

# Σ SIGMA

THE BULLETIN OF EUROPEAN STATISTICS

## GDP & Beyond

Focus on measuring economic development and well-being



## Editorial

The publication of the 'Stiglitz Report' made headlines in the news media last year. This report was the result of work done by the so-called Stiglitz-Sen-Fitoussi Commission, which was created in 2008 by French President Nicolas Sarkozy and chaired by Nobel Prize-winning economist, Professor Joseph E. Stiglitz of Columbia University.

This Commission urged a 'shift of emphasis from a production-oriented measurement system to one focused on the well-being of current and future generations, towards broader measures of social progress'.

In November 2007, the European Commission, European Parliament, Club of Rome, the Organisation for Economic Cooperation and Development and the World Wide Fund For Nature hosted the high-level conference 'Beyond GDP', with the objectives of clarifying which indices are most appropriate to measure progress and how these can best be integrated into the decision-making process and taken up by public debate.

In August 2009, the European Commission released its Communication *GDP and Beyond: Measuring progress in a changing world*. The Communication outlines an EU road map with key actions to improve our indicators of progress in ways that meet citizens' concerns and make the most of new technical and political developments.

The starting point in the work of all these initiatives was the view that gross domestic product alone was no longer the best way to measure a country's progress and needed to be complemented by environmental and social indicators.

In particular, statisticians were called upon to find ways of measuring the 'quality of life' of a nation alongside its raw economic growth. Eurostat has been actively involved in this task from the very beginning.

However, as is widely known, well-being and happiness are not exactly easy to measure. This is why, in this issue of *Sigma*, we decided to present a broad range of views on the problem, asking the opinion of a number of prominent international experts and analysts.

We hope that their views will not only contribute to the ongoing debate, but also help to find concrete solutions to the challenges international statistics face today and in the years to come.

The issue closes with a feature on the Statistics Directorate of the Organisation for Economic Cooperation and Development, led by its Chief Statistician, Ms Martine Durand.

*Walter Radermacher*

*Director-General*

*Eurostat*



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## SIGMA

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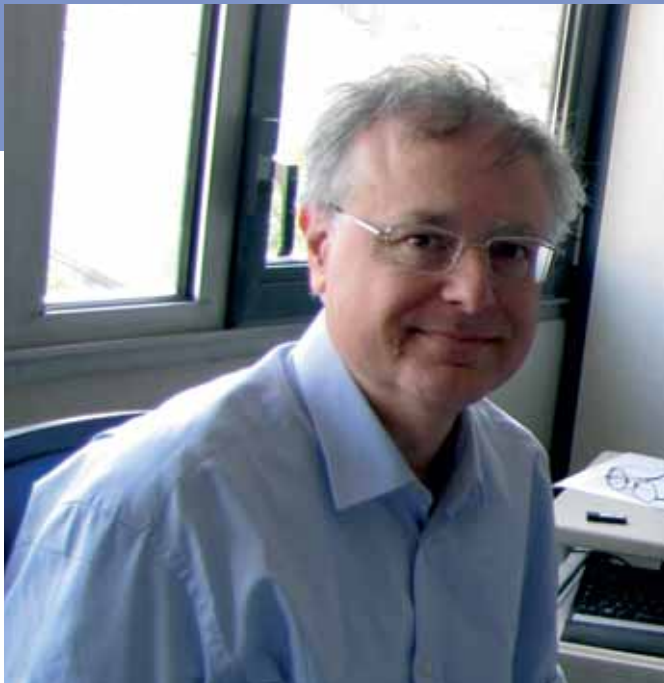
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Statistics Directorate of the  
OECD explained



# Opening a debate – The Stiglitz Report

**T**he main motive behind setting up the Commission on the Measurement of Economic Performance and Social Progress, or the Stiglitz Commission, was the increasing gap between the standard measures of growth, inflation and unemployment, and the way socio-economic trends were perceived by public opinion. 'This gap has undermined public confidence in official statistics. The current financial crisis has not helped narrow this gap: statisticians have been accused of not giving sufficiently early warning of unsustainable development. The crisis has increased pressure for a change in statistical production,' Didier Blanchet, Head of the Department of General Economic Studies at the French Statistical Office (Insee), as well as rapporteur of the Stiglitz-Sen-Fitoussi Commission, and Claire Plateau, Deputy Head of the Statistical Coordination Department at Insee, told *Sigma*.



Didier Blanchet, Head of the Department of General Economic Studies at the French Statistical Office, Insee, and rapporteur of the Stiglitz-Sen-Fitoussi Commission.

## Could you explain the possible future changes in data collection and analysis following the recommendations of the Report?

The main theme of the Stiglitz-Sen-Fitoussi Report is all about moving beyond GDP. Data collection and analysis should shift the emphasis from measuring economic production to measuring people's well-being in a context of sustainability. The production and creation of value remain important elements. But measuring well-being calls for a plurality of other indicators because several dimensions need to be taken into account. Current well-being has to do with both economic resources, such as income, consumption and wealth, and with non-economic aspects of people's lives (what they do and what they can do, how they feel, the natural environment in which they live, etc.).

Finally, assessing whether current well-being can be sustained over time requires looking at resources that will be passed onto future generations. This requires a scoreboard that can assemble indicators of changes in financial, physical and human capital, together with a well-chosen set of environmental indicators.

## What will the Report change in the world of official statistics? Will its impact be visible soon?

This milestone Report does not necessarily mark a break with the current work of statisticians. It just calls for accelerating

## Why is the measurement of well-being important?

Citizens rightly consider that the main purpose of political action is to improve their present and future well-being. Increased production is only an intermediate target. Statisticians have to provide policymakers and civil society with reliable indicators of well-being which can qualitatively assess the present situation and the perspectives for further progress.

changes that were already underway. Statisticians will not have to start from scratch. In many countries a lot of good work has already been done and much 'low-hanging fruit' identified, so that the impact of the Report should be visible soon in the world of official statistics.

The first step will be to emphasise the other indicators that have already been produced, but are less visible than GDP. For instance, national accounts will continue publishing GDP, but they will be able to put more emphasis on the household perspective (income and consumption). Average measures of income, consumption and wealth will be supplemented as often as possible by indicators that reflect their distribution. Some new measures should be developed to complement national accounts by taking into consideration non-market domestic production or improving the measurement of in-kind and publicly provided services such as health and education. Both objective and also subjective indicators of well-being should be produced on the basis of household surveys and relevant administrative sources.

Concerning sustainability, the proposals put forward in the Report are not new: the capital-based approach to sustainability had already been advocated by a Eurostat/OECD/UN-ECE report in 2008, and some important material is already available on existing sustainable development dashboards.

## What should be the key priorities in regard to the implementation of the Stiglitz Report recommendations for statisticians, politicians and economists?

The Report is about opening a discussion rather than closing one. Both national and international bodies should discuss its recommendations in order to identify their limits and see how they can best contribute to its implementation.

In our opinion, statisticians should better promote aggregate measures of net-adjusted disposable income and actual consumption. This requires better measures of in-kind services produced by governments, in order to avoid artificial discrepancies between countries with different social organisations and different public sector sizes. These improvements will be of particular relevance as regards the provision of free or subsidised services in the fields of health or education.

A second idea is that statisticians should further develop the analysis of inequalities to know what is happening at the bottom or at the top of the distribution scales. Household surveys should be used in order to provide macro-economic information on the distribution of income, consumption and wealth. Statisticians should establish a list of objective indicators of quality of life and then produce them regularly, on the basis of household surveys and relevant administrative sources. They will also have to carry out surveys to collect



Claire Plateau, Deputy Head of the Statistical Coordination Department at the French Statistical Office, Insee.

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reliable data on subjective well-being. Furthermore, they will have to review sustainable development scoreboards by focusing on environmental sustainability.

As for politicians, they will have to appropriate this new framework: it is also their responsibility to stop focusing on GDP and to better take into account the broader set of indicators produced by statisticians. They will also have to provide the resources needed for all required additions to existing statistical programmes.

Lastly, economists must feel more intensively concerned by all these measurement issues. They often disregard statistical questions as purely technical and of secondary importance. However, one should remember that this was not the case when national accounts were first created, when some leading economists were highly involved in the debates of the time. The Commission has enabled a revival of this dialogue between economists and statisticians: we must try to pursue this dialogue.

## Is the current set of statistical indicators enough to fulfil what the Report suggests? Or will new collections of data be needed?

Much of the required information is already available: what the Report recommends is essentially finding new ways to structure this information. Among the domains that remain under-covered, the most problematic ones



Christine Lagarde, French Minister of Economic Affairs, Industry and Employment, in the middle of the first row and Professor Joseph Stiglitz on the left behind her together with other members of the Stiglitz Commission. The main theme of the Stiglitz-Sen-Fitoussi Report is to move beyond GDP. Data collection and analysis should shift the emphasis from measuring economic production to measuring people's well-being in the context of sustainability.

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are probably subjective indicators – indeed some wonder whether it is the role of official statisticians to collect such data – and environmental indicators. The idea of relying on data produced outside official statistical systems is an open question.

## What role will productivity measures have in the future?

We generally measure productivity as the ratio between GDP and the quantity of labour used for its production, or between GDP and a composite aggregate combining labour, capital and some other production factors, such as energy. The Report suggests ways to improve these measures both on the output and the input side. On the output side, a distinction needs to be made between efficiency in the production of value-added and efficiency in the production of well-being; they do not necessarily go hand-in-hand.

On the input side, the Commission invites us to be as exhaustive as possible when establishing the list of production factors. An economy can have a very high level of labour productivity, but if it does so through the over-exploitation of natural resources, its performance has to be strongly

relativised. Efficiency in generating current well-being must not be at the expense of future well-being.

## According to you, what role could Eurostat play in measuring economic performance and social progress?

The role of Eurostat is essential to implementing the recommendations of the Report in the European Statistical System. The adoption of new standards requires harmonisation and coordination.

The initiative of Eurostat to lead a 'sponsorship group', along with the French Statistical Office Insee, will contribute to measures such as: establishing priorities among the recommendations, assessing the availability and quality of European statistics that could be better analysed and disseminated, steering the implementation of the recommended indicators and statistics, and following up their elaboration up to the dissemination phase, as well as proposing a medium-term strategy to develop the new statistical data required by the Report.

## In the future, do you see a conflict between micro- and macro-models or will they be more interlinked in economic and social analysis?

There is no conflict between micro- and macro-levels of analysis, both for statistics and for models. We need macro-views on economic changes, such as those provided by national

accounts, and we need to look at more individual dimensions too. The real challenge is to articulate them better. This is in fact the spirit of one of the main recommendations of the Stiglitz Commission, namely the breaking down of global households' accounts by household type. This initiative will be an important means to make macro-data more consistent with micro-data.



'Statisticians should further develop the analysis of inequalities to know what is happening at the bottom or at the top of the distribution scales. Household surveys should be used in order to provide macro-economic information on the distribution of income, consumption and wealth', said Ms Plateau and Mr Blanchet.

According to them, statisticians should also establish and produce objective indicators of quality of life, as well as carry out surveys to collect reliable data on subjective well-being. Furthermore, sustainable development scoreboards need to be reviewed by focusing on environmental sustainability. Pictured are houses on the island of Samsø, Denmark, which is a self-sufficient community in renewable energy.

# European Commission goes beyond GDP

In August 2009, the European Commission adopted a Communication called *GDP and Beyond: Measuring progress in a changing world*, which outlines a number of actions to improve and complement current growth measurements. *Sigma* spoke to Robin Miège, Acting Director of the Environment Directorate's General Strategy Directorate, and Oliver Zwirner from the Chief Economist, Instruments and Impact Assessment Unit, to find out more about the Commission's work in the area.



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'We have a strong tradition of looking at economic issues, stemming from the fact that improving our economic situation also improved our social situation in the past. In a globalised world with environmental constraints – soon inhabited by nine billion people – links between economic, social and environmental issues are more complex,' said Mr Miège, Acting Strategy Director at the Environment DG.

and leisure time, risks and expectations for the future – such as fearing the loss of wealth or income or other elements of good living conditions, e.g. a healthy environment. Therefore, we need to measure personal well-being and societal welfare in addition to measuring the goods and services produced for the market in a given year,' Mr Miège said.

## Environmental and social information needed

The *GDP and Beyond* Communication concludes that it is important to complement the current GDP in order to answer the political challenges of the 21<sup>st</sup> century and to steer EU policies towards green growth and a low-carbon, resource-efficient and inclusive society.

'Our quality of life depends on social relations, environmental quality, freedom and safety, accumulated wealth, income

The Communication argues that environmental and social outcomes need to be measured and assessed separately from economic output, as the link between economic growth and well-being is not always automatic.

'We have a strong tradition of looking at economic issues, stemming from the fact that improving our economic situation also improved our social situation in the past. In a





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The Environment Directorate-General will develop an environmental index and a sustainable development scoreboard. The index aims to complement other macro-indicators, such as GDP or unemployment, by providing information on the level of 'pressure' exerted on our environment by the activities taking place in the EU. The scoreboard aims to inform citizens and politicians about major trends on progress towards sustainable development.

globalised world with environmental constraints – soon inhabited by nine billion people – links between economic, social and environmental issues are more complex,' said Mr Miège.

Complementing GDP with information on environmental and social developments might also be more informative for citizens.

'Information on social and income situation of households, on health and education is more easily readable than complex macro-economic indicators. One needs quite a specific theoretical background to interpret indicators such as gross domestic product or net national income correctly. The Stiglitz-Commission is rightly pointing to the fact that there is an increasing gap between what is reported by official statistics and what citizens, business or local administrations experience,' Mr Miège said.

To close that gap, he suggested an intensive producer-user dialogue, which would make statistics better fit for purpose and therefore increase usability and use of data.

## Environmental Index and Sustainable Development Scoreboard

The *GDP and Beyond* Communication outlines five actions (see box on page 11) to improve the measurement of progress in society. The Environment Directorate-General (DG) is responsible for developing an environmental index and a sustainable development scoreboard.

'The environmental index will most likely be an index on pollution or environmental stress in general. Its goal is to complement other macro-indicators, such as GDP or unemployment, by providing information on the level of 'pressure' exerted on our environment by the activities taking place in the EU. Therefore, the lower the index, the better our interaction with our environment,' said Mr Zwirner.

This index is ultimately aimed at policymakers, journalists and citizens who are also following the development of indicators such as GDP and unemployment.

'The analysis of this composite indicator, together with the other two key indicators, would provide a more global picture of the development in society than the sole use of GDP,' Mr Zwirner said.

The sustainable development scoreboard aims to inform citizens and politicians in a concise way about the major trends on progress towards sustainable development.

'The design of such an easily understandable, but still information-rich tool puts a considerable challenge to us. One particular point is that many issues related to sustainable development are not yet sufficiently covered by official statistics, e.g. on biodiversity or eco-innovation. Therefore, the inclusion of data from non-official sources will be one important feature of this scoreboard,' he continued.

The Commission does not believe that the development of another sustainable development measure, besides the existing sustainable development indicators (SDIs), risks confusion for users.

'Indicators are a communication tool. And communication tools always target a specific audience. The existing SDIs are the monitoring tool for the specific objectives of the EU sustainable development strategy. This set was created to assist SD experts in ministries to monitor the achievement of such targets. In addition to that, we need a more communication-oriented tool to inform non-experts about the key issues on sustainable development,' Mr Zwirner said.

## Environmental accounts welcome

Mr Miège said that we need to remind ourselves that all economic activity depends essentially on natural resources.

'Not a single business comes to my mind that does not use natural resources. Even such typical service providers as hairdressers use iron for scissors, water, shampoo either based on mineral or palm oils, energy, etc.,' he explained.



A key issue, according to the *GDP and Beyond* Communication, is to improve timeliness of social and environmental statistics to the level of key economic indicators.

One step on the way was the adoption by the Commission of a proposal for a Regulation on Integrated Environmental Economic Accounting in April 2010. The Environment Directorate-General (DG) is also happy that steps are taken at UN level to make the integrated environmental economic accounting an international statistical standard.

Not yet directly mentioned in the Beyond GDP road map, but a related issue emerging from the Europe 2020 strategy adopted in March this year, is the accounting of natural resources, including eco-system services and indicators on the resource efficiency of the economy. The full elaboration of wealth or asset accounts could contribute to an adequate basis for this endeavour.

'However, we cannot wait a decade before first decisions on the transition to a resource-efficient economy are taken. Therefore, a kind of fast-track implementation of broad measurement concepts to provide first orientation points for this journey would be most useful for policymaking,' said Mr Miège.

## Reuse and data linking one way forward

According to the Commission, existing data sources need to be analysed and information linked and reused. Data from national accounts and social surveys could be combined to give new insights into social and economic inequalities.

'Trade data could, for example, provide information on potential environmental degradation and use of natural resources in other countries,' Mr Zwirner said.

'We could also explore the use of new technologies, such as remote sensing, in order to get more information on some environmental issues, such as land-use change or marine pollution. We might also explore new cooperation between the public and private sectors for issues that are hard to grab for official statistics, such as the quality of nature, including biodiversity, venture capital invested in eco-innovation and market penetration of eco-efficient products,' he continued.

## 'Spending money on good data is an investment'

Another key issue, according to the Communication, is to improve timeliness of social and environmental statistics to the level of key economic indicators.

'The application of now-casting techniques could contribute towards overcoming the current restrictions. Only if complementary data on the social, economic and environmental situation are available at the same time, will they be taken up by the media, public debate and policy analysis. This will

### *GDP and Beyond: Measuring progress in a changing world*

In August 2009, the European Commission adopted a Communication called *GDP and Beyond: Measuring progress in a changing world*, which outlines five actions to improve and complement current growth measurements:

- highly aggregated indicators on environment and quality of life. A pilot of an environmental index that will assess progress in the main fields of environmental protection will be developed. The index will cover areas such as greenhouse gas emissions, loss of natural landscapes, air pollution, water use and waste generation. In a similar way, an overall quality-of-life index will be tested;
- the Commission will step up efforts to produce environmental and social data more rapidly. The aim is to develop near-real-time information for decision-making;
- more accurate reporting on distribution and inequalities, which will allow a better definition of policies on social and economic cohesion;
- the Commission will develop a European Sustainable Development Scoreboard to allow an identification of social, economic and environmental trends relevant for a sustainable societal development and a benchmarking of best practices. This scoreboard will be based on the existing set of Sustainable Development Indicators;
- to complement GDP and national accounts with environmental and social accounts. Legislation for environmental accounts was proposed by the Commission in April 2010.

certainly support an integrated and balanced approach to solve societal problems,' Mr Miège said.

'Similarly, better information on distribution and inequalities will foster public decision-making. Most political debates are about fair sharing of efforts and benefits, such as financial reforms or the upcoming transition to a resource-efficient economy. With good data at hand, these discussions can be led in a more rational way,' he added.

'In essence, we might need to understand more and more that spending money on good data and indicators is an investment in a solid information basis for rational and transparent democratic decision-making. Good data are quite likely cheaper than flawed public and private decisions,' Mr Miège concluded.

### For further information:

[www.beyond-gdp.eu](http://www.beyond-gdp.eu)

# Prosperity without growth

**E**conomic growth is supposed to deliver prosperity. Higher incomes should mean better choices, richer lives, an improved quality of life for us all. That, at least, is the conventional wisdom. But things haven't always turned out that way.

their jobs and a government that fails to respond appropriately will soon find itself out of office. In short, we find ourselves locked between the horns of an uncomfortable and deep-seated dilemma: growth may be unsustainable, but 'de-growth' – a contraction in economic output – appears to be unstable. Questioning growth in these circumstances is deemed to be the act of lunatics, fanatics or idealists.

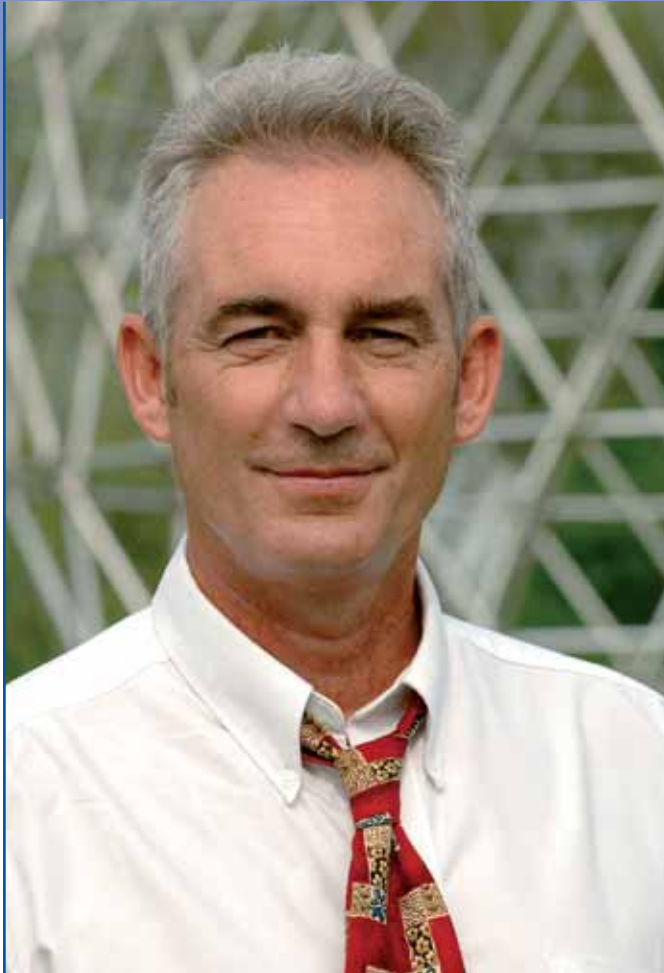
The prevailing wisdom calls instead for a 'decoupling' of economic activity from material throughput. And since efficiency is one of the things that modern capitalist economies are good at, decoupling has a clear appeal as a solution to the dilemma of growth. And at first sight, this logic fits the evidence. Global carbon intensity fell almost 25% in the last couple of decades, for instance.

## In search of alternative growth models

But efficiency improvements are continually offset by increases in scale. Global carbon emissions rose by 40% even as the carbon intensity fell. We need to be decoupling much, much faster. In a world of nine billion people, all aspiring to ever-increasing western incomes, carbon intensities would have to fall by over 11% per year to stabilise the climate, 16 times faster than they have done since 1990. By 2050, the global carbon intensity would need to be only 6 grams per dollar of output, 130 times lower than it is today.

In this context, it is fanciful to suppose that 'deep' resource and emission cuts can be achieved simply by appealing to capitalism's propensity for efficiency and without confronting the underlying structure of market economies. A much deeper re-examination is called for. In particular, we're drawn inevitably towards the role of two interrelated features of modern economic life that together drive the growth dynamic.

On the one hand, the profit motive stimulates a continual search by producers for newer, better or cheaper products and services. This process of 'creative destruction', according to the economist Joseph Schumpeter, is what drives economic growth forwards. For the individual firm, the ability to adapt and to innovate – to design, produce and market not



Tim Jackson, Professor of Sustainable Development at the University of Surrey and a Commissioner at the UK Sustainable Development Commission.

**G**rowth has delivered its benefits, at best, unequally. A fifth of the world's population earns just 2% of global income. Inequality is higher in the OECD nations than it was 20 years ago. Far from improving the lives of those who most needed it, growth let much of the world's population down. Wealth trickled up to the lucky few.

Fairness (or the lack of it) is just one of several reasons to question growth. As the economy expands, so do its ecological impacts. In the last quarter of a century, an estimated 60% of the world's ecosystems have been degraded. Global carbon emissions have risen by 40% since 1990. Significant scarcity in key resources – such as oil – may be less than a decade away.

On the other hand, when growth stalls, things go quickly from bad to worse. Firms go out of business, people lose

just cheaper products but newer and more exciting ones – is vital. Firms who fail in this process risk their own survival.

## Production of novelty

But the continual production of novelty would be of little value to firms if there were no market for the consumption of novelty in households. Recognising the existence and understanding the nature of this social logic is essential. Novelty plays an absolutely central role in our lives for a variety of reasons. In particular, it has always carried important information about status. But it also allows us to explore our aspirations for ourselves and our family, and our dreams of the good life.

Perhaps the most telling point of all is the almost perfect fit between the continual consumption production of novelty by firms and the continuous consumption of novelty in households. The restless desire of the consumer is the perfect complement for the restless innovation of the entrepreneur. Taken together, these two self-reinforcing processes are exactly what is needed to drive growth forwards.

Despite this fit, or perhaps because of it, the relentless pursuit of novelty creates an anxiety that can undermine social well-being. Individuals are at the mercy of social comparison. Firms must innovate or die. Institutions are skewed towards the pursuit of a materialistic consumerism. The economy itself is dependent on consumption growth for its very survival. The 'iron cage of consumerism' is a system in which no-one is free.

Government itself is conflicted here. On the one hand, it has a role in 'securing the future' – protecting long-term social and

ecological goods. On the other, government holds a key responsibility for macro-economic stability. For as long as macro-economic stability depends on economic growth, governments will find themselves calling for consumption growth even when the instinct of people is to save, because spending is what's needed to boost high-street sales and stimulate recovery.

## Consumerism versus prosperity

Conversely though, freeing the macro-economy from a structural requirement for growth will simultaneously free government to play its proper role in delivering social and ecological goals and protecting long-term interests. First and foremost, this means developing a resilient and sustainable macro-economy that is no longer predicated on relentless consumerism.

For at the end of the day, prosperity goes beyond material pleasures. It transcends material concerns. It resides in the health and happiness of our families. It is present in the strength of our relationships and our trust in the community. It is evidenced by our satisfaction at work and our sense of shared meaning and purpose. It hangs on our potential to participate fully in the life of society.

Prosperity consists in our ability to flourish as human beings – within the ecological limits of a finite planet. The challenge for our society is to create the conditions under which this is possible. It is the most urgent task of our times.

*By Tim Jackson, Professor of Sustainable Development at the University of Surrey and author of Prosperity without Growth – economics for a finite planet*



Professor Jackson argues that prosperity goes beyond material pleasures. It consists in our ability to flourish as human beings – within the ecological limits of a finite planet. The challenge for our society is to create the conditions under which this is possible.

# Measuring more than ‘just’ economic development



**G**ross Domestic Product (GDP) is a well-known indicator which measures economic activity. ‘It is a valuable economic indicator which serves a purpose in economic policymaking. Due to the link between economic growth and aspects of quality of life such as employment and consumption, GDP is partly regarded as a proxy indicator of progress and well-being,’ said Walter Radermacher, Director-General of Eurostat.

Clockwise from top left, Jean-Louis Mercy, Head of the Living Conditions and Social Protection Unit, Gallo Gueye, Head of the National Accounts Methodology, Statistics for Own Resources Unit, Gilles Decand, Head of the Environmental Statistics and Accounts Unit, and Vincent Tronet in Eurostat’s Key Indicators for European Policies Unit at Eurostat.

‘However, GDP was never intended to measure, and does not measure, well-being. Neither do GDP estimates include measures of clean environment, sustainability, social cohesion or how happy people are. This means that GDP alone is not enough to properly measure the progress of our society,’ he continued. ‘And a general question for a professional statistician is whether a single figure can truly reflect a complex phenomenon such as progress.’

The European Commission Communication, *GDP and Beyond*, and the Stiglitz Report focus on how to better measure progress. The statistics they recommend partly overlap with the needs of the Europe 2020 strategy, which focuses on smart, sustainable and inclusive growth.

‘How to best complement GDP to provide a more nuanced and accurate understanding of the growth and progress of society has been on the agenda of statisticians for some years, but now there is political momentum and the statistical world needs to deliver,’ he said.

Mr Radermacher said actions include developments in the fields of national accounts, environmental and social statis-

tics. ‘What is required is a systematic approach, showing the links between the economy and environmental and social sustainability aspects, in order to better inform decision-makers,’ he added.

## Complementing averages with distribution

According to the Stiglitz Report and the European Commission Communication on *GDP and Beyond*, it is important that statisticians further analyse social sustainability, especially the *distribution* of income, consumption and the wealth of households.

‘Household surveys need to provide micro-economic information on the distribution of income, consumption and wealth. The averages or medians of these statistics are meaningful, but they do not tell the whole story about living standards,’ said Jean-Louis Mercy, Head of the Living Conditions and Social Protection Unit at Eurostat.

He gave the example of a rise in average income, which is a positive phenomenon, but which may be unequally spread across income groups, leaving some households relatively worse off than others. Thus, average measures of income, consumption and wealth need to be accompanied by indi-

cators that reflect their distribution across persons or households.

'Ideally, all three dimensions of material living standards (income, consumption and wealth) should be published, as well as their joint distributions. It would give a better picture of how well off households are,' said Mr Mercy.

The good news is that plenty of data are available on distribution in Eurostat's databases – primarily in the Labour Force Survey (LFS) and in the EU Survey on Income and Living Conditions (EU-SILC).

'EU-SILC includes both micro-data and longitudinal information, which means we can see the evolution over time for households. We can, for example, study the chances of getting out of poverty once someone has ended up in this situation. We can also study transitions, for instance in the labour market, and its impact on welfare,' said Mr Mercy.

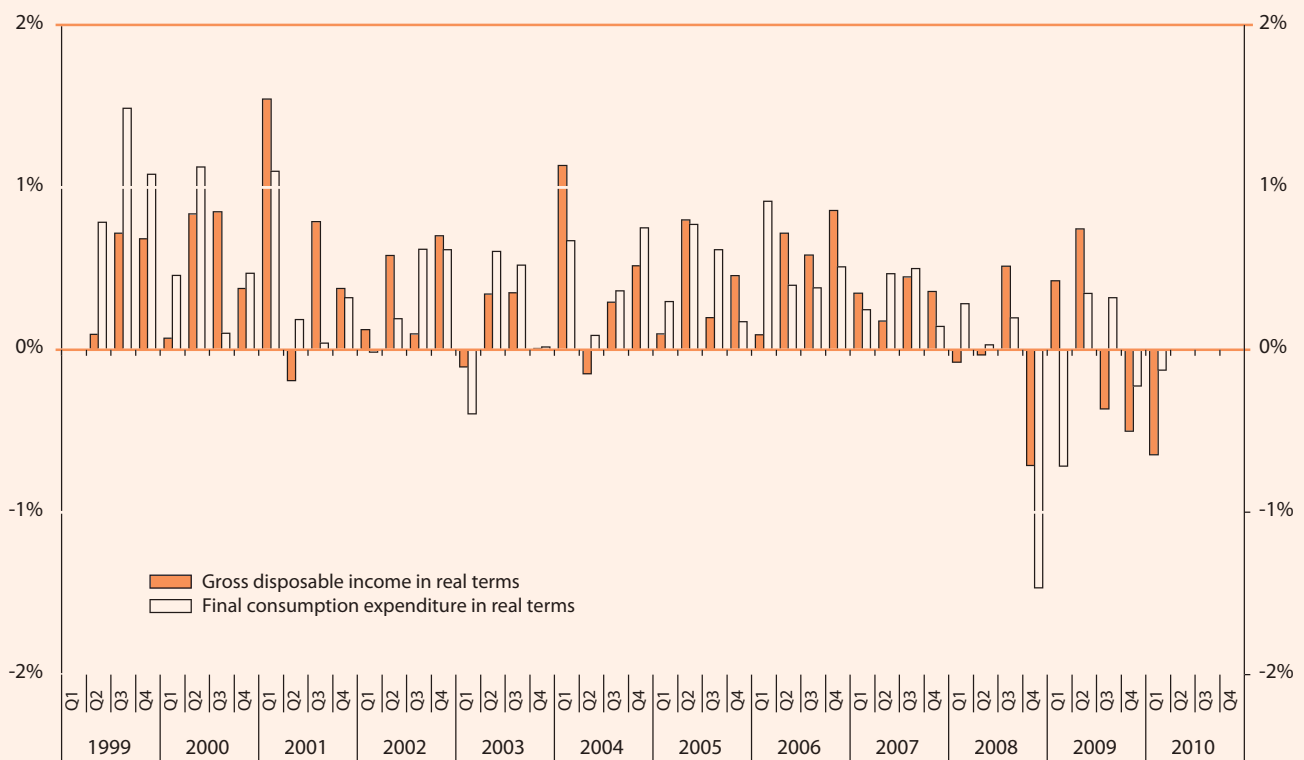
## Improving national accounts data

The not so good news is that EU-SILC and the LFS do not cover everything. They need to be extended and data from these two surveys need to be linked to other surveys, such as the Household Budget Survey and the European Central Bank's survey on wealth. Furthermore, social data need to be reconciled with national accounts data to increase socio-economic breakdowns in national accounts.

There are several actions in this field. In spring 2010, Eurostat published real household disposable income figures for the first time, which give a fuller picture of the economic welfare of households than the traditional GDP figure alone.

'The data on real household disposable income clearly demonstrate how the economic downturn has taken its toll on

## Real growth of household gross disposable income and final consumption expenditure (euro area)



Source: Eurostat

In spring 2010, Eurostat published real household disposable income figures for the first time, which give a fuller picture of the economic welfare of households than the traditional GDP figure alone.

'The data on real household disposable income clearly demonstrate how the economic downturn has taken its toll on household incomes since the fourth quarter of 2008, while showing the stabilising effect of taxes and social contributions and benefits,' said Denis Leythienne, in charge of the Quarterly Sector Accounts Team at Eurostat.

household incomes since the fourth quarter of 2008, while showing the stabilising effect of taxes and social contributions and benefits,' said Denis Leythienne, in charge of the Quarterly Sector Accounts Team at Eurostat.

Later this year, Eurostat will publish an analysis of the distribution (survey data) and the evolution (national accounts data) of household finances.

'In fact, data on income, consumption and wealth of households exist in national accounts, but we need to further improve their availability with respect to non-financial assets and we need to communicate better and deliver information which supports policymaking in the best possible way,' said Gallo Gueye, Head of Eurostat's National Accounts Methodology, Statistics for Own Resources Unit.

A longer-term project is to compile full balance-sheet accounts of households. Such accounts would give a better picture of the financial status of the whole economy – just as a balance sheet is a vital indicator of a company's financial situation.

'Measures of wealth are also central to analysing distributional aspects and sustainability. What is carried over into the future necessarily has to be expressed as stocks. The correct valuation of produced and non-produced assets, as well as financial assets, plays a crucial role,' he continued.

## Measuring quality of life

Complementing GDP with social indicators related to quality of life and well-being is particularly important according to the Commission Communication and the Stiglitz Report. Key dimensions are material living standards; health; education; personal activities – including work; political voice and governance; social connections and relationships, environment, as well as physical and economic security. These dimensions should be analysed simultaneously.

'Eurostat has carried out a feasibility study on well-being indicators. This study shows that data at EU level are available for most of the drivers of well-being. About one third of the data are collected by Eurostat (mostly through EU-SILC) and one other third comes from the European Social Survey,' said Vincent Tronet from Eurostat's Key Indicators for European Policies Unit.

'In some areas, there is still a need to improve data timeliness, availability and comparability. It is also necessary to invest in areas where indicators are missing – for example, when it comes to access to green spaces or suffering from harassment. Well-being indicators also have to be policy relevant – policymakers should have the possibility to influence them and they should have a high communication value,' he continued.

Another factor is that there is a subjective and an objective side of well-being. Some statisticians are not so keen on subjective indicators. They argue that these indicators may be

influenced by cultural aspects and by events of the moment, such as if a country has just won the football world cup, and therefore would not be reliable. Harmonisation of these statistics between countries is also a challenge – for instance, the sequence order of subjective questions in a survey may have an influence on the answers.

'Recent research shows that it is possible to collect meaningful and reliable data on subjective well-being that include dimensions such as happiness, joy or pride, and negative emotions such as pain and worry. The Stiglitz Report also stresses the importance of both objective and subjective drivers of well-being. Therefore, questions on subjective well-being should be incorporated in standard surveys to capture people's satisfaction with life and their evaluation of hedonic experiences,' Mr Tronet said.

'Even if data would not always seem fully comparable between countries, it could be valuable to see trends in a country and to study the links between subjective and objective well-being. The idea is not only to deliver good measures of people's quality of life, but also to help understand its determinants,' he continued.

Another important issue, according to the European Commission Communication on *GDP and Beyond*, is that the timeliness of social statistics needs to improve.

'We need, indeed, to find a better balance between quality and timeliness, especially for data on income and living conditions. This might require a revision of the legislation which is from 2003, but not yet fully implemented in all Member



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It is important that statisticians further analyse social sustainability, especially the distribution of income, consumption and the wealth of households. This is because a rise in average income, which is a positive phenomenon, may be unequally spread across income groups, leaving some households relatively worse-off than others. Thus, average measures of income, consumption and wealth need to be accompanied by indicators that reflect their distribution across persons or households.



States. Right now we are in the middle of a discussion with the Member States and the scientific community on which direction to choose,' said Mr Mercy.

## Growth and environment

Both the *GDP and Beyond*, and the Stiglitz Report underline the importance of better measuring the environmental dimensions of growth and progress. Several of the European Commission's actions focus on the environment: an environmental index will be developed and the Commission will explore the possibility of developing a sustainable development scoreboard that would be complementary to the current set of sustainable development indicators. Furthermore, national accounts will be extended to cover environmental issues by increasing the coverage in the already existing environmental accounts (See article on p. 8)

Eurostat has been working on setting up environmental accounts since the 1990s. However, there is only partial information in the system, as countries are not obliged to provide data. Therefore, an EU law, to be adopted in 2011, has been developed, which will focus on three modules – material flow accounts, environmental taxes and air emission accounts.

'These are the three areas, which we have identified, together with the Member States, as being the most 'mature'. We have had common guidelines for some time and many countries have well-developed data,' said Gilles Decand, Head of Eurostat's Environmental Statistics and Accounts Unit.

'At the same time, we have started discussions with the Member States on which modules we should include in the second wave of environmental accounts legislation. Areas such as environmental goods and services – due to their links with green jobs, energy accounts – to analyse energy productivity, and environmental protection expenditure accounts are the favourite candidates.'

'Possible modules in the longer term are forest, water and waste accounts,' he added.

## Sustainable development indicators

Since 2005, Eurostat has produced a monitoring report of the European Union sustainable development strategy. The report is based on a selection of around 100 sustainable development indicators (SDI), of which eleven are called 'headline indicators'. The headline indicators intend to give an overall picture of whether the EU has achieved progress towards the objectives and targets defined in the EU's sustainable development strategy.

The sustainable development indicators are structured according to ten themes: socio-economic development, climate change and energy, sustainable transport, sustainable consumption and production, natural resources, public health, social inclusion, demographic changes, global part-



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Eurostat is setting up environmental accounts, together with the Member States. In 2011, new legislation will be adopted which will focus on material flow accounts, environmental taxes and air emission accounts.

nership and good governance. They are accessible directly from the homepage of the Eurostat website.

## Eurostat's role

Eurostat's role in the area of *GDP and Beyond* is to coordinate all activities within the European Commission and the European Statistical System (ESS). Within the European Commission, Eurostat co-chairs the work with the Directorate General for Environment, and in the ESS, Eurostat shares the coordination with the French Statistical Office, Insee, in the so-called Sponsorship group on measuring progress, well-being and sustainable development.

The idea of the Sponsorship is to coordinate actions within the ESS and to propose a strategy to prioritise and implement the recommendations of the *GDP and Beyond*, and the Stiglitz Report. Around 18 national statistical offices have volunteered to participate.

In the Sponsorship's first meeting in spring 2010, it was decided to create three task forces. The first one focuses on environmental sustainability and is co-chaired by Slovenia and Eurostat. The second one deals with the multi-dimensional measures of quality of life and is co-chaired by Eurostat and France (see article on p. 24). The third one focuses on household perspective and distributional aspects of income consumption and wealth and is co-chaired by Eurostat and the Netherlands.

These aspects will also be discussed by all Directors-General at their annual conference, DGINS, at the end of September in Sofia, Bulgaria.

'Multi-dimensional measurement of sustainable development is a challenge for the ESS, and therefore an important topic for the Directors-General. We all need to work hard to better measure progress, well-being and sustainable development,' Mr Radermacher concluded.

# Reading the present to prepare the future

**O**ver 150 participants, including national accountants, statisticians, economists, bankers and journalists, attended the one-day conference on national accounts organised by Eurostat in Brussels in September 2009. By bringing together different experts, the organisers wanted to obtain a review of recent developments in the field of national accounts at a time of ongoing global economic crisis. Furthermore, the participants explored the changes that official statistics, and in particular national accounts, are facing today.



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Maria Helena Figueira, then Acting Director of the National and European Accounts Directorate at Eurostat, said that the *GDP and Beyond* Communication, and the Stiglitz-Sen-Fitoussi Report, released a few days before the conference, led towards a brainstorming session on the future of national accounts, their current limits with respect to a complex and evolving society and the opportunities that they offer with their coherent and integrated framework. In the photo, Ms Figueira is pictured with Roberto Barcellan, Head of Eurostat's National Accounts Unit.

**I**n 2008 and 2009, official statistics were hit by the consequences of the financial and economic crisis, which highlighted both the existence and availability of suitable indicators and, at the same time, the need to strengthen the flexibility of official statistics with respect to the continuous-

ly evolving environment. The 2010 crisis, generated by the worsening of public finances in most European countries, further stressed the role of official statistics as a monitoring instrument, but also as a reference collection framework of essential information for economic, financial and budget-



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At the conference, Eurostat's Director-General, Walter Radermacher, presented a set of forward-looking destination messages for the European Statistical System. They underlie the current development of the national accounts framework and will represent the cornerstone of an economic and social set of indicators for Europe in the next ten years, in line with the Europe 2020 strategy of the European Commission.

ary policy purposes. The core statistical domain appeared to be national accounts. The NA 2009 conference successfully identified ways to deal with the new challenges which official statistics are already facing. Indeed, the conference became, at the end of summer 2009, a forward-looking forum for debating the issues that have been a statistical reality since winter 2009-2010.

Maria Helena Figueira, then Acting Director of the National and European Accounts Directorate at Eurostat, told *Sigma* that most of the initiatives currently leading the developments of national accounts were debated during the conference. 'The *GDP and Beyond*, and the Stiglitz-Sen-Fitoussi Report, released a few days before the conference, led towards

a brainstorming session on the future of national accounts, their current limits with respect to a complex and evolving society and the opportunities that they offer with their coherent and integrated framework,' Ms Figueira said.

The three-fold dimensions of the crisis (financial-economic-social) have emphasised the relevance of the household sector and of its behaviour, and called upon European statisticians to launch several relevant initiatives in this field (e.g. the newly established Sponsorship on measuring progress, well-being and sustainable development).

On the other hand, the recording of rescue operations by governments in the context of the financial crisis has opened

the way to an in-depth, methodological analysis of public finances in national accounts. Finally, the trade-off between timeliness, flexibility and reliability has once again highlighted the dilemma of rapid estimates.

## Opening messages

In her welcome note at the conference, Ms Figueira expressed her hope that in the course of the conference debates, priorities and challenges, as well as solutions to existing problems, would be identified, which would lead to further improvements in the quality of national accounts.

In a video address, Joaquín Almunia, the then European Commissioner for Economic and Monetary Affairs, stressed the importance of national accounts for economic and political decision-makers. He said that the ongoing economic crisis exposed many new challenges to national accounting. The crisis originated in the financial system, while national accounting was primarily devised to measure the economy, and as such, was not best suited to monitor developments in the financial sector.

As a result, it was extremely important to find ways of improving the integration of financial issues into the system of national accounts. Commissioner Almunia went on to say that the system of national accounts was frequently criticised for not providing enough information on the environment, natural resources and social issues. As these topics were closely connected to developments in the economy, further development of the corresponding satellite accounts should be considered.

Commissioner Almunia said that a system of global national accounts would prove very helpful in identifying imbalances between different regions in the world. However, this required enhanced cooperation between major international organisations, among them Eurostat, and the combined effort of specialists from many areas, such as the economy, banking, environment and experts on social issues.

Roberto Barcellan, Head of Eurostat's National Accounts Unit and one of the conference organisers, told *Sigma* that the issues referred to by Commissioner Almunia 'are today addressed by the Commission as part of the economic, budgetary and structural surveillance, as defined in the Commission Communication from 30 June 2010.'

## Identifying strengths and weaknesses

Mr Radermacher, Director-General of Eurostat, spoke about the strengths and weaknesses of the current national accounting model. He said that an overwhelming advantage of the current model was the reliability of its data, which meet the high-quality standards of official statistics as defined by

the European Statistical System's Code of Practice and other international quality frameworks.

However, Mr Radermacher also said that the current national accounts system was not fully fit to cope with many problems. He quoted the ongoing, global demographic changes and the shift towards knowledge societies in the West and asked whether the present national accounting paradigm should not be extended to include those phenomena, even though they might at first seem difficult to measure.

Mr Radermacher proposed several ways of dealing with accounting problems, including a revision of core accounts, further development of satellite accounts and a clear recognition of the existence of different user groups and their specific needs by national accountants. He also presented various aspects of the revision of the System of National Accounts (SNA) and the European System of Accounts (ESA).

Outlining the long-term directions for the development of national accounts, Mr Radermacher stressed the importance of reliability, relevance and timeliness of data gathered by national accountants. This required use of appropriate quality-assurance systems with reliable external validation tools.

Finally, Mr Radermacher stressed the need for a closer coordination and exchange of data and metadata at international level, which would greatly help to develop global economic accounts.

'Mr Radermacher presented a set of forward-looking destination messages for the European Statistical System,' said Mr Barcellan. 'They underlie the current development of the national accounts framework and will represent the cornerstone of an economic and social set of indicators for Europe in the next ten years, in line with the Europe 2020 strategy of the European Commission.'

## Three plenary sessions

The conference was divided into three plenary sessions and ended with a panel discussion.

The first session, entitled 'Awakening from the financial and economic crisis', focused on the 'old and new challenges for statistics in a dynamic, global and fast-evolving economy'. It was moderated by Martti Hetemäki, Permanent Under-Secretary at the Finnish Ministry of Finance, member of the Economic and Finance Committee and Chairman of the EFC Sub-Committee on statistics.

The second plenary session, 'GDP: Media hype?', moderated by Steven Keuning, then Director-General Statistics at the European Central Bank, debated the 'pitfalls in communicating and interpreting national accounts'.

The final session was called 'Policymakers: what's in it for us?' and was chaired by Enrico Giovannini, President of the Italian national Statistical Office ISTAT and former Chief Statistician of the OECD.

The panel discussion closing the conference revolved around the question of 'What kind of GDP for 2020?' Moderated by Gerry O'Hanlon, General Director of the Irish National Statistical Office, CSO, it brought together Walter Radermacher, Enrico Giovannini, Martti Hetemäki and Steven Keuning.

## Beyond expectations

Roberto Barcellan told *Sigma* that the conference more than fulfilled its purpose. 'We discussed a whole range of issues, ranging from the weaknesses of the current system

of national accounts, mutual dependencies between the financial and economic spheres to the best ways to prepare the systems of national accounts for the years to come,' he said.

'The speakers, panellists and the audience taking part in the Q&A sessions all used the opportunity to share their points of view frankly, actively contributing to the ongoing debate, which concerns everyone, not just statisticians, economists and accountants!' added Mr Barcellan.

'To me, the conference proved immensely successful, well beyond my expectations,' said Mr Barcellan. 'What I find amazing is how much of the conference debate has become a reality and how many of the ideas expressed can be recognised in the current activities of national accounts and official statistics as a whole.'



Roberto Barcellan said that the conference more than fulfilled its purpose. 'We discussed issues ranging from the weaknesses of the current system of national accounts, mutual dependencies between the financial and economic spheres and the best ways to prepare the systems of national accounts for the years to come,' he said

# EU statistics on income and living conditions – Helping to fulfil data needs of the 21st century



Inna Steinbuka is Director of Social and Information Society Statistics at Eurostat.

**Inna Steinbuka, Director of the Social and Information Society Statistics Directorate at Eurostat, heads an international task force dealing with the ‘multi-dimensional measurement of the quality of life’. The task force, part of the newly formed Sponsorship on Measuring Progress, Well-being and Sustainable Development is jointly chaired by Eurostat and the French Statistical Office, Insee. *Sigma* spoke to Ms Steinbuka to find out more about the work of the task force.**

while Romania, Switzerland and Turkey introduced the survey in 2007.

‘Future data gathering, adapted to follow the recommendations of the Stiglitz Commission and the Communication, *GDP and Beyond*, will mean reliance on a combination of different data sources and the creation of a number of new indicators,’ said Ms Steinbuka. ‘EU-SILC, which well reflects developments in the social situation in Europe, will play an important role in this process. The Sponsorship task force will use the experience gathered in the development of EU-SILC in its work on future indicators to measure the quality of life of a society.’

## Warsaw conference

An international conference on EU-SILC, held in Warsaw last March brought together data producers, institutional users of statistics and members of the academic community. The meeting allowed a unique insight into the state of play of social statistics in Europe.

During the conference, Professor Anthony B. Atkinson, a leading expert in the area of micro-economics and economics of income distribution and poverty, as well as a member of the European Statistical Governance Advisory Board, described the harmonised EU-SILC database as a ‘valuable source’ in the development of new indicators in line with the recommendations of the Stiglitz Commission and the Commission Communication, *GDP and Beyond*.

‘I agree with Prof. Atkinson that the potential of our survey for future research cannot be overestimated,’ said Ms Steinbuka. ‘EU-SILC is very helpful to policymakers in their analysis and monitoring of the problems affecting a large proportion of the European population as, among other things, it pro-

‘**O**ur work directly reflects the requirements of today – the need to modify statistical systems and develop ways of measuring growth, taking into account social well-being,’ said Ms Steinbuka. ‘The development in recent years of the EU Statistics on Income and Living Conditions (EU-SILC) is a major step in that direction.’

EU-SILC is a survey of private households. It was launched in 2003 on the basis of a gentlemen’s agreement between Eurostat and six EU Member States (Austria, Belgium, Denmark, Greece, Ireland, Luxembourg) and Norway, and formally launched in 2004 following a European Commission regulation in 15 countries. In 2005, the survey was expanded to cover all of the then EU-25 Member States, together with Norway and Iceland. Bulgaria launched EU SILC in 2006,

vides information on the levels of poverty, deprivation and social exclusion on our continent.’

## In line with Europe 2020 strategy

Eurostat figures show that 120 million people, or 24% of the EU-27 population, were at risk of poverty or social exclusion in 2008.

‘Reducing the number of Europeans who are at risk of poverty or social exclusion by at least 20 million people is one of the goals of the Europe 2020 strategy,’ said Ms Steinbuka.

‘The three sub-indicators which measure the progress in this area – the at-risk-of-poverty rate, the severe material deprivation rate and the persons living in households with low work intensity – are all calculated on the basis of EU SILC data.’

Ms Steinbuka explained that the measurement of the quality of life of both the general and vulnerable populations will allow the measurement of gaps in the quality of life in individual countries. It will also enable comparisons between the EU Member States in an area where demand for fresh

statistical information is growing rapidly. ‘Our task force is working hard to develop modern indicators which will allow a better description of the situation of this vulnerable part of the society and let us compare it with the rest of the population in the EU Member States.’

## Future steps

Ms Steinbuka said that the task force hopes to soon be able to describe the vulnerable groups in greater detail. ‘Once we have the scores for the entire and vulnerable populations, we will be able to go further, bring more precision into our research, i.e. describe the vulnerable groups by age, sex, education and income,’ she said.

Despite persisting challenges, such as problems with data comparability and timeliness, Ms Steinbuka remains optimistic. ‘I am convinced that we will get there, largely thanks to the EU-SILC database, which today features the full statistical coverage and time series for 29 European countries,’ she said. ‘We have come a long way since 2003, when the first EU-SILC figures were collected. There is a growing need for reliable and detailed data on the quality of life in the European Union states. These figures will only gain in importance as EU policymakers go about implementing the Europe 2020 strategy.’



‘EU-SILC is very helpful to policymakers in their analysis and monitoring of the problems affecting a large proportion of the European population as, among other things, it provides information on the levels of poverty, deprivation and social exclusion on our continent,’ said Ms Steinbuka.

# ‘This is just the beginning’ – Insee leads the way in the measurement of well-being

**J**ean-Philippe Cotis, Head of the French Statistical Office, Insee, was a member of the select group of experts behind the Stiglitz Report. In Paris, he spoke to *Sigma* about measuring the well-being of French society, as well as the work of the Stiglitz Commission.



Two years ago the French Statistical Office, Insee, started analysing the composition of the disposable income of French households. They saw marked differences in spending and saving behaviour, depending on their income.

Mr Cotis, Head of the French Statistical Office, said that Insee would further expand its consumer surveys in the future to include new themes, such as the use of time at home and the levels of contentment with different leisure activities.

## Neglected housework

Mr Cotis said that weaknesses in current statistical accounting, which had to be urgently addressed, included, for instance, housework. ‘When you are not working professionally and instead raising your children, your daily ‘output’, or housework, is not measured at the moment’, he explained. ‘Giving your children music lessons or art classes after school can be considered as educational work. Equally, more ‘domestic’ activities, such as ironing shirts or Hoovering your flat, should also be measured statistically, the logic being that someone else could be hired by you to do this work for money. If you paid them for their services, you would be increasing your country’s GDP. This needs to be noted.’

In addition, Mr Cotis observed: ‘If we look at the way education systems function in different settings, we soon realise that often the same type of schooling is public in Europe, and private, meaning that it has to be paid for, in the US. If the education sector in the US makes money, it means that it can be listed as contributing extra value added to the US GDP, whereas in Europe this is not the case. This demonstrates present difficulties in measuring GDP in various countries.’

## Pioneering work

In order to fill these gaps, Insee started analysing the composition of the disposable income of French households two years ago. It designed an evaluation system based on the framework of national accounts. ‘We broke households down into five income groups by the so-called quintiles,

‘The desire to find ways of measuring societal well-being alongside economic growth is not new,’ Mr Cotis said. ‘It is widely agreed that while GDP figures reflect the overall economic output of a country, they tell us nothing about the levels of happiness of its citizens.’



according to their gross income,' Mr Cotis explained. 'Each quintile represents 20% or one fifth of all households. This system helped us to better understand their consumption and income patterns. What we saw were marked differences in the spending and saving behaviour of the French people.'

Mr Cotis continued: 'When you are poor, your whole income is extremely important to you, every euro counts. However, when you make 10 000 euros a month, a single euro hardly matters. This mechanism holds for a society as a whole as well: past a certain level of GDP per capita, levels of happiness are increasing less and less markedly. Affluent Western societies may rate lower in some polls than poorer counterparts elsewhere in the world.'

Mr Cotis said that Insee would further expand its consumer surveys in the future to include new themes, such as the use of time at home and the levels of contentment with different leisure activities. 'The shift in the way we produce statistics should also entail better measurement of people's levels of satisfaction and the way they spend their time,' he explained.

According to Mr Cotis, measuring subjective well-being is not easy, but first attempts were proving that it could be done. People are able to rate various experiences according to satisfaction derived from them.

## Stiglitz work brings new impetus

Referring to his involvement in the work of the Stiglitz Commission, Mr Cotis said that Insee's ground-breaking experience in the field of social statistics prepared him well for his participation in the Stiglitz group.

He said: 'Many of the issues discussed by the Commission were not brand new. The real importance of our work lay in the fact that top international scientists and experts got together to systematise the existing knowledge in the field, identify new opportunities and draw useful conclusions. We did not try to re-invent the wheel. All we set out to do was to offer fresh insights into the way international statistics operate today and suggest a more structured approach in addressing mounting challenges for statisticians.'

Mr Cotis said that the Commission did not seek ways to replace GDP figures, only to complement them with an array of new indicators. 'Everyone agreed that mere measurement of raw economic growth is not enough any more; that we need to rely on a new set of indicators taking into account social well-being. Our final Report recommends that GDP should be used to measure economic activity and that it should be combined with data allowing for well-being factors such as environmental health, safety and education,' he explained.

## More to come

'This is just the beginning. In the future, statistics will include the measurements of inequality between genders, as well as age and social groups. Our data will allow policymakers to evaluate levels of well-being in their societies and make plans to act accordingly,' said Mr Cotis.

Concluding, Mr Cotis pointed to another positive aspect of the Commission's work. He said that the fact that statisticians were now dealing with an expanded range of social issues might help dispel the degree of mistrust among certain segments of European societies. 'Polls show that there are many people out there who do not trust official statistics, whose perception is that we do not measure things that really matter or that our figures are somehow being manipulated. By addressing concrete issues closer to the heart of an average citizen, we will be fighting this erroneous perception as well,' he said.

Mr Cotis said that weaknesses in current statistical accounting, which had to be urgently addressed, included, for instance, housework. Another area is education. 'Often the same type of schooling is public in Europe, and private, meaning it has to be paid for, in the US. If the education sector in the US makes money, it means that it can be listed as contributing extra value added to the US GDP, whereas in Europe this is not the case. This demonstrates present difficulties in measuring GDP in various countries.'



# On the right track – Sustainability and quality of life high on the agenda of Statistics Netherlands

In recent years, Statistics Netherlands has been actively engaged in efforts to measure sustainable development and the quality of life in the country. In fact, in the Netherlands, intensive work in this field was started years before the publication of the Stiglitz Report, as Gosse van der Veen, Director-General of Statistics Netherlands, told *Sigma*.



Gosse van der Veen, Head of Statistics Netherlands, said that sustainability and quality of life were already high on the agenda in his country, but became even more prominent after the Stiglitz Report was published in 2009.

For Statistics Netherlands, the following passage of the Stiglitz Report is very important: *'The assessment of sustainability is complementary to the question of current well-being or economic performance and must be examined separately... Both pieces of information are critical and need to be displayed in distinct, clearly visible areas of the dashboard'*. Statistics Netherlands also subscribes to these very fundamental principles. In the upcoming sustainability monitor, a separate dashboard for the quality of life and a separate dashboard for sustainable development will be provided. However, we have added a third dashboard, which covers the impact of the Netherlands on other countries. We feel that that was given too little attention in the Stiglitz Report.

## Could you give your view as to why the Stiglitz Report is important?

The Stiglitz Commission Report has gained a great deal of attention from economists, social scientists, policymakers and statisticians because of the potential impact on the measurement of (social) welfare, well-being and sustainable development. It is important because it demonstrates an impressive overview of the literature that has accumulated over the last few decades and even centuries. The strength of the Report is that, under the guidance of a number of very influential scientists, it is convincingly argued that these different disciplines are all related to the measurement of 'progress' in the broadest sense of the word.

## Has Statistics Netherlands already launched any projects which could be considered as first steps in the implementation of the Stiglitz Report?

Statistics Netherlands started work on the sustainability monitor in the summer of 2007, well before the Stiglitz Report was published. However, the history of Statistics Netherlands in this field goes much further back. Notable contributions were the Green National Income by Roefie Hueting (in the 1970s) and the pioneering work on Environmental Accounting by Mark de Haan and Steven Keuning.



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The most important task for Statistics Netherlands is to create dashboards to measure the 'progress' of the society. There will be three separate ones on the quality of life, intergenerational sustainability and the international dimension, which will be published in spring 2011. Pictured is a painting of Dutch painter August Macke, *Promenade* from 1913.

It is therefore fair to say that Statistics Netherlands has a long tradition in this field. Since a lot of our recent work on the Sustainability Monitor is also based on the same literature which the Stiglitz Report cites, it came as no surprise that the Report confirmed that we were 'on the right track'. It would therefore not be entirely accurate to say that the work at Statistics Netherlands is a direct result of the Report. What is however incontrovertible is that our work obtained a considerable boost after the Report was published. Sustainability and quality of life were already high on the agenda, but became even more prominent after September 2009.

Already in 2008, Statistics Netherlands had started a programme for statistics on sustainable development. Currently, over 12 full-time equivalents (FTE) are assigned to the development of the Sustainability Monitor, as well as new statistics on environmental accounts, energy statistics, time use, human capital accounts and social capital, to name but a few. Fortunately, given the level of interest in the field, we have been able to start certain projects through government programmes and Eurostat grants (for which we are very grateful). All in all, this means that about a third of the 12 FTE are financed through external sources. To me, this is further proof of the importance that society places on this topic.

## What are Statistics Netherlands' key priorities in regard to the implementation of the Stiglitz Report recommendations? And what projects do you envisage in short and longer terms?

Statistics Netherlands subscribes to almost all of the recommendations of the Stiglitz Commission. In fact, many of the recommendations were already in place when the Report

came out. In some cases, the Stiglitz Report convinced us to intensify or scale down certain areas of our statistical programme.

Clearly the most important task is to create dashboards to measure the 'progress' of societies. Through the Sustainability Monitor, we have now created three separate dashboards: quality of life, intergenerational sustainability and the international dimension. Our results will be published in March of 2011 (also in English).

However, there is also a lot of work to do in terms of the underlying statistical base of our indicator system. We are



Statistics Netherlands is also working on the statistical base to measure, amongst others, social capital and the 'international dimension' of sustainable development.

'The Stiglitz Report said very little about the international relationships between countries. Nevertheless, through trade and other interactions, (western) countries have great impact on the sustainability in other countries,' Mr van der Veen said.

developing in many different directions, but I would like to single out the following:

- 1) social capital. It is now generally accepted that social capital is a true capital stock. What is however undeniable is that it is very hard to measure. I am pleased to say that we are making good progress in the conceptual and practical implementation of social capital;
- 2) international dimension. The Stiglitz Report said very little about the international relationships between countries. Nevertheless, through trade and other interactions, (western) countries have great impact on the sustainability in other countries. We are developing statistics and methods to create indicators for this dimension. We are also working closely together with the World Input-Output Database (WIOD) project which bundles official statistics for economic, environmental and trade statistics for the world;
- 3) satellite accounting. The national accounts system is probably one of the most successful statistical systems to date. As the Stiglitz Commission rightly pointed out, the system is far broader than the calculation of GDP. There is also an extensive set of satellite accounts which provide an excellent basis for further measurement of progress. We already have an extensive system of environmental, labour, tourism and growth accounts, but are expanding them with time use, human capital and social capital. These satellite accounts have the benefit of producing indicators that are comparable to GDP, but can also serve as a data source for sustainability modelling (by the policy institutes);
- 4) long time series. Progress, and particularly sustainable development, are phenomena which manifest themselves over long time periods. Although business cycles influence both in the short term, true structural changes manifest themselves over the long term. It is therefore very important that we create long time series for a number of key indicators of progress.

These are goals which we wish to achieve by the end of 2011. However, there are also possibilities for some spin-offs of our work for the longer term. An example is the issue of inequality in societal developments, which is also an important component of the Stiglitz Report. A pilot project has already started for this issue. Another example is the use of our system for sustainability reporting by companies.

## What are the challenges ahead as far as the implementation goes?

Statistics Netherlands considers two topics forthcoming from the recommendations as priority challenges:

- 1) we intend to work more on the visualisation of our work. The Dutch indicator set of quality of life and sustainable development included a great number of indicators. The large amount of information is needed to address this issue properly. However, special visualisation techniques are needed in order to summarise the main implications of our work in such a way that policymakers and society will be able to identify the main trends by looking at one, simple summary table;
- 2) in cooperation with other government agencies, we plan to develop a set of policy indicators. Monitoring (i.e. giving a summary of the 'state of the nation' in terms of its sustainability) is one thing, but giving policymakers an idea as to how certain negative trends can be overcome is an issue which needs to be tackled. This can only be done if Statistics Netherlands, policy institutes, as well as certain Ministries (Environmental Affairs, Economic Affairs, Finance and Foreign Affairs) work together.



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To analyse sustainability, well-being and welfare, it is very important that results and indicators can be compared with those of other countries. Therefore, Mr van der Veen believes that a common dashboard should be developed. Another important issue is the harmonisation and collection of data.

## Could you explain possible changes in data collection and analysis following the recommendations of the Stiglitz Report?

One potential, but ambitious goal would be to harmonise the data collection on objective and subjective indicators. There is an increasing call for data on 'gross national happiness'; however, if we follow this road we end up with a one-dimensional indicator which, in the end, might not be very useful. We would rather like to break down perception indicators (on life satisfaction) into different social domains (such as health, education, income) and make a systematic comparison between objective indicators (how healthy are the people?) and subjective indicators (how satisfied are we with our health status?). This will enable us (a) to find out which aspects of life contribute most to the life satisfaction (and therefore welfare) of people and (b) to make it possible to track down the extent to which perceptions are based on actual changes (for example, often we see that people feel increasingly unsafe in society, whereas actual indicators on the number of crimes show improvement).

## If you had to attach priorities to different statistical developments in the coming years, what are the areas in which you would invest?

Measuring Sustainability and Quality of Life is clearly one of the key challenges of our time. Nevertheless, society also demands other information. To make sure that Statistics Netherlands is in tune with the most recent demands of society, we have adopted a number of statistical programmes. Resources are made available to produce new additions to our statistical portfolio. Examples include: the housing market, productivity, knowledge economy, social dynamics, social cohesion, an ageing society, globalisation and security.

## How important is it to have a common approach at ESS level to the work in this field?

For the analysis of sustainability, well-being and welfare, it is very important that results and indicators can be compared

with those of other countries. Two steps are required in the harmonisation process:

- 1) adoption of a common dashboard. At the moment, countries and institutes all have very divergent methods to measure progress. Although it will be difficult, we believe it is important that a common framework is adopted and implemented by all countries. The Task Force for Measuring Sustainable Development (TFSD) and Sponsorship Group for Progress should be the prime bodies in which this harmonisation takes place;
- 2) collection and harmonisation of data. The necessary data need to be collected, and even more importantly, need to be harmonised in order to make proper international comparisons possible. Of course, Eurostat is already doing a lot of work in this field. What is particularly important is the work which is done on the 'quality profiles' of the indicators so that users have a clear view of the limitations in the data. More could be done on the collection of data on satellite accounts and input-output tables.

## Any specifically Dutch issues and challenges?

In the Dutch context we see three challenges:

- 1) it seems good to invest more in the contacts with different actors in the field of sustainable development. Employees of statistical bureaus are of course used to working with people at ministries and other government institutes, but in this case, the importance of this interaction is even greater;
- 2) we would like to stimulate other government agencies or universities to use our indicators for models on which policy forecasting can be based. This will enhance the usefulness of our measurement system;
- 3) a problem in the international setting may be the fragmentation of this topic. Many task forces, working groups, initiatives and sponsorship groups by many different institutions have been created to tackle this problem. On the one hand, this is positive because it again proves that we are doing important work. On the other hand, it is far from optimal in terms of coherence and efficiency. Statistics Netherlands will do its bit to search for means of cooperation which will improve this situation. There may be an important role for Eurostat to play in this coordination.

# A coordinated European approach is needed for Destatis

**G**ermany has had a national sustainability strategy in place since 2002 and progress is monitored every two years by indicators mostly produced by the German Federal Statistical Office, Destatis. 'Largely, the German Indicator Report on Sustainable Development matches several recommendations of the Stiglitz-Sen-Fitoussi Commission, but more work needs to be done, particularly on issues such as measuring quality of life,' said Albert Braakmann, Head of Destatis' National Income, Sector Accounts and Labour Market Division, to *Sigma*.



Albert Braakmann, Head of National Income, Sector Accounts, Labour Market Division at the German Statistical Office.

## Room for improvement

As far as implementing the proposals of the Stiglitz Commission, Destatis has already made considerable progress when it comes to creating an environmental accounting system. The data and indicators are, for example, used to monitor Germany's sustainability strategy.

'Reporting with indicators that are integrated in environmental accounting helps to improve the way in which potential political measures are assessed and therefore also subsequently monitored,' said Mr Braakmann.

As far as improving economic indicators, Destatis is working on calculating the distribution of income by type of household. The office is also planning another time use survey, which was last conducted in 2001/2002.

When it comes to measuring quality of life, German statisticians are working on an inventory of data available concerning the seven aspects of quality of life recommended by the Report, of both a subjective and an objective nature.

The main challenge is to specify the quality of life indicators at technical level and then to consider how various information might reasonably be aggregated. At the same time, questions of data availability and how any data gaps might be filled need to be taken into consideration.

'Although a large amount of data is available in some cases, we consider that there is considerable room for further development,' said Mr Braakmann.

According to Mr Braakmann, the Stiglitz Report initiated an important discussion on how to further develop official statistics to create a sustainable and relevant basis for analyses.

'The Stiglitz Report looks ahead and makes recommendations on how social, economic and environmental issues should be reported statistically to enable official statistics to retain their credibility and provide a basis for political action,' he said.

'The Report draws attention to the fact that economic factors do not fully explain social progress and that statistics need to focus more strongly on quality of life, in all its various aspects,' Mr Braakmann continued.

'It also stresses that information about sustainability and the environment is an essential part of modern statistics.'



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Destatis has already made considerable progress when it comes to creating an environmental accounting system. The data and indicators are, for example, used to monitor Germany's sustainability strategy.

## Resources – an issue

In general, German users are in agreement with Destatis' 'Stiglitz' priorities. The Statistical Committee, in which their most important users are represented, recently confirmed Destatis' plans regarding personal income distribution and the need for another time-use survey. It also welcomed the further consolidation of environmental accounting and sustainability reporting. However, there is of course a discussion about resources for implementing the recommendations.

'In view of the current drastic cuts in the federal budget, it is not a very good time to significantly extend the official statistical programme. Nevertheless, we would like to invest in areas where further development is necessary for us to be able to provide high-quality data on topics which are relevant to our users,' said Mr Braakmann.

'If our users consider implementation of the recommendations of the Stiglitz Commission to be a priority, the necessary resources must also be provided to permit investment in implementation. This may take the form of additional funding or of cutting down or eliminating lower-priority tasks,' he continued.

Mr Braakmann also underlined that users need to take into account that setting up new statistical surveys or changing exist-

ing ones requires legislation in Germany. This means a certain amount of time would need to be set aside for this purpose.

'Furthermore, Germany is a federal country in which surveys are decentralised, in principle, which means that more coordination is needed than in countries in which statistics are managed by a central body,' Mr Braakmann said.

## Comparison with other countries increasingly important

In Mr Braakmann's view, the recommendations of the Stiglitz Commission could, in principle, be implemented on a purely national basis, but the European perspective, which specifically means comparing the situation in one's own country with the situation in other countries, is becoming increasingly important.

'It is therefore necessary to discuss and jointly determine definitions and indicators at EU level to avoid comparing totally different things. A further advantage of a common approach is that it enables the experience of individual Member States to be shared. There is no need to reinvent the wheel; on the contrary, we can learn from the experience of others and develop common procedures as best practice,' Mr Braakmann concluded.



# Time for Member States to start debates on well-being

**E**nrico Giovannini, President of the Italian Statistical Institute, is experienced in high-level discussions on how to improve the measurement of economic and social progress. In the wake of the Stiglitz Report, he says that it is about time the EU Member States took action and launched broad debates to identify the factors most important for well-being.



Enrico Giovannini, President of the Italian Statistical Institute and member of the Stiglitz Commission.

improve statistical information in this area. The result of this meeting was the creation of the Stiglitz Commission, of which Mr Giovannini was also a member.

## Defining indicators of well-being at a national level

**This** is primarily not a statistical problem. It is a political question and it is important for the government of a modern society. We need to improve existing democratic institutions, engage people in round-table discussions on measures of societal progress and statistical measurement standards,' said Mr Giovannini.

Already in 2004, Mr Giovannini, then Chief Statistician of the Organisation for Economic Cooperation and Development (OECD), organised the first *OECD World Forum on Statistics, Knowledge and Policy* with the intention of promoting international research and information sharing and to allow countries to compare how they measure 'progress' in their societies.

Three years later, after the second OECD World Forum had attracted 1 200 participants from 130 countries, Mr Giovannini realised that new measures of societal progress were of global concern, and the OECD established the 'Global Project on Measuring the Progress of Societies'.

Later that year, Mr Giovannini met with French authorities to discuss the establishment of an international commission to

The starting point for the Stiglitz Report, the European Commission Communication on *GDP and Beyond*, as well as the third OECD World Forum, was an awareness of the need to complement GDP with measures of equitability and sustainability, and of the fact that all dimensions of well-being were not covered by GDP. Together, these initiatives contributed to last year's intense debate on how to measure well-being and social progress.

The Stiglitz Report identified eight 'key dimensions' which shape people's well-being. These concern material living standards, health, education, personal activities, political voice, social connections, environment, as well as economic and physical vulnerability. Many of these dimensions are not included in conventional income measures.

'The European Statistical System (ESS) is well advanced in most of these domains, except for political voice and social connections. But there are cross-cutting issues, such as equitability, sustainability and vulnerability that need to be developed further. It is also important that we have both subjective and objective indicators. We must start asking people how they perceive things,' said Mr Giovannini.



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The starting point for the Stiglitz Report, the European Commission Communication *GDP and Beyond*, as well as the third OECD World Forum, was an awareness of the need to complement GDP with measures of equitability and sustainability, and of the fact that all dimensions of well-being were not covered by GDP. Together, these initiatives contributed to last year's intense debate on how to measure well-being and social progress.

Mr Giovannini believes that the domains that influence well-being are to a large extent identical in most developed countries. Nevertheless, he thinks, it is important that the discussion leading up to the identification of such domains and the selection of the appropriate indicators start in the Member States and not at EU level.

'In order to gain trust and legitimacy from the citizens of Europe, it is better to go ahead with indicators decided at national level than with indicators approved at EU level that people do not trust. The ESS has done an incredible job in improving the comparability of indicators, but there's still a problem with credibility. According to a Euro-barometer, more than 40% of Europeans don't trust official statistics. They think that they are being manipulated,' said Mr Giovannini.

## Round-table discussions

The round tables, which should host the discussions, already exist in several countries. Well-known examples are the 'State of the USA' and the 'Canadian Institute of Well-being'. In order to improve their legitimacy, these round tables ought to include representatives from different parts of society, not least the private sector.

'During these discussions, statisticians should keep the round tables informed about progress made in domains of interest to the discussions. Statisticians, as stated in the Stiglitz Report, should not refrain from difficulties, but push ahead also in domains where results are difficult to measure,' said Mr Giovannini.

Improving measurement of social progress and well-being is not only a question of identifying and developing new indicators, but also of using existing statistics and combining information from different domains into a coherent system. An important building block in this context is the existing framework of national accounts around GDP.

'Within national accounts, we already have a lot of data to address the issue of well-being. In national accounts, we need a common unit and that is money. Several statistical domains or aspects of well-being cannot be measured with money. However, we should try to expand national accounts as much as possible, for example with data on social matters, such as income distribution and the satellite account for environment,' said Mr Giovannini.

Mr Giovannini believes that as the Member States identify the domains that define well-being, the ESS should establish a common research framework and standards to facilitate and harmonise the measurement of the phenomena which have not been measured before. The result of these activities would be a set of reliable indicators that reveals the factors behind well-being and societal progress.

'Finally, when national round tables have identified the relevant domains and the best indicators have been selected, we will have to make citizens aware of these indicators. Then we will have a good starting point for a public debate on societal progress and well-being. This is very important for the democratic process in the information age,' concluded Mr Giovannini.



Mr Giovannini believes that Member States should identify the domains that define well-being and that the ESS should establish a common research framework and standards to facilitate and harmonise the measurement of the phenomena which have not been measured before. The result of these activities would be a set of reliable indicators that reveals the factors behind well-being and societal progress.

# Reliability, reality, relevance and resources – Areas for further improvement

**M**artti Hetemäki is Permanent Under-Secretary in the Finnish Ministry of Finance and Chair of the Sub-Committee on Statistics for the EU Economic and Financial Committee. *Sigma* asked Mr Hetemäki about his views on national accounts data and economic policies, and their relation to the debate around *GDP and Beyond*, and the Stiglitz Report.



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Martti Hetemäki said that it is clear that GDP, or its growth, does not give us information on all aspects of well-being and development. This has brought out the need to improve available data and to develop additional indicators to be used in the public debate and policymaking. The Commission's *GDP and Beyond* initiative and the Stiglitz Report are very important steps in this work.

## Are economic policies too 'growth fixated'?

GDP has for a long time been the most commonly used indicator for macro-economic development. In many cases, it has also been used as a proxy for overall progress and prosperity. However, it is clear that GDP or its growth does not give us information on all aspects of well-being and development. This has brought out the need to improve available data and to develop additional indicators to be used in the public debate and policymaking. The Commission's *GDP and Beyond* initiative, and the Stiglitz Report are very important steps in this work.

## How important are national accounts data for the design and implementation of policies?

Very important. Economic policymaking is based on national accounts data in every country. In the EU, the role of national accounts data is even more important because so many of the EU's policies, starting from the revenue side of the EU budget, are based on national accounts. Also, fiscal policy coordination and economic policy surveillance, including EMU entry criteria and the Stability and Growth Pact, rely on them.

## Is the current set of economic statistical indicators enough to fulfil the needs of policymakers or does it need to be complemented with other data/indicators?

Most importantly, and as a first step, we need to make better use of the data that are already available. That means combining data from different sources and improving the

inter-linkages between economic, social and environmental statistics.

When creating new official statistical requirements one always has to take into account the limited resources for collecting data. We need to prioritise – adding new statistical requirements means that some of the old, less-needed requirements may have to be cut down.

## How important are complementary data that give information on environmental and social developments?

It is important to assess complementary data on environmental and social developments. However, much can be done, simply by exploring and combining the data that are already collected in different statistical branches.

## What challenges and data needs has the financial and economic crisis triggered?

The financial and economic crisis has highlighted the importance of timely and reliable statistics. The crisis started as financial crisis, but turned into a global economic crisis. It showed how important it is to analyse simultaneously financial and non-financial accounts and to monitor the inter-linkages between them.

One also has to consider how to interpret short-term data in order to better predict turning points in economic development. The Principal European Economic Indicators (PEEIs) have proved to be the main tool for monitoring short-term

changes such as economic crisis and to provide comparable and readily available key information complementing monetary and financial indicators.

## What should be the main areas for further improvement?

My list of areas for further improvement can be summarised in four words: reliability, reality, relevance and resources.

Reliability is critical. If the public and the policymakers cannot rely on statistics, we are lost. The trust in official statistics is surprisingly low in many countries. The popular perception about unreliable official statistics is not without reasons. The need to improve data reliability concerns many EU countries, not just Greece.

Reality is evolving fast with a technology which is based more on intangible capital, an economy that is more global and production that is more service-based. National accounts are evolving with these changes, but this is not an easy process.

Relevance relates to what I have said earlier about *GDP and Beyond*, and the Stiglitz Report initiatives.

Resources available for producing statistics need to be used more efficiently. This stems from the need to continue developing statistics, as well as delivering more relevant statistical information, while available resources to do the work are not increasing. In fact, in many countries, resources in the NSIs have been decreased.

It is a huge challenge to produce more reliable and relevant statistics that adequately take into account the rapidly evolving economic reality with very limited resources. I think that there is only one solution to this challenge. That solution is a high professional capacity and the integrity of statisticians.



Mr Hetemäki said that, as a first step, better use needs to be made of statistics that are already available – combining data from different sources and improving inter-linkages between economic, social and environmental statistics. 'We also need to prioritise – adding new statistical requirements means that some of the old, less-needed requirements may have to be cut down.' Pictured is a lake in northern Finland.

# A better use of existing social and environmental statistics will improve measurement of well-being and sustainability



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**S**ince the beginning of this year, Lorenzo Codogno, Director-General of the Economic and Financial Analysis and Planning Department of the Italian Treasury, has been President of the Economic and Policy Committee (EPC), which provides advice and contributes to the work of the Ecofin Council and the Commission. *Sigma* asked Mr Codogno his opinion on how to improve the measurement of societal development and well-being.

Lorenzo Codogno, Director-General of the Economic and Financial Analysis and Planning Department of the Italian Treasury, and President of the Economic and Policy Committee.

## Why are national accounts data important for the work of the Economic Policy Committee?

National accounts data are extremely important for the work of the Economic Policy Committee (EPC). The EPC and its working groups provide economic analyses, opinions, methodologies and draft conclusions for economic policymaking by the Council. The EPC relies very much on sound and consistent national statistics. For instance, the national accounts are particularly important for the EPC when developing analysis and policy consensus on key issues, including responding to globalisation, strengthening the single market and promoting greater coherence between macro-economic, structural and employment policies.

National statistics are also very relevant for our work on public finances, where the EPC has particular responsibilities regarding quality and sustainability. Finally, GDP growth and

its possible modification/additions due to the Stiglitz Commission's work are key targets for policymaking and thus for the EPC support to policymaking. It should be emphasised that it is not only national accounts data that are essential for the work of the EPC. For example, the structural indicators, other sectoral data, and social and employment indicators compiled by Eurostat are extensively used by the Committee and its working groups, as well as any additional data from sources such as the World Bank or the OECD.

**Both the Stiglitz Report and the Commission's Communication, *GDP and Beyond* have found a need to complement the current GDP figures with other dimensions such as well-being and sustainability. What do you think?**

GDP is the best known measure of economic activity that we have. It is a standard measure used by all policymakers and is based on a clear, accepted methodology that is constantly

being improved and allows for relatively reliable comparisons both over time and between countries. Hence, the GDP measure has many advantages and can hardly be replaced as a measurement of economic output.

At the same time, it has its limitations. While GDP measures economic activity, it does not capture social progress, health status or social inclusion; nor does it provide information about how well we are using our resources by measuring environmental sustainability. These limitations explain why the perception of people in general may sometimes deviate from what GDP developments suggest. While GDP may be increasing, inequalities, pollution and congestion may also be increasing, leading people to feel worse off.

In view of the limitations of the GDP measure and, notably, the climate change challenge, we need additional measures that better reflect the social progress and better capture the development towards low-carbon and more resource-effi-

cient economies. We also need indicators that better consider social and environmental achievements and losses. However, this is not about replacing GDP with other measures, but complementing it with additional indicators to obtain a more complete picture of our economies and societies.

## Can we measure well-being and sustainability in an efficient manner with the current set of statistical indicators?

GDP has for a very long time been the most common indicator for macro-economic development. In the absence of more accurate measures, it has also been seen as a proxy for prosperity and well-being. We have been aware of the limitations of GDP as a measure of societal progress for quite a



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Mr Codogno said that in view of the limitations of the GDP measure and the climate change challenge, additional measures were needed which would better reflect social progress and the development towards low-carbon and more resource-efficient economies. Indicators that better consider social and environmental achievements and losses were also needed, not to replace GDP, but to complement it, in order to obtain a more complete picture of our economies and societies.

while, especially of the fact that it does not give a complete picture of the many dimensions of well-being.

Nevertheless, only recently, the efforts to address these weaknesses have gathered momentum. Therefore, new statistics and indicators are being developed. For instance, a comprehensive environmental index has been proposed by the European Commission that would bring together various dimensions of environmental policy, such as climate change and energy use, nature and biodiversity, air pollution and health impacts, water use and pollution, waste generation

and use of resources. Another strand of research relates to indicators on quality of life and well-being. The Commission Communication *GDP and Beyond*, the Stiglitz Report and the OECD project on measuring the progress of societies are crucial initiatives in this respect.

At the same time, we need to be aware of the wealth of data on various aspects of prosperity and well-being which already exist. We need to better exploit these data, together with the newly developed indicators, and use them in the public debate and policymaking.



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Mr Codogno said that while statisticians needed to better exploit existing data, new statistics and indicators were being developed. For instance, a comprehensive environmental index has been proposed by the European Commission that would bring together various dimensions of environmental policy, such as climate change and energy use, nature and biodiversity, air pollution and health impacts, water use and pollution, waste generation and use of resources. Another strand of research relates to indicators on quality of life and well-being.



### The Economic and Policy Committee

The Economic and Policy Committee (EPC) was set up by a Council decision in 1974 to provide advice and to contribute to the work of the Ecofin Council and the Commission.

The core business of the Committee is structured around the following two interacting pillars:

- an economic policy pillar, which essentially refers to the Lisbon strategy for growth and jobs. The Committee plays a critical role in developing analysis and policy consensus on key issues, including responding to globalisation, strengthening the single market and promoting greater coherence between macro-economic, structural and employment policies;
- a public finance pillar, where the EPC has particular responsibilities regarding quality and sustainability.

Given the current economic situation, the EPC's focus is more than ever on growth and jobs, in particular those reforms supporting competitiveness and adjustment capacity, as well as ensuring the sustainability of public finances. The EPC also monitors progress of the Member States towards meeting the targets and objectives of the Lisbon strategy and the consistency of short-term responses to the current crisis with long-term structural reform objectives.

For further information: [http://europa.eu/epc/index\\_en.htm](http://europa.eu/epc/index_en.htm)

## What are the most urgent measures to be taken by Eurostat and the European Statistical System in order to complement the current GDP measure with other dimensions such as well-being and sustainability?

For the time being, while taking under serious consideration the new developments (for instance *GDP and Beyond*) and assessing their viability, a first urgent step, and this relates to my previous answer, would be to make a more efficient use of the statistics already available. As regards the efforts to introduce new official statistical requirements, we should take into account the limited resources for collecting the required data and the time required to construct and test these new statistics. However, we can improve our practice now, since some social and environmental statistics exist, but need to be better linked with economic data. Therefore, the first effort should be to assess the use of all available complementary statistics.

## Has the financial crisis changed your opinion about data needed to correctly analyse and forecast

## the economy for economic and monetary policy purposes?

In my view, the crisis has clearly demonstrated the need for timely, accurate and reliable statistics, indicators and information in general. In particular, there have been areas where the effort of statistical offices has been insufficient and others where timely and reliable data were simply missing. It is, in addition, crucial that appropriate monitoring and assessment frameworks are in place to provide an early warning of problems arising. The lack of such frameworks was clearly a weakness in the context of the financial and economic crisis. For instance, one area where the efforts of statistical offices and central banks were insufficient was statistics related to financial products and leverage by households. Macro-economic surveillance at European level was excessively biased towards government deficit and debt while not having paid enough attention to fiscal balances and debt of the financial sector and those of households. All this calls for a much more comprehensive approach to surveillance and closer monitoring of economic and financial developments both at macro- and micro-levels. This can only be achieved through the availability of robust and reliable statistics and their proper use.

In the future, we will probably have to pay more attention to these more basic statistical issues. For assessing our economies and defining the appropriate ways out of the crisis, we also need to enhance our monitoring methods and build commonly accepted assessment frameworks. In other words, accurate and reliable statistics are essential, but not sufficient. We need to complement them with a common understanding on how to use these statistics and on how to draw policy conclusions from them.

## Journalists appreciate more diversified data

**J**an Strupczewski has been the economic correspondent for the Thomson Reuters news agency in Brussels since 2005. In his daily reports, he relies on the figures released by the European Commission. *Sigma* asked Mr Strupczewski what data were most useful for him as an analyst of the European economic situation and what his future expectations were, following the publication of the Stiglitz Report recommendations.

Jan Strupczewski is the economic correspondent for the Thomson Reuters news agency in Brussels.

### European Commission primary source of data

Mr Strupczewski said that the European Commission data released by Eurostat and other Directorates-General covered most of his statistical needs. 'I primarily work with the European Commission figures, as they are reliable and harmonised. Sometimes, I will use data from other sources, such as the Organisation for Economic Cooperation and Development. However, their methodology often seems to differ from that of the Commission, which makes it difficult for me to use their figures in comparisons,' he said.

For his reporting, Mr Strupczewski uses all of Eurostat's news releases on Gross Domestic Product (GDP), consumer and producer price inflation, industrial production and new orders, unemployment and quarterly employment and labour cost growth, as well as retail and foreign trade. 'As a rule, Reuters will report the month-on-month figure as well as the year-on-year one,' Mr Strupczewski explained.

Asked about the importance of the recommendations of the Stiglitz Commission for his work, Mr Strupczewski said that more statistics from new domains which relate directly to the daily lives of European consumers would certainly be welcome.

### Interesting statistics good for reporters

'Both our readers and the news media are always interested in statistics which touch directly upon people's daily lives, are



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**T**hompson Reuters is one of the largest providers of financial news worldwide. On a daily basis, the agency supplies thousands of its clients with figures, news analyses and commentaries, thereby shaping the financial policies of some of the world's largest institutions and businesses.

Mr Strupczewski's articles are followed by both financial market participants, such as traders, brokers, bankers, economists, analysts, investors and fund managers, and the international news media. This includes the newsrooms of all major European newspapers, as well as television and radio stations. 'Government institutions, such as finance ministries, central banks and all sorts of commercial financial institutions also subscribe to Reuters news feeds,' Mr Strupczewski explained.

easily understandable and not too technical. This is the case, for instance, with relative price levels of food and beverages across Europe, already released by Eurostat on a regular basis,' Mr Strupczewski explained. 'Everyone likes to check if a bottle of beer or wine costs more in their country than in a neighbouring one or if they are charged more for a packet of cigarettes than is the EU average.'

Mr Strupczewski continued: 'I am not a bank analyst who spends long days in front of a computer screen studying graphs and analysing financial sheets in Excel. I write about problems concerning real people, so more varied data would add a more 'juicy' or interesting angle to my reporting. Naturally, I would be delighted if statisticians found a way to reliably measure so-called well-being, the levels of happiness in a society. In fact, it would expand the statistics regularly released by the Commission's Directorate-General for Economic and Financial Affairs in their consumer confidence surveys.'

In the current business and consumer surveys, people are asked to give an assessment of their financial situation,

judge whether it has deteriorated or improved as compared with the same period a year earlier and voice their opinion regarding their economic prospects for the future. The surveys enquire about the shopping plans for the next 12 months and the saving habits of the population.

Mr Strupczewski said that those statistics reflected a direct link between the confidence of a society and its economic development. 'When people are worried about their future, their pensions, their retirement age, they stop spending money. In a time when European economies are haunted by a major economic crisis, consumer confidence is the primary driver for a potential recovery,' said Mr Strupczewski.

'If we could scientifically gauge the mood and the levels of contentment of a society, take into account its quality of life, the environment and education, it would be a major step towards an entirely different way of measuring the success of a Western economy, away from the current focus on GDP. Understandably, this would be extremely interesting for both policymakers and journalists alike,' Mr Strupczewski concluded.



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Mr Strupczewski said that more statistics from new domains which relate directly to the daily lives of European consumers would certainly be welcome for his work. He would also be delighted if statisticians found a way to reliably measure so-called well-being, the levels of happiness in a society.

# Statistics Directorate of the OECD explained

**F**ounded in 1960 and currently counting 31 member countries, including 19 EU countries, the Organisation for Economic Cooperation and Development (OECD) helps member-country governments 'tackle the economic, social and governance challenges of a globalised economy'. The Organisation's Statistics Directorate plays a crucial role in this mission, as Martine Durand, OECD's Chief Statistician and Head of the Statistics Directorate told *Sigma* in Paris.



Martine Durand is the OECD's Chief Statistician and Head of the Statistics Directorate.

## Young, multi-skilled staff

'Our directorate currently employs around 85 people, whose average age is thirty-something. We have a great variety of experts from different fields and countries, statisticians, economists and social scientists,' said Ms Durand. 'The directorate is split into four divisions. The first one deals with national accounts, financial statistics and prices, the second division is in charge of trade, business and globalisation indicators. All IT-related issues and data dissemination are in the competence of the third division.'

**'The** OECD is one of the world's largest sources of internationally comparable statistics, not only collecting and disseminating data, but also offering high-quality analyses and forecasts,' said Ms Durand. 'Not many people know that we are an extremely decentralised organisation, which in terms of data collection means that individual OECD directorates are at liberty to develop their own indicators. One of the roles of our directorate is to coordinate the work in terms of methodology, joint processes and quality framework.'

Ms Durand explained that the Statistics Directorate of the OECD is directly responsible for the collection of macro- and micro-data, national accounts and prices, trade statistics and short-term statistics. It also has responsibility for data dissemination and communication with the media.

'A fourth division has just been created to deal with the challenges posed by the measurement of well-being and progress of societies and to work on households and labour-related data and indicators' Ms Durand said.

## Many sources of OECD statistics

The Statistics Directorate receives its data from a number of sources. 'We get most of our figures on Europe from Eurostat; some of the statistics also come directly from the national statistical institutes,' Ms Durand said. 'Data relating to the non-EU economies are delivered by their statistical offices directly.'

Ms Durand said that the cooperation between the OECD and Eurostat is exemplary. 'To start with, the data we receive from



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Most of OECD's data on Europe come from Eurostat, but some also come directly from the national statistical institutes. 'Data relating to the non-EU economies are delivered by their statistical offices directly,' Ms Durand said.

Eurostat are of high quality and very easy for us to manage as they have already been harmonised,' she said. 'Then, we also have a long history of collaboration in the development of concepts and methodologies. We meet on an almost-weekly basis in numerous joint task forces, work groups, and international meetings and conferences.'

Ms Durand quoted recent joint work in the field of national accounts, trade statistics, the Purchasing Power Parities and the development of the SDMX data-transfer system as just a few areas of close cooperation between her directorate and Eurostat.

Ms Durand said that in the past couple of years, the OECD has started to collect data from emerging economies such as Brazil, China, India, Russia, Indonesia and South Africa. She said that this cooperation had proven beneficial to everyone. 'We get straight access to their statistics. They, in turn, get our technical expertise. We train their experts, organise international workshops, put together manuals and handbooks,' she explained. 'Although this system greatly enriches our statistical database, it also means a lot of extra work for us under very tight budget constraints.'

## Data dissemination

Ms Durand explained that main data users include government officials in OECD member and partner countries, as well as international policymakers, analysts, local administrations, members of the academic community and, increasingly, the public.

The best way to access OECD statistics is via its comprehensive website, which offers a full range of statistical databases in combination with analytical and policy publications. Ms Durand explained: 'A collection of tables and extracts from datasets drawn from across the full range of OECD statistical products, the so-called Key Tables, are available free of charge, as are the OECD Facts and Figures. At present, complete databases are reserved for OECD member countries and its partners, and are available to others by subscription, but there are continued discussions about free dissemination of all data.'

The OECD is also behind a range of statistical publications, such as the popular 'At a Glance...' series. 'We noted a demand for well researched, informative publications which

give an overview of social trends and developments in the fields of different policies,' said Ms Durand. 'Education at a Glance 2009 — OECD Indicators' and 'Society at a Glance 2009 — OECD Social Indicators' are just two of many books which are part of this very popular series. Equally, they can be downloaded from our website free of charge.'

The Statistics Directorate is also in charge of statistical communication with international journalists and the preparation of news releases for the press. 'You can find the OECD news releases on our website and, if you wish, be alerted to the newest ones via our RSS feed service,' explained Ms Durand. 'I have also created a small editorial group in order to produce better news releases which would attempt to tell a more interesting story than just relating statistical facts.'

## Global Project on Measuring the Progress of Societies

For the past four years, the OECD has been working on a project aimed at becoming 'the worldwide reference point for those who wish to measure and assess the progress of

### Martine Durand, Chief Statistician and Head of Statistics Directorate at OECD

Martine Durand has been heading OECD's Statistics Directorate since 1 February 2010. She was previously Deputy-Director in the Directorate for Employment, Labour and Social Affairs. An economist by education, Ms Durand joined the OECD in 1983 as an economist in the Economics Department. In 1991, she was appointed senior economist to work on the *OECD Economic Outlook*. In 1997, Ms Durand was appointed Counsellor to the OECD Chief Economist, and in 2001, Deputy-Head of the OECD Secretary-General's Private Office.

In her current position, Ms Durand is responsible for both the long-term strategy of the OECD in the area of statistics and the daily operations of its Statistics Directorate. She also heads the Global Project on Measuring the Progress of Societies. Unique in its scope, and in partnership with a number of international organisations, including the European Commission, the Project develops economic, social and environmental indicators 'to provide a comprehensive picture of how the well-being of a society is evolving.'



OECD publishes all its statistics on its website, which offers a 'full range of statistical databases in combination with analytical and policy publications,' said Ms Durand.

The Statistics Directorate is also in charge of communication with international journalists and the preparation of news releases for the press. Pictured is the BBC World Debate on Matching Skills to Jobs, which took place at the OECD Conference Centre in July 2010.

their societies'. The venture, called *Global Project on Measuring the Progress of Societies*, brings together experts from around the world who are working on the development of 'key economic, social and environmental indicators to provide a comprehensive picture of how the well-being of a society is evolving'.

'This work is hugely important to us as it moved us closer to the measurement of the well-being, quality of life and progress of societies,' Ms Durand said. 'I would like to continue with this great idea while, at the same time, making it more concrete. So far, we have been raising awareness on these issues. I think the time has now come to decide how to go about measuring well-being and finding ways of making our work in this field a reality.'

Ms Durand added that she would revise the results of OECD's efforts so far, 'assess what has been achieved, find possible gaps in the process and decide which data can be linked and used together in more contexts'. She said: 'We are looking forward to collaborating with Eurostat on research projects to fill in these gaps.'

## Stiglitz Report and *GDP and Beyond*

The work on the measurement of the well-being of societies has gained momentum with the publication in August 2009 of the European Commission's paper *GDP and Beyond*, and in September 2009, of the Stiglitz Report, which called for a new measure of growth that would take social well-being into account.

'We are well aware of the challenges posed by the paper *GDP and Beyond*, and the Stiglitz Report,' said Ms Durand. 'We will contribute actively in a newly established expert group set up by Eurostat and other partners, the so-called Sponsorship Group.'

Among other future tasks to be tackled, Ms Durand also named work on indicators for the OECD's green growth strategy as 'the way forward out of the current crisis' and the innovation strategy, which focuses on the 'innovation as a major driver of productivity that can strengthen economic growth and development'.

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For the past four years the OECD has been working on a project aimed at becoming 'the worldwide reference point for those who wish to measure and assess the progress of their societies'. The venture, called *Global Project on Measuring the Progress of Societies*, brings together experts from around the world working on the development of 'key economic, social and environmental indicators' to provide a comprehensive picture of how the well-being of a society is evolving'.

## 50 years of OECD

Concluding, Ms Durand said that it was her belief that the next couple of years would see more countries from around the globe becoming members of the OECD, further strengthening the Organisation. 'We have come a long way since the signing of the founding treaty of the OECD, the Convention on the Organisation for Economic Cooperation and Development, in December 1960,' she said. 'The advantages of having a credible partner in the field of statistics are clear to all of our member countries. After 50 years of our presence on the international scene, this has also become clear to anyone else in need of reliable statistics!'





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