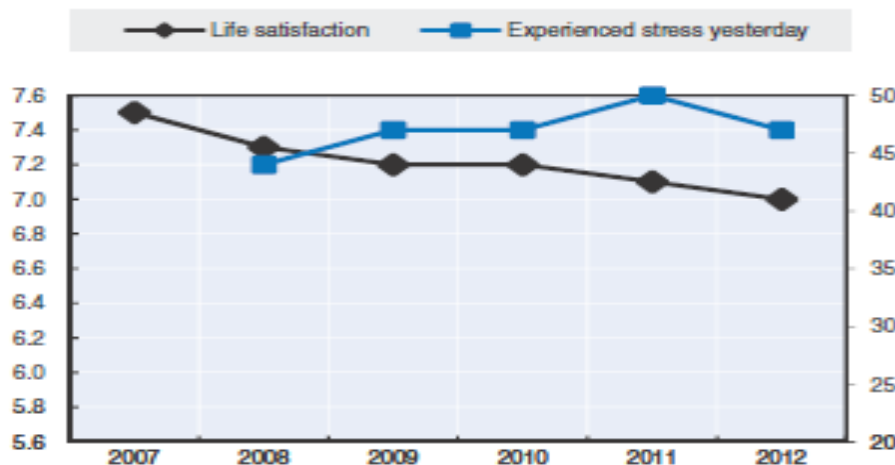
OECD (selected countries)



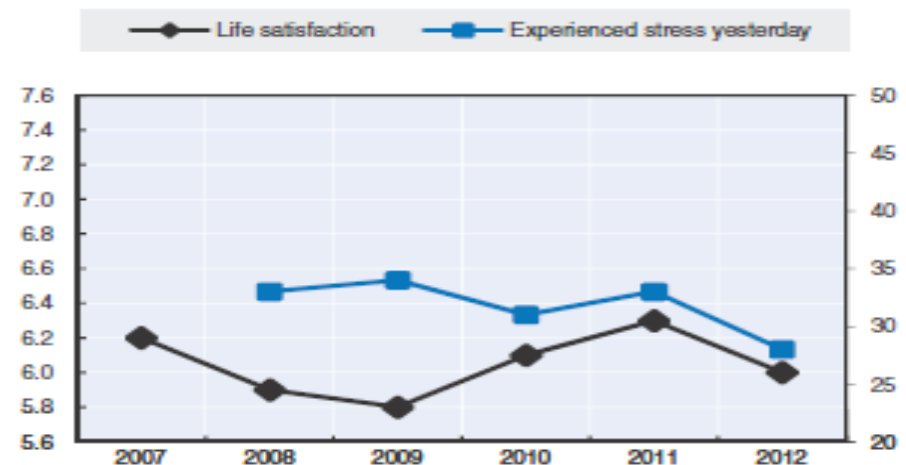
OECD Euro area (selected countries)



United States



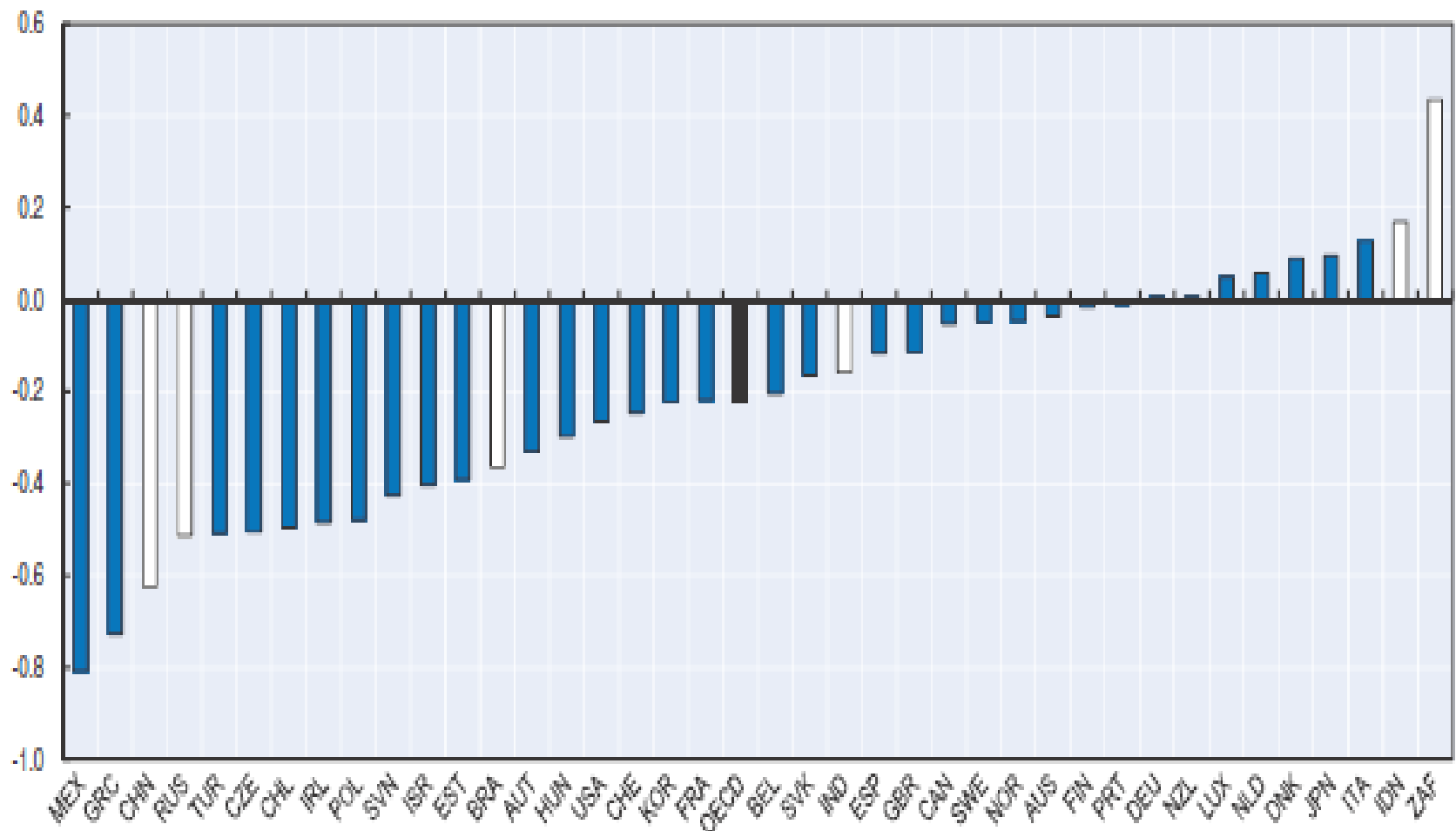
Japan



# Does the well-being perspective change the picture?

Figure 3.17. Expectations of subjective well-being

Difference between the life satisfaction expected five years from now and current life satisfaction in 2012, relative to the same difference in 2005

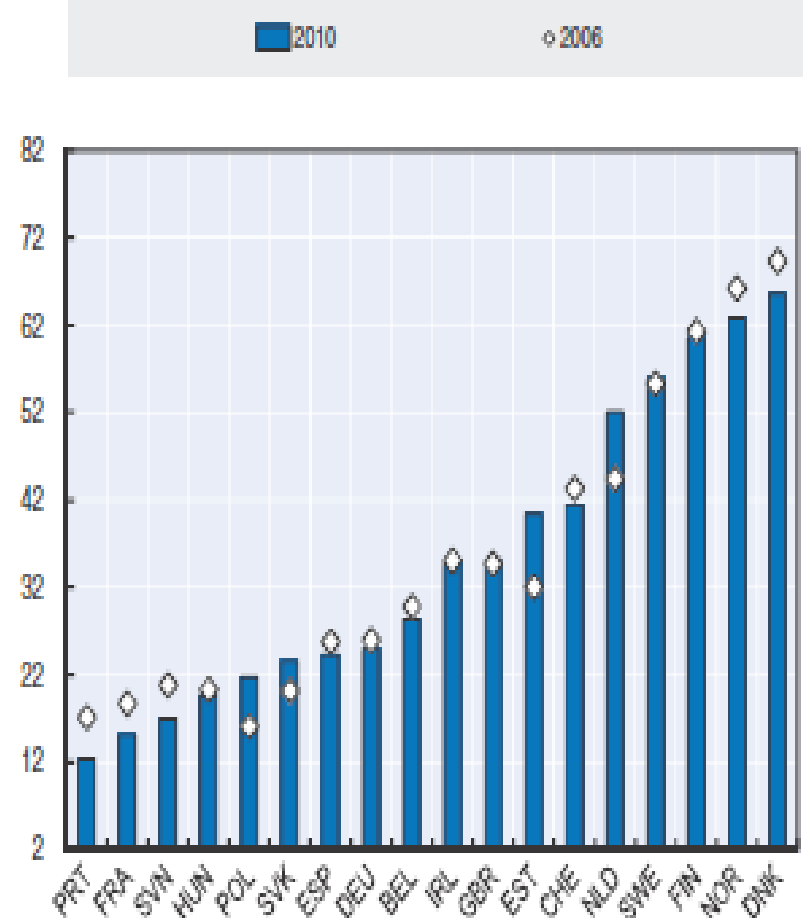
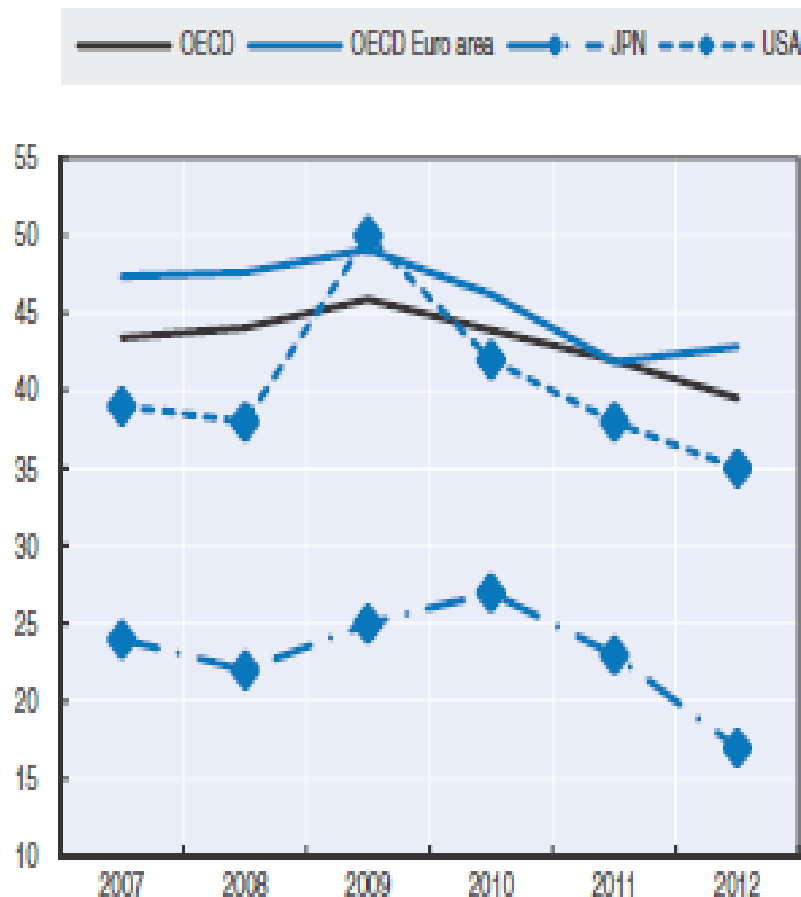


# Does the well-being perspective change the picture?

Figure 3.18. Trust in the wake of the crisis

Panel A. Percentage of people who trust national government

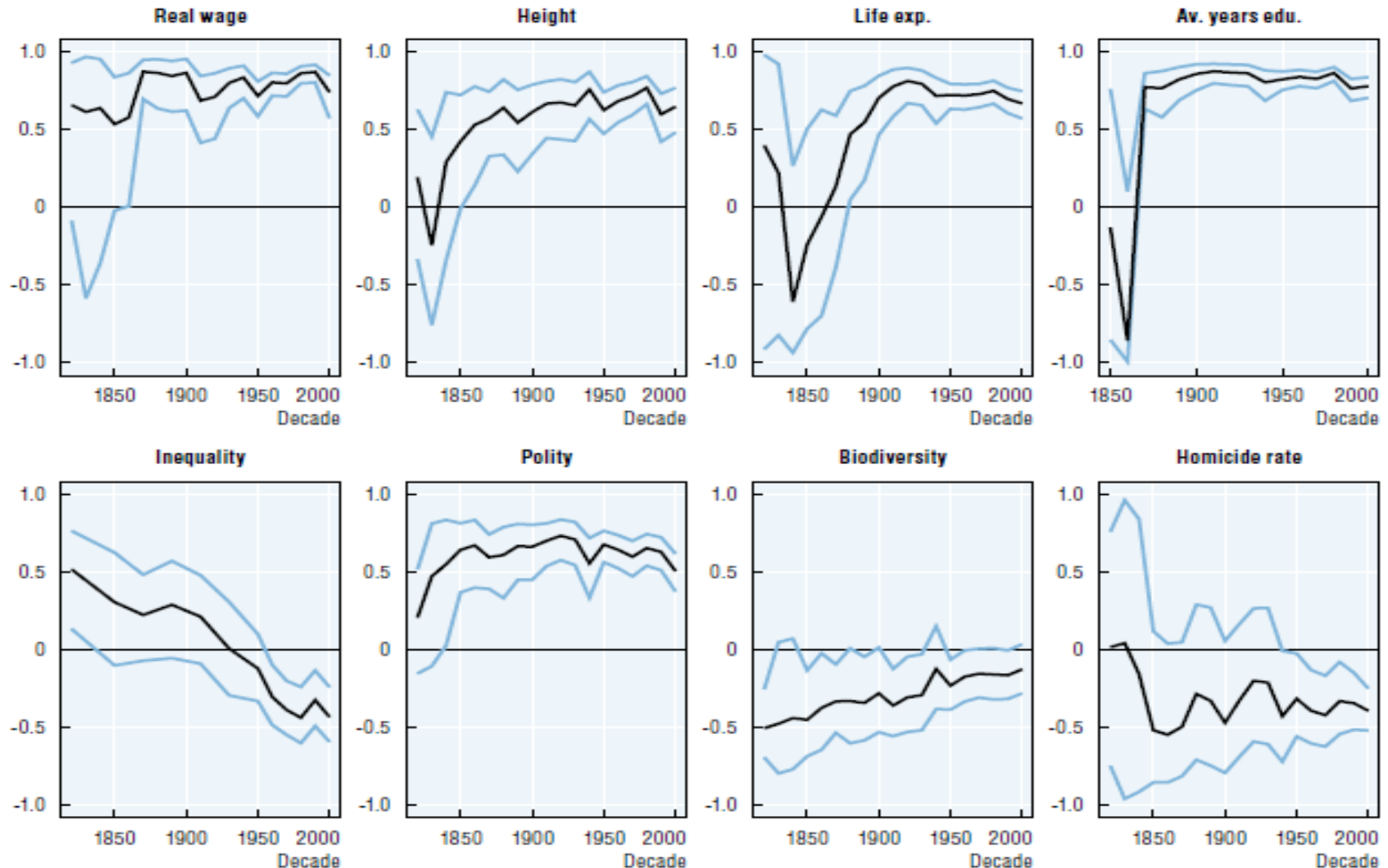
Panel B. Percentage of people who trust others



# Does the well-being perspective change the picture?

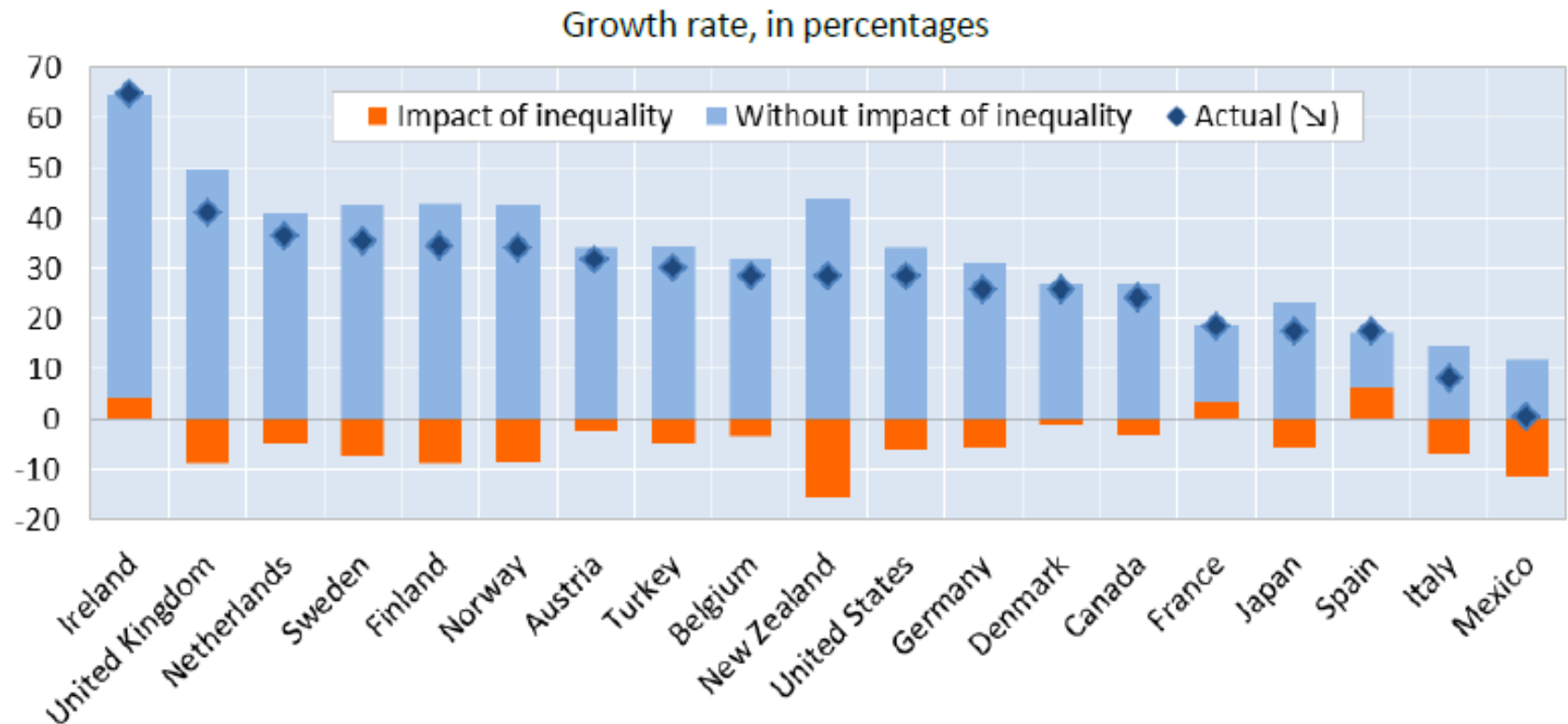
Figure 13.1. Correlation between well-being indicators and GDP per capita, 1820s-2000s

Pearson correlation coefficient and upper/lower bounds of 95% confidence interval per decade



# Does the well-being perspective change the picture?

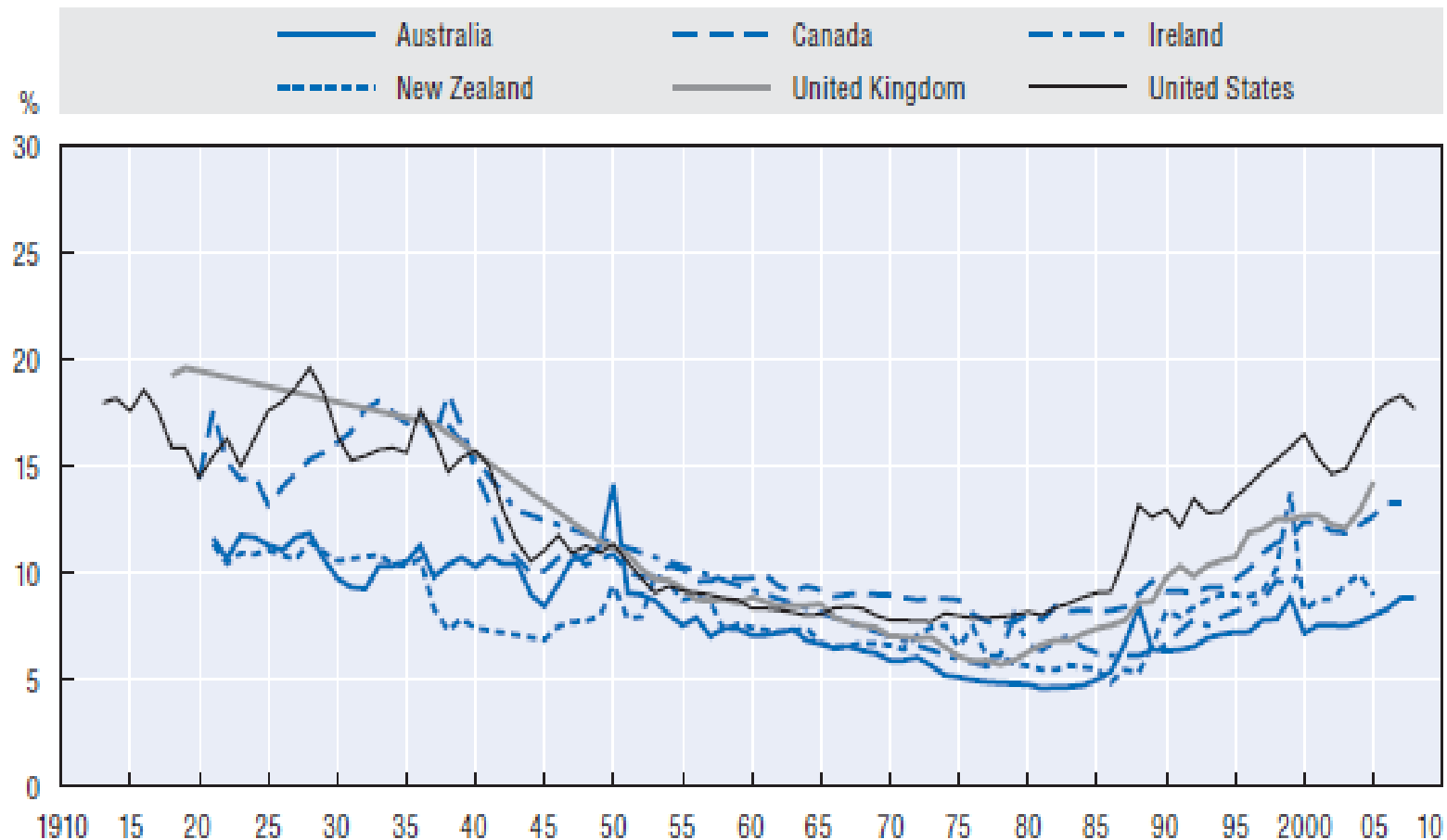
## 2. Estimated consequences of changes in inequality (1985-2005) on subsequent cumulative growth (1990-2010)



*Note:* The chart reports the estimated consequences of changes in inequality on the growth rate of GDP per capita (relative to the population aged 25-64) over the period 1990-2010. "Actual" is the actual growth rate of GDP per capita; "Impact of inequality" is obtained based on the observed changes in inequality across OECD countries (in 1985-2005) and the impact of inequality on growth estimated in the analysis; "Without impact of inequality" is the difference "Actual - Impact of inequality". It should be interpreted as the growth rate that would have been observed had inequality not changed. Actual growth in Germany is computed starting in 1991; the changes in inequality are limited to the period 1985-2000 in the case of Austria, Belgium, Spain and Ireland.

# Does the well-being perspective change the picture?

Figure 9.1. Top 1% income share, 1910-2008

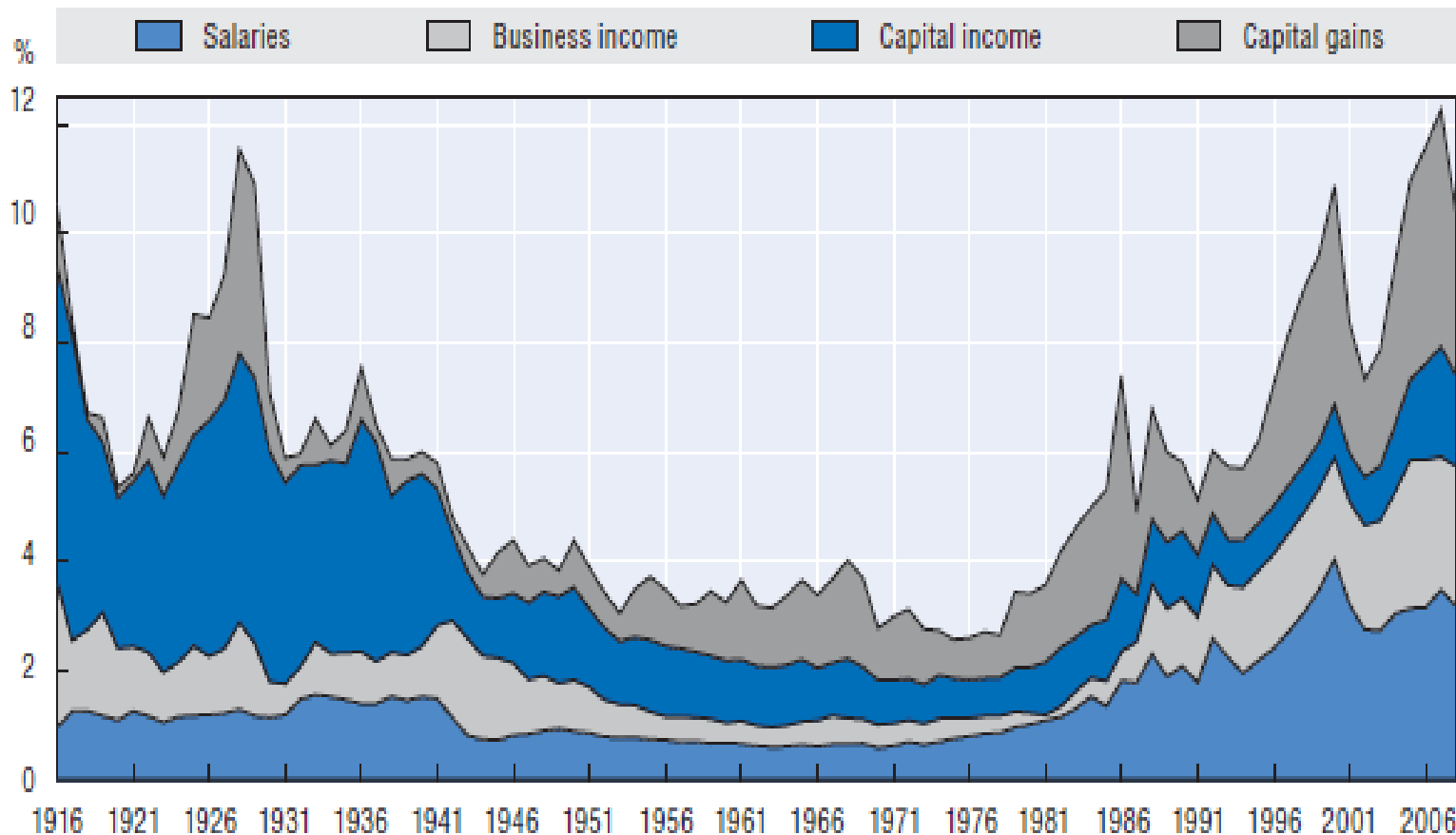


Source: Alvaredo et al. (2011). Country delegate information: Australia (2000-2008) and Canada (1970-2007).

StatLink  <http://dx.doi.org/10.1787/888932537199>

# Does the well-being perspective change the picture?

Figure 9.4. Top 0.1% income share and composition, United States, 1916-2008



Note: The figure displays the top 0.1% income share and its composition. Top 0.1% defined by market income including realised capital gains.



## Does the well-being perspective change the picture?

57. These findings have relevant implications for policymakers concerned about slow growth and rising inequality. On one hand it points to the importance of carefully assessing the potential consequences of pro-growth policies on inequality: focusing exclusively on growth and assuming that its benefits will automatically trickle down to the different segments of the population may undermine growth in the long run inasmuch as inequality actually increases. On the other hand it indicates that policies that help limiting or – ideally – reversing the long-run rise in inequality would not only make societies less unfair, but also richer. In particular, the present analysis highlights the importance of two pillars of a policy strategy for tackling rising inequalities and promoting equality of opportunities.

61. The other major set of policy insights from the current paper concerns the links between inequality and human capital. The evidence strongly suggests that high inequality hinders the ability of individuals from low economic background to invest in their human capital, both in terms of the level of education but even more importantly in terms of the quality of education. This would imply that education policy should focus on improving access by low-income groups, whose educational outcomes are not only worse on average from those of middle and top income groups, but also more sensitive to increases in inequality. However, the performance of disadvantaged individuals might not respond significantly to policies aimed at lowering the direct private costs of, in particular, tertiary education (e.g. tuition costs, or

# The EU Treaty (Article 3)

1. The Union's aim is to promote **peace**, its **values** and the **well-being** of its peoples.
2. The Union shall offer its citizens an area of **freedom, security and justice** without internal frontiers, in which the free movement of persons is ensured in conjunction with appropriate measures with respect to external border controls, asylum, immigration and the prevention and combating of crime.
3. The Union shall establish an internal market. It shall work for the **sustainable development** of Europe based on **balanced economic growth** and **price stability**, a highly competitive **social market economy**, aiming at **full employment** and **social progress**, and a high level of **protection and improvement of the quality of the environment**. It shall promote **scientific and technological advance**.

It shall combat **social exclusion and discrimination**, and shall promote **social justice and protection**, equality between women and men, solidarity between generations and protection of the **rights of the child**.

It shall promote **economic, social and territorial cohesion**, and **solidarity among Member States**. It shall respect its rich **cultural and linguistic diversity**, and shall ensure that Europe's **cultural heritage** is safeguarded and enhanced.

## Use of BES for policy impact assessment

[illegible]

## Use of BES for policy impact assessment

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22
Alternanza scuola-lavoro nella scuola superiore e universitaria	■	■				■																■
Proposte per migliorare i processi di <u>lifelong learning</u>	■	■																				■
Aumento della ammende per il lavoro irregolare							■	■														
Investimenti nella sicurezza degli impianti							■															
Aumento dell'indennizzo del danno biologico													■	■		■		■	■			
Conferma del meccanismo dei «salari di produttività»					■								■	■		■		■	■			
Istituzione del fondo per la partecipazione dei lavoratori													■	■		■		■	■			
Riforma dell'ISEE														■				■	■			
Avvio del Sostegno per l'Inclusione Attiva (reddito minimo)	■	■											■	■		■		■	■			■
Aumento del 50% dei fondi per le politiche sociali													■	■		■		■	■			
Estensione delle salvaguardie ( <u>esodati</u> )													■	■		■		■	■			
Rimozione dei blocchi per il pensionamento di persone che hanno svolto attività con valore sociale (donne)									■	■	■		■	■								
Ripristino dell'indicizzazione delle pensioni superiori a 1500 euro													■	■		■		■	■			
Contributo di solidarietà sulle pensioni d'oro														■				■	■			
Limite alla cumulabilità tra pensioni e redditi pagati dalla P.A.	■												■			■						

# Obstacles to use the “Beyond GDP” approach

- **Lack of democratic legitimacy.** The indicators being put forward have not been agreed democratically and lack public support.
- **Lack of underpinning theory and narrative.** The indicators, unlike GDP, are not underpinned by a consistently articulated theory or ideology, summarised in a politically compelling narrative.
- **Lack of a clear political imperative.** The economic crisis has meant the priority has been to fix the economy in the traditional way.
- **The need for organisational change.** An integrated approach requires working across departmental boundaries or alternatively reforming economics departments.
- **Institutional resistance to change.** This always exists and as always reflects the fact that the power and/or success of institutions often depends on traditional objectives and models.
- **Technical questions with indicators.** There remain disagreements about defining indicators, particularly on whether and how to create a single alternative to GDP.
- **No widely used analytical tools for integrated and innovative economic policy making.** The tools needed are still in development. Innovation in civil services is always difficult.

# Obstacles to use the “Beyond GDP” approach

The BRAINPOoL Report recommends:

- *“three kinds of action. None of these can succeed without the others and all of them require co-operation between politicians and officials:*
  - *Build support for change – institutions need to stimulate a broad public debate about the kind of society Europeans want, while drawing on the range of theories currently in play as to how to achieve this;*
  - *Develop and embed better analytical tools into policy making processes;*
  - *Improve procedures and structures so that the will for change is not diverted into rhetoric but channelled into effective action”.*

# Obstacles to use the “Beyond GDP” approach

Two reports on well-being have been recently published in the UK: *Wellbeing and Policy* by Gus O'Donnell et al. for the Legatum Institute and *Wellbeing in four policy areas*, by the UK All-Party Parliamentary Group on Wellbeing Economics.

In particular, the second Report recommends that all political parties should set out their understanding of, and approach to, well-being in their manifestos and that the Government set out a well-being strategy, including:

- objectives and how it intends to achieve them;
- the use of a well-being based policy assessment and the development of new tools to support it;
- the incorporation of a well-being assessment into budget allocations between and within departments;
- tools to facilitate the cross-departmental work needed to increase the well-being benefits of policy.

## Opportunities for the EU

- The European Commission has been nominated few months ago and it has to build a new narrative for the future of the EU.
- The Commission has been organized according to a new approach, that should foster a more horizontal and integrated approach to sectoral policies: therefore, the “equitable and sustainable well-being” framework could represent a good opportunity to underpin it.
- The new Parliament can play a crucial role in pushing the Commission and the Council to go beyond the classical way of addressing the issues at stake. In particular, the Parliament could establish a “well-being Committee” which could develop proposals for more integrated economic, social and environmental policies.



## Opportunities for the EU

- The mid-term review of the Europe2020 Strategy, to be completed by mid-2015, also represents an opportunity to align the current framework (based on the mantra “*smart, sustainable and inclusive growth*”) with the “equitable and sustainable well-being” one.
- In 2015 the EU countries will also agree on the UN Sustainable Development Goals, which need to be fully integrated with the other EU policies. Therefore, a strong and credible narrative, developed integrating all these elements, could be proposed and drive the various sectoral initiatives.
- The so-called “European Semester” could be modified to expand the current dimensions of the “Country Specific Recommendations” (now limited to economic and social aspects) to incorporate the environmental one.

## Opportunities for the EU

- The EC is updating the framework for the Impact assessment of new legislation. The consultation on the tentative new guidelines was based on a document that, among other things, lists the economic, social and environmental dimensions that could be potentially affected by the legislation: as such a list is not very far from what is included in several well-being frameworks, it would be easier than in the past transform the existing impact assessment approach into a “well-being” impact assessment approach, as already done in Australia and in other countries.
- The new European Political Strategy Centre (EPSC) could develop a more integrated policy approach using well-being as reference framework and stimulate the Commission to invest in the development of analytical tools to assess policies from this perspective.

## And what about the crisis?

“... In such a spirit on my part and on yours we face our common difficulties. They concern, thank God, only material things. Values have shrunk to fantastic levels; ... our ability to pay has fallen; ... the means of exchange are frozen in the currents of trade; ... the savings of many years in thousands of families are gone. More important, a host of unemployed citizens face the grim problem of existence ...

... The people of this country have been erroneously encouraged to believe that they could keep on increasing the output indefinitely and that some magician would find ways and means for that increased output to be consumed with reasonable profit to the producer.

... Without regard to party, the overwhelming majority of our people seek a greater opportunity for humanity to prosper and find happiness. They recognize that human welfare has not increased and does not increase through mere materialism and luxury, but that it does progress through integrity, unselfishness, responsibility and justice ...”

# UN SG's Synthesis Report

Today's world is a troubled world; one in turmoil and turbulence, with no shortage of painful political upheavals.

Societies are under serious strain, stemming from the erosion of our common values, climate change and growing inequalities, to migration pressures and borderless pandemics.

It is also a time in which the strength of national and international institutions is being seriously tested.

The nature and scope of this daunting array of enormous challenges necessitate that both inaction and business-as-usual must be dismissed as options.

If the global community does not exercise national and international leadership in the service of our peoples, we risk further fragmentation, impunity and strife, endangering both the planet itself as well as a future of peace, sustainable development and respect of human rights.

Simply put, this generation is charged with a duty to transform our societies.