

SDC Challenge Paper: Measuring what matters in light of the Stiglitz Report

Introduction

It has become increasingly clear over recent years that conventional measures of prosperity such as Gross Domestic Product (GDP) do not accurately reflect the true prosperity of nations. Reporting in 2009, the Stiglitz-Sen-Fitoussi Commission set out in detail gaps in current measures of progress and provided recommendations as to how we can better measure what matters. This 2009 Report (hereafter 'Stiglitz Report') has been hugely influential and has been a catalyst for work at both the international and UK level.¹

At the international level, the Stiglitz Report has brought together work undertaken by the European Commission (EU) and the Organisation for Economic Cooperation and Development (OECD) on 'GDP and beyond' and 'measuring the progress of societies' respectively.² In the context of the latter, a world forum in 2007 led to the 'Istanbul Declaration'. This calls for the elaboration of a 'high-quality, facts-based information that can be used by all of society to form a shared view of societal well-being and its evolution over time'.³

At the UK level, a recent ONS report⁴ aimed to identify which existing relevant Government Statistical Service outputs and initiatives support the broader societal well-being agenda. For example the UK Government's 2010 Budget Report noted that: *"There is widespread acknowledgment that GDP is not the ideal measure of well-being. The Government is committed to developing broader indicators of well-being and sustainability, with work currently under way to review how the Stiglitz, Sen, and Fitoussi report should affect the sustainability and well-being indicators collected by Defra, and with the ONS and the Cabinet Office leading work on taking forward the report's agenda across the UK."*

This paper looks at the key recommendations of the Stiglitz Report and analyses how the findings could be used to improve the measurement of societal progress within the UK.

Measuring societal progress is not a neutral exercise. As the Stiglitz Report highlights, *'The report is about measurement rather than policies, thus it does not discuss how best our societies could advance through collective actions in the pursuit of various goals. However, as what we measure shapes what we collectively strive to pursue – and what we pursue determines what we measure – the report and its implementation may have a significant impact on the way in which our societies look at themselves and, therefore, on the way in which policies are designed, implemented and assessed.'*

SDC is concerned that the Government's current work assessing national well-being is restricted to the measurement of how life satisfaction is improving within the UK. The use of GDP as a headline measure is not contested, even if its shortfalls as an indicator of economic performance have been well-documented. This tendency was confirmed by David Cameron's statement on National well-being (November 2010): *Just as the GDP figures don't give the full story of our economy's growth – but do give a useful indicator of where we're heading...so this new measure [of happiness] won't give the full story of our nation's well-being – but will give us a general picture of how life is improving*⁵.

The SDC is also concerned that the recent ONS consultation on national well-being⁶ focuses on present and subjective well-being. This means government is ignoring some important aspects

highlighted by the Stiglitz Report with regard to classical GDP issues (Part1), and Sustainable Development and Environment issues (Part3), which are reviewed in more detail below.

We have identified four challenges that the UK Government still has to face when measuring national well-being. These challenges relate to some of the Stiglitz Report key recommendations and are grouped in this paper into two sections.

- Section 1 starts from the observation that despite its well-documented shortfalls, GDP continues to be used as the key indicator informing policy. This raises two issues, both highlighted by the Stiglitz Report and the SDC report '*Prosperity without Growth*' (hereafter PWG).⁷ Firstly, GDP is not even a good measure of what it aims to measure, namely economic performance. Secondly, a strong link is still assumed between economic growth and delivering of well-being. This ignores the empirical evidence for the well-being paradox, which shows that once a certain level of economic prosperity has been reached, well-being does not continue to increase in parallel.⁸

We have analysed the UK Government's proposals on measuring societal well-being against the five recommendations (R1-R5ⁱ) set out in the first part of the Stiglitz Report, namely *Classical GDP issues*. We conclude that new measures of economic performance have to be more relevant to well-being than GDP by: shifting them from production to income and consumption (R1); emphasising the household perspective (R2) and distribution of income (R4); and accounting for wealth (R3) and non-market economic activities (R5).

- Section 2 starts from the observation that the UK Government is looking for a measure of quality of life/happiness to use alongside GDP. The ONS consultation aims to capture important aspects of life that GDP does not reflect, and asks questions in a way that refers mainly to how people value their life. This Government's agenda on societal well-being raises two issues in light of the second and third parts of the Stiglitz Report, namely *Quality of Life* and *Sustainable Development and Environment*.

Firstly, subjective measures are only one part of the story. A fuller picture of national well-being can only be given through measurement of objective conditions and opportunities as emphasised by the Sen's capabilities approach⁹. These objective conditions and opportunities refer to how well people are able to function in any given context, e.g. 'Are they well-nourished? Do they live long? Can they find worthwhile jobs?'

Secondly, the Government's approach suggests that the focus is on present well-being, ignoring the issue whether levels of well-being can be sustained. Hence, sustainability implies living within environmental limits, namely at a safe distance from dangerous levels of environmental damage. Finally, section 2 suggests that Government's approach to societal well-being should be such that it emphasises capabilities for flourishing within limits. This view is disclosed in PWG through the concept of 'bounded capabilities', which this paper also explores.

ⁱ Note: by R1, we mean Recommendation 1 of the Stiglitz Report. R1 through to R12 therefore denotes the relevant Stiglitz Report recommendation.

Throughout this paper, we question the current Government's focus on economic growth as the vehicle for nation's happiness - *'Growth is the essential foundation of all our aspirations [...] and it is why we'll continue to measure GDP as we've always done'* (David Cameron, November 2010). Moreover, we encourage the UK Government to go beyond the narrow approach to well-being as a subjective and present measure. We call for a focus on delivering prosperity within environmental limits as the ultimate purpose of all Whitehall policy.

The concept of prosperity used throughout this paper is defined by Tim Jackson and goes beyond material sustenance. It has to do with our ability to flourish physically, psychologically, socially. *'Prosperity hangs crucially on our ability to participate meaningfully in the life of society'* (PWG, p. 143).

GDP stays a key indicator...of a supermarket society!

The Government's agenda on societal well-being makes it clear that GDP will stay as a key indicator for informing policy at the UK level – even if *'GDP figures don't give the full story of our economy's growth, [they] do give a useful indicator of where we're heading...'* (David Cameron, November 2010). However, as GDP has some shortfalls, it has to be supplemented with information at the environmental and societal level to reflect progress more holistically.

A study of the European Parliament has indeed emphasised that supplementing GDP, and not completely replacing it, is the more "realistic and acceptable option for going beyond GDP in the EU"¹⁰. But this approach is also problematic. If we keep on measuring GDP as a proxy of economic performance, and if we try to broaden GDP to other aspects of quality of life through monetisation methods, we will tend to promote a "supermarket society": a society where materialistic outcomes and income are emphasised to the detriment of non-monetary aspects of quality of life such as government services (health, education) and non-market activities. In other words, monetisation methods tend to strengthen the relationship between opulence (=more material consumption) and prosperity (=better quality of life). They highlight our tendency to *'imbue material things with social and psychological things'* and to use consumer goods as *'a symbolic language with which we communicate with each other'*.

Therefore, because GDP ignores some important but less materialistic aspects of a country's economic activity, GDP is not even a sufficient indicator of economic performance (1.1). If we want to measure societal progress, we have to move away from monetary measures of production to outcomes measures of improvement in human flourishing, and the two are obviously not synonymous (1.2).

1.1 GDP is not an appropriate measure of economic performance

The inability of GDP to encapsulate a nation's economic performance will be analysed with regards to two recommendations made by the Stiglitz Report: firstly, GDP does not take into account some non-market activities such as household unpaid work,ⁱⁱ even though it forms a significant part of economic activity; and secondly, it does not take into account the distributional effects of growth, namely the fact that growth of income does not benefit everyone in society equally.

ii The **household non-market activities** refers to unpaid household labour, household production and household output in the UK, such as cooking, cleaning, Do It Yourself (DIY) and childcare.

1.1.1 Broadening income measures to non-market activities (R5)

The Stiglitz Report acknowledges that GDP does focus on measuring economic activities that occur within a country's domestic market. However, economic activity covers more than market production. It also includes non-market activities, namely services provided by the government, by households for themselves, and by the "third sector".ⁱⁱⁱ While government services do actually appear in the national accounts, because they are non-market by definition, adjustments are made so that they fit within the accounting framework. This specific issue will be analysed in this paper (Section 1.2.1). Putting the public sector aside, getting a fuller picture of economic performance implies *broadening income measures to non-market activities* (R5). This recommendation focuses on household unpaid work. We extend the analysis to "third sector activity", whose output is indeed reported in the national accounts, but in a way that we think does not fit with the special features of this sector.

As suggested by the Stiglitz Report, a more complete picture of overall production could be drawn by constructing comprehensive and periodic accounts of household activity that complete national accounts. The ONS has considered this task and developed some experimental household satellite accounts (HHSAs).¹¹ Satellite accounts are a framework that enables attention to be focused on a certain field or aspect of economic and social life. They are produced in the context of national accounts but are more flexible as they allow concepts, definitions, accounting rules and classifications to be changed, where it improves analysis.¹² In the case of the HHSAs, the total household output is measured. It is then added to an adjusted GDP (see below) to complete the national accounts.

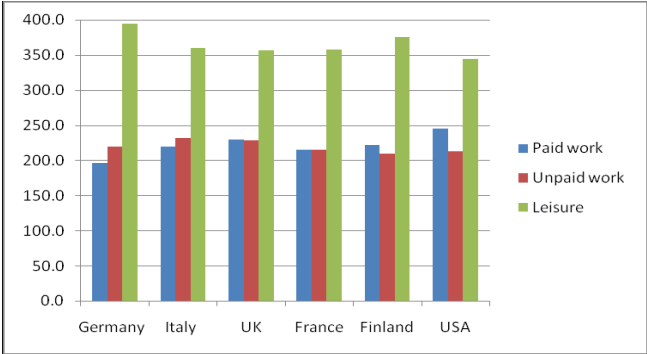
The main purpose of satellite accounts is to give a fuller picture of a country's economic performance. To do this, a household's output (Gross Household Product) is calculated as a monetary value, which allows completing GDP in national accounts. This completion necessitates building an adjusted GDP. This implies subtracting from GDP the amounts which are implicitly or explicitly included in the HHSAs – e.g. *imputed rent* of owner occupiers, tenant rents which are inputs to household production, and any other Household Final Consumption Expenditure which the HHSAs have reclassified as *intermediate consumption* or *final consumption*^{iv}. Duncan Ironmonger, researcher in household economics, concludes that this adjusted GDP becomes Gross Market Product, and can be added to Gross Household Product – the value added by households as calculated in the HHSAs – to give Gross Economic Product, a more accurate measure of the economic performance.¹³ He adds that measuring and valuing unpaid work is part of a process of '*making visible about one half of all valuable economic activity*' which otherwise has no "value" in national accounts and was hence unable to be considered. A relevant illustration of the size of the household unpaid work is provided by surveys of use of time (see Figure 1).

iii The '**third sector**' refers to a sector made up of organisations that are neither market firms nor state agencies nor part of the household sector, e.g. community groups, NGOs, Trusts).

iv **Imputed rent** refers to the amount that would have changed hands if the owner and occupier had been different persons. Because no transaction occurs in monetary terms, it can't be measured directly. Market rents are therefore used to estimate the value to the owner's properties and take them into account in the national output. **Intermediate consumption** is an accounting concept which measures the monetary value of the goods and services consumed as inputs by a process of production, including raw materials, services and various other operating expenses. **Final consumption expenditure** is expenditure by households on goods or services that are used for the direct satisfaction of individual needs or wants or the collective needs of members of the community. (Definitions from Eurostat Glossary)

PWG also underlines that measuring unpaid work is part of a process of better recognition for those engaged in child-care, care for the elderly or the disabled and volunteer work. This would help shift the balance of incentives away from competition and materialistic outcomes achieved through the market, and towards a more cooperative society that has its foundations in non-market activities.

Figure 1. Housework, paid work and leisure (Minutes per day and person, latest year available)



Source: OECD (2009), *Growing Unequal? Income Distribution and Poverty in OECD Countries*, Paris.

These non-market activities include household unpaid work as well as government services and third sector activity. And a similar lack of recognition is valid for third sector activity. Generally speaking, the concept of third sector is able to encapsulate this “sphere of economic activities that occupied the space between the point where the private sector ends and the point where the state sector begins”.¹⁴ Such social institutions are variously referred to as “non-profit”, “voluntary”, “civil society” or “non-governmental” organisations and collectively as the “third”, “voluntary”, “non-profit” or “independent” sector.¹⁵

Non-profit institutions are currently covered by the System of National Account (SNA). However, SNA does not group them into a single economic sector, underestimates their non-market production and does not cover voluntary work.¹⁶ These limits have been remedied through the *Handbook on Non-Profit Institutions in the System of National Accounts* developed by the UN in order to gain a clearer overview of the broader Non-Profit Institutions (NPIs) sector.

Finally, the common purpose in measuring the household and the non-profit institutions sector is a better valuation of significant and growing economic forces. These forces have distinct features from the market economy, namely their non-profit character, the employment of people on a voluntary basis, and the provision of public-goods that are labour intensive. These features justify treating them as a separate sector, and both the Stiglitz Report and the UN Handbook recognise this and recommend the development of satellite accounts.

However, the development of such accounts implies the conversion of the measured output of the specific sector in monetary terms to allow a practical comparison with the national accounts, and more specifically with GDP. Some authors¹⁷ caution against the attempt to assess in monetary terms some activities that precisely have as a main characteristic their intrinsic value and not being valuable in monetary terms. As an example, is childcare of the same value if it is provided by a babysitter rather than by parents? How far could the satellite accounts expand? For these authors, if conversion of time into monetary terms is emphasised, then the focus tends to be on materialistic outcomes and income. It therefore overshadows the direct contribution to well-being that results

from that kind of activity, namely how *'non-profit organizations contribute to the health, education, welfare, sense of satisfaction and general wellbeing of the population.'*¹⁸

The SDC fully agrees with the Stiglitz Report that measuring non-market activities gives a more complete picture of national economic performance. Furthermore, we encourage the ONS to continue its work reviewing methods of measuring national well-being. However, in achieving this task, attention should be paid to the specific features that characterise these sectors. To cite the Stiglitz Report again, *'what we measure shapes what we collectively strive to pursue'*.

Further, it has been shown that a method such as the satellite accounts measures non-market activities in terms of the material output they generate. A risk of this approach is that it tends to portray our economy as a time-poor, materialistic, supermarket economy. If on the contrary what we pursue is an economy that employs people in ways that contribute meaningfully to community and human flourishing, then it would be appropriate to emphasise the direct contribution to well-being delivered by these non-market activities through a method based on measurement of outcomes, i.e. how non-market activities contribute to strengthen social capital, to build resilient communities.

SDC Conclusion 1: Outcome-based methods have to be emphasised in the development of measures of non-market activities.

1.1.2 The inequalities issue: give more prominence to the distributional aspects (R4, R8)

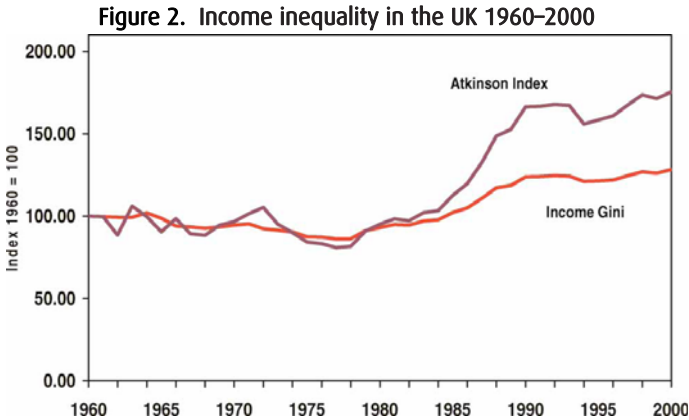
Conventional methods of measuring inequalities within the UK¹⁹ refer either to the percentage of the population below 60% of the median income or to the Gini Coefficient.^v These measures are useful as they provide evidence that an increase in overall income does not necessarily benefit those at the lower end of the income ladder in society. However, they cannot give a full picture of inequality. First, they do not show how inequality affects people's well-being. Secondly, they only focus on material outcomes and do not take into account distributional aspects of various other dimensions of well-being, such as health, education, political voice. Below, we analyse initiatives that attempt to give a more complete picture of distributional aspects, as it is required by two of the Stiglitz recommendations (R4 and R8).

R4 requires that *'more prominence should be given to distribution of wealth, income and consumption'*. This is partially achieved through conventional methods mentioned above. However, acknowledging that a society is unequal is one step. Measuring how unequal societies undermine well-being is another. Through *The Spirit Level*, Wilkinson and Pickett point out the life-diminishing results of valuing growth above equality in rich societies.²⁰ In the same vein, formal attempts to encapsulate loss of well-being associated with more unequal societies have been undertaken by Atkinson (1970). This measure is interpreted as the loss in wellbeing associated with having a distribution of incomes that is more unequal than preferred. As shown in Figure 1, evidence suggests that society in the UK is increasingly unequal in spite of an apparent preference for greater equality. If the purpose of a distribution indicator is to underline the conditions which affect well-being, such initiatives should be further explored.

Beyond the distribution of income, wealth and consumption, R8 states that each dimension of quality-of-life requires appropriate measures of inequality, with each of these measures being

v The **Gini coefficient** is a measure of income inequality taking values between 0 and 100. A value of 0 indicates complete equality in the distribution of household income (all households have the same equalised income). A value of 100 indicates complete inequality (one household has all the income, and the others have none).

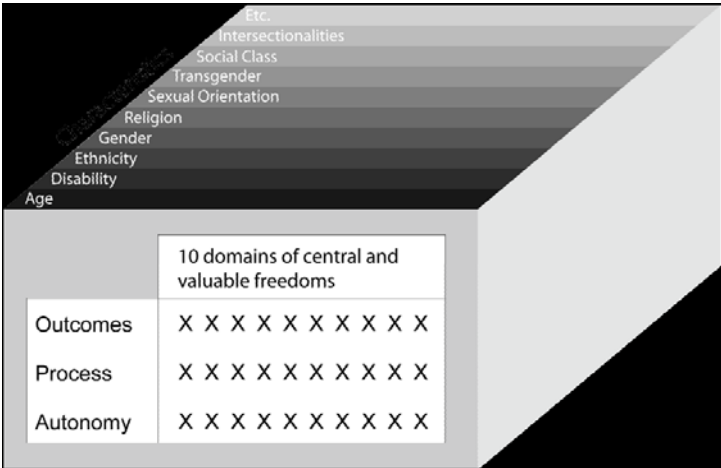
significant in itself and none claiming absolute priority over others. Moreover, inequalities should be assessed across people, socio-economic groups and generations. An excellent illustration of this recommendation is delivered by the UK Equality Measurement Framework (EMF).²¹



Source: Jackson (2008), 'Where is the well-being dividend? Nature, Structure and Consumption inequalities', in Local Environment 13-8.

The approach taken in the EMF is based on Sen’s capabilities approach. The EMF takes account of aspects of equal treatment, equality of opportunity and equality of outcome, which are assumed to be interconnected. It means having more real opportunities to achieve the things we want to achieve in life, having more independence and genuine choices available, being treated with dignity and respect and having more of a say about important decisions in our own lives. The ten domains of central and valuable freedoms refer to the human capabilities for flourishing, e.g. capability to be alive and healthy, capability to enjoy a comfortable standard of living. They aim at covering multiple domains in which inequality ‘matters’. Finally, combinations of characteristics can also be used to identify intersectional group concerns i.e. being sick and poor has a strong cumulative effect. Cutting across different characteristics is moreover in accordance with R9 which calls for the assessment of ‘links between various quality-of-life domains for each person.’

Figure 3: Equality Measurement Framework Matrix



Source: EHRC (2009), Developing the Equality Measurement Framework: selecting the indicators.

Finally, in relation to the ONS consultation which investigates which set of information is required to measure national well-being, the SDC concludes that understanding distributional aspects is a key element. Furthermore, we agree with the Stiglitz Report that this task both implies measuring the loss of well-being triggered by unequal societies and looking at inequalities in all dimensions of quality of life.

SDC Conclusion 2: The UK Government should recognise the importance of relative income as a determinant of well-being. Measures of loss of welfare triggered by inequalities in all dimensions of quality of life have to be further developed and effectively used as a tool for informing policy.

1.2 From growth to improvement of human capabilities for flourishing?

The first section of this paper noted that GDP is essentially a measure of market production. It not only ignores a more rounded set of economic activities (called the non-market activities by the Stiglitz Report), but also does not take into account distributional aspects of GDP increase. Therefore, GDP is not a good proxy for well-being. For these reasons, the Stiglitz Report recommends that if we want to measure what matters, then we have to move from measuring production to measuring well-being, of which income, consumption and wealth are still being a key part.

The Stiglitz Report clearly recognises material living standards as an important component of well-being. This was confirmed by Defra's recent well-being survey, which supported the relevance of income as a factor of well-being.²² In determining the set of information that helps measure national well-being, the first Stiglitz recommendation (R1) suggests looking at income and consumption rather than production, and the second (R2) emphasises the household perspective.

1.2.1 *When evaluating material well-being, look at income & consumption rather than production (R1)*

The economic pillar of sustainable development considers the economy as a means to an end; where that end is to contribute to the progress of societal well-being, namely providing people with the abilities to flourish within environmental limits, i.e. maintaining and improving our ecosystem services.

From this perspective, an indicator of material living-standards should be placed in the broader context of human flourishing and not be the main focus of any national measurement framework. And when we look at material well-being, consumption, income and wealth are far more relevant than production, for the reasons outlined in section 1.

In making this shift from production to well-being, it is also important to recognise the “**well-being paradox**”, namely the existence of stationary or declining levels of subjective well-being, despite growing income and consumption levels.²³ An example of evidence that helps look at this paradox is the psychological research of Helga Dittmar which examines how individuals' endorsement of materialistic values is linked to their well-being. She finds there is a strong negative correlation between materialism and well-being.²⁴ This suggests there is a need to confront the individualist social logic - or consumption culture - that calls for the pursuit of an increasing material-living standard as the path of fulfilment.

Therefore, measuring income, consumption and wealth rather than production is only one step in the consideration of material well-being. Understanding how quality of life is affected by a shift towards a sustainable consumption and a decent, instead of increasing, material living standards is even

more crucial. It could be undertaken through surveys such as the work by Helga Dittmar, as it underlines the causality and conditions which determine the state of societal well-being.

The focus has to shift from measuring production to measuring well-being and evidence shows that simply increasing consumption has a negative impact on well-being. This evidence must be used to inform policies aimed at delivering more sustainable models of consumption. Tim Jackson notes that material goods and services are deeply rooted in the cultural fabric of our lives (through them we not only satisfy our needs and desires, we also communicate with each other, negotiate important social relationships, and pursue personal and cultural meaning). Because of this motivating sustainable consumption has to be about '*building supportive communities, promoting inclusive societies, providing meaningful work, and encouraging purposeful lives.*'²⁵ Therefore, a first important step in managing this change will be to properly understand and measure the link between production, consumption and well-being.

SDC Conclusion 3: The UK Government relies too heavily on GDP as an indicator of economic performance. Greater importance should be given to measures of consumption. Moreover, a better understanding of the link between production, consumption and well-being should help motivate sustainable consumption.

1.2.2 Emphasise the household perspective (R2)

The Stiglitz Report argues that assessing an individual's economic situation is more relevant than focusing on indicators for the entire economy. To illustrate this point, the OECD Annual National Accounts show that for many countries, real household disposable income and GDP do not necessarily follow the same trend, and are therefore not good substitutes for the other.²⁶ The **household disposable income** is indeed highlighted through R2 in order to provide more reliable information of individuals' economic situation than the GDP. But it still needs one additional adjustment to reach an accurate measure of material living standard. Properly defined, household income and consumption should also reflect the value of in-kind services provided by government, such as subsidized health care and educational services. **Adjusted household disposable income** or **actual final consumption** are measures that fit with this requirement, as far as they add to household income and to household consumption expenditure the equivalent of the goods and services provided in kind by the government.

This adjustment involves the valuation in monetary terms of individual public services (namely education and health). By definition though, these services have no price because there are not traded on a market. So, by convention, in many countries, and in the United Kingdom from the early 1960s to 1998,²⁷ the output of the government sector has been measured as of value equal to the total value of the inputs, e.g. education services are evaluated through expenditures on education (mainly compensation of the teachers). This approach does not allow for evaluating the quality and efficiency of the educational or health system. These limits have been recognised by the UK Government. The *Atkinson Review* analyses how a method based on output (e.g. the amount of care received by a patient) rather than inputs (e.g. the number of doctors) should be prioritised, as it better reflects changes in labour productivity in the public-run sector of health and education.

At this stage, it needs to be asked if tracking changes in productivity is the better way to emphasise the importance of the government in fostering capabilities and sources of human flourishing. Government services in a sector which precisely suffers from what conventional economists call the 'Baumol disease'. Indeed, Tim Jackson underlines that the education and health sectors do not perform by conventional standards; i.e. they are by definition unproductive sectors. Moreover, *the*

*pursuit of labour productivity in activities whose integrity depends on human interaction systematically undermines the quality of the output.*²⁸ So, if we want to measure what matters, then an outcomes method which measures the quality of the output seems more relevant than measuring the output itself. Instead of measuring the number of doctors or students in terms of expenditures per head (= quantitative measures), indicators of the level of education of the population, or of life expectancy (=qualitative measures) might be more relevant for designing policies. Indeed, no information is reflected in GDP on the nature and the impacts of the educational and health systems on the members of the society and the way they live together. However, '*how society is organised makes a difference for people's lives*'.²⁹ What matters are indeed not how much was spent on education and health, but how it was spent, namely which outcomes have been delivered through the spending. For instance, in 2008, the US and the UK had similar life expectancies whereas the US spent 16% of its GDP on health against 8.4% for the UK.³⁰

SDC Conclusion 4: Measures of outcomes for objective features such as health or education have to be favoured as they better highlight the importance of the state as a provider of social bond and collective solidarity than conventional measures of economic resources (namely outputs/inputs).

Be poor... but happy!

Of course you can't capture happiness on a spreadsheet, any more than you can bottle it (David Cameron, November 2010).

The UK Government intends to measure the nation's well-being alongside the GDP. The objective is to give a general picture of how life is improving within UK. In this purpose, the ONS consultation online aims at surveying what matters most in people lives and what is important for measuring the nation's well-being.³¹

This attempt to open the debate on what matters for people at the national level is commendable, and moreover it is advised by the Stiglitz Report itself. However, the SDC is concerned by the direction it could take, mainly for two reasons. Firstly, it seems that the emphasis is on tracking the nation's subjective well-being, ignoring the capabilities approach underlined by the Stiglitz Report. Secondly, while well-being (or quality of life) measures can provide a current picture of the situation, they do not in themselves provide information about future well-being which crucially depends on our ability to flourish *within environmental limits*.

The combination of both the Sen's capabilities and the finite ecology of the planet have been explored through PWG which refers to the 'bounded capabilities for flourishing'.³² Indeed, this approach recognises that flourishing is contingent on ecological resources which by nature are finite. And as the current level of economic growth is destroying our ecosystem functioning in a way which might be irreversible, ignoring these environmental limits restricts freedoms of our descendents.

The inter-generational dimension of flourishing has been analysed above. The notion of bounded capabilities likewise refers to the intra-generational dimension of flourishing. The next section will first analyse the Sen's capabilities approach. This requires going beyond subjective measures of well-being and assessing how a society manages to create the objective conditions in which basic freedoms are possible. Moreover, in order to ensure flourishing for future generations, these freedoms need to operate within clearly defined environmental limits.

2.1 Subjective measure or Objective measures?

Subjective well-being has been emphasised by Government as something to be measured. The ONS consultation, through surveying what things in life matter to people, attempts to achieve this task. However, subjective well-being is only one part of the story. As recognised by the Stiglitz Report, even if *Measures of subjective well-being provide key information about people's quality of life (R8), quality of life also depends on people's objective conditions and opportunities (R9)*. These recommendations implicitly refer to the Amartya Sen's capabilities approach.³³

This approach relies on the assumption that the ultimate goal of politics is respecting the individual's ability to pursue and realise the goals that he or she values. A person's life is conceived as a combination of various observable *achievements* of each person (functionings). Quality of Life is then assessed in terms of a person's freedom to choose among the various combinations of these functionings. While subjective states may be considered as being part of the set of capabilities considered, the capability approach emphasises that people may adapt to their life-circumstances. This need for adaptation makes subjective feelings inadequate as the sole metric for assessing Quality of Life and therefore requires objective measures as well.

Amartya Sen insists that the key questions we should be therefore asking are to do with how well people are able to function in any context (e.g. Are they well-nourished? Can they take part in the life of community? Can they find worthwhile jobs?).³⁴ In this perspective, it could already be mentioned that the UK Government relies on the assumption that economic growth is the key driver to ensure capabilities for UK citizens to flourish, as suggested by the Prime Minister (November 2010): *'Our most urgent priority is to get the economy moving, create jobs and spread opportunity to everyone'*.

However, if we assume that economic growth is still an appropriate measure - e.g. to generate greater and more widely shared employments- then, we have to ask if measuring economic growth is objectively neutral in how it supports delivery of the capabilities for flourishing. From this perspective, it would make sense to specify the qualitative outcomes that we want growth to provide (e.g. meaningful employment, less polluting production processes, well-built sense of community, prevention of stress, diseases and insecurity,). This approach would better accord with Sen's Capabilities approach than the current believing that keeping the economy moving will deliver the desirable outcomes in terms of well-being.

SDC Conclusion 5: To measure well-being effectively, a range of subjective and objective measures must be used.

2.2 Future well-being underpinning on environmental limits

The first and second areas of the Stiglitz Report analyse how to measure the economic (Part 1) and non-economic aspects (Part 2) of current well-being. The third part examines how to measure the potential for future well-being.

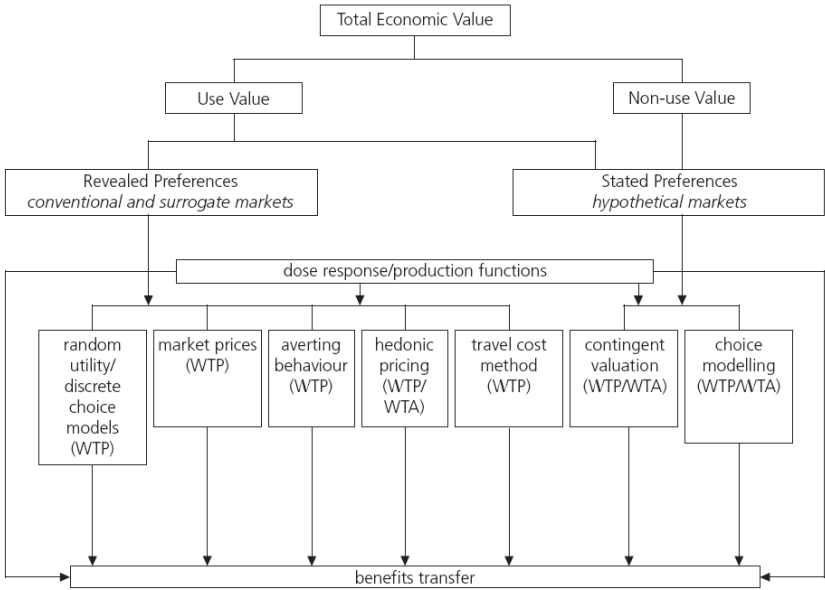
From the beginning, the Stiglitz Report makes it clear that it regards this 'sustainability' issue as augmenting current well-being and economic performance indicators. Furthermore, the relevant test for whether any dashboard of indicators effectively measures sustainability could be summarised as

follows: assuming we have been able to assess what is the current level of well-being, the question is whether the continuation of present trends does or does not allow it to be maintained. This question focuses attention to what resources we have at our disposal today, and towards the issue whether we manage these in ways that make it possible to maintain and further develop the stock of natural capital over time.

The risk of such an approach, also called the capital approach, is that it overvalues the economic contribution of the different types of capital and also overvalues the contributions that can be readily monetised. Sustainability calls therefore for a broader view of capital, with economic valuation being one tool among others, as highlighted by R11 (2nd part): *a monetary index of sustainability has its place in a dashboard but, under the current state of the art, it should remain essentially focused on economic aspects of sustainability.*

However, the SDC view is that the UK Government’s approach to value the ecosystems services focuses on economic valuation and ignores the issue of environmental limits. This approach is framed by the UK National Ecosystem Assessment (UK NEA), which stems from the work of Millennium Ecosystem Assessment and The Economic of Ecosystems and Biodiversity (TEEB).³⁵ The ultimate stage of this type of analysis resides in applying monetary valuation techniques to ecosystem service assessments.³⁶

Figure 4: Techniques for monetary valuation.



Source: DETR (1999), *Review of Technical guidance on Environmental Appraisal.*

Within the Government, this approach has been promoted by Defra.³⁷ Ecosystems are considered in a Total Economic Value framework that take into account both the use and non-use values individuals and society gain or lose from marginal changes in ecosystem services. As many ecosystem services are not traded in markets, and therefore remain unpriced, it is necessary to assess the relative economic worth of these goods or services using non-market valuation techniques.

The non-use value (knowledge that the natural environment is maintained) or the assessment of cultural/social ecosystems benefits (cultural heritage, recreation and tourism) are particularly challenging to capture since individuals find it difficult to ‘put a price’ on such values. Participatory and deliberative techniques are therefore used to elicit the willingness-to-pay (WTP) of people for a

specific scenario to happen. For example, such a technique has been applied in Scotland to elicit the household annual WTP for the management of the conservation and protection of Natura 2000 sites.³⁸ It has been found that 99% of the overall value of these sites was non-use and equivalent to £210 million per year.

This example shows that economic valuation is often the default rule when the value of ecosystems has to be assessed. Other measures including physical or non-utilitarian measures only complete the picture when the necessary assumptions allowing a proper economic valuation are not encountered. This suggests that the approach adopted is such that economics gains the hand upper environmental concerns, which clearly contradicts the integrated approach of sustainable development as well as R12 which states: *'The environmental aspects of sustainability deserve a separate follow-up based on a well-chosen set of physical indicators. In particular there is a need for a clear indicator of our proximity to dangerous levels of environmental damage (such as associated with climate change or the depletion of fishing stocks).'*

In the same vein, the SDC defines an environmental limit as:

The critical point(s) at which pressure on a natural resource or system creates unacceptable or irreversible change to the resource or system itself, and to the detriment of the humans and other organisms to which it provides a service.

SDC's view is that there are environmental limits within which the economy must operate and that Total Economic Valuation is not an appropriate method to ensure the respect of these environmental limits in policy making. We therefore recommend that an indicator of environmental wealth must be physical and reflect the need to keep a safe operating distance away from such critical points.

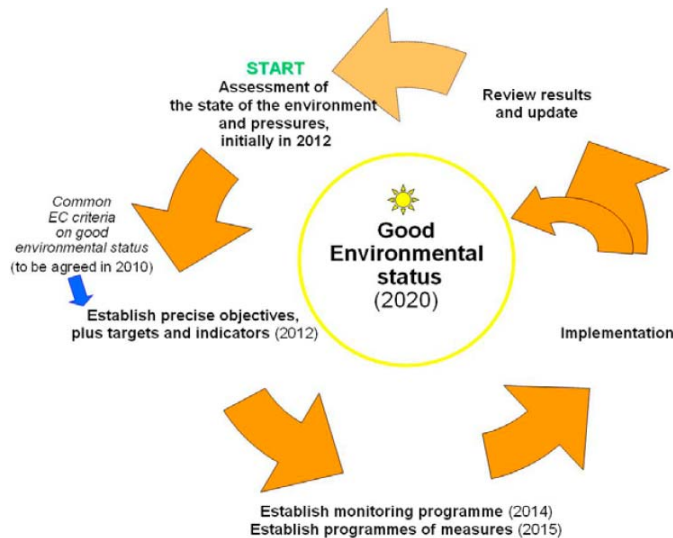
In valuing natural assets, economics must be driven by science, not the reverse. We therefore suggest that the Government should use the "Pressure-State-Response" model (PSR Model), developed by OECD, as a mechanism to monitor the status of the environmental.³⁹ The PSR model considers that human activities exert pressures on the environment that affect its quality and the quantity of natural resources (state). Society then responds to these changes through environmental, general economic and sector policies, and through changes in awareness and behaviour or activities (response).

The European Marine Strategy Framework Directive (MSFD)⁴⁰ provides an illustration of the application of the PSR model. As shown in Figure 5, it calls for the determination of good environmental status that marine waters have to achieve by 2020. Then, Member States must make an assessment of the state of their marine environment and the predominant pressures. This step allows establishing precise indicators which help monitor progress towards the defined good environment status. These indicators are mainly physical, namely describing chemical, biological and physical features that marine waters need to have in order to achieve the defined good environmental status.

Applying this framework to the UK, the forthcoming UK NEA should provide an appropriate basis of evidence for the *state* stage. A clear and regularly updated analysis of the current and future *pressures* upon this system and how best to mitigate them, or transform them into benefits could be developed through following the recommendations produced by the *Foresight Land Use Futures project*.⁴¹ Finally, a comprehensive set of policy *responses* based on the above, could deploy the range of levers available (including, for example, legislation at the regional and local level that has

promoted greater involvement by citizens and non-governmental groups in planning and carrying out environmental initiatives).

Figure 5. The Marine Strategy Framework Directive (MSFD).



Source: European Commission, DG ENV (2009), *Presentation of the MSFD*, Brussels.

SDC Conclusion 6: A systematic application of the PSR Model for the management of critical environmental resources should be implemented by the UK Government.

General Conclusion: from economic growth to a bounded economy of capabilities for flourishing

There is “more to life” than GDP but how can we measure it? Recognising that the complexity of our societal progress cannot be summarised into one single number, namely GDP, is the first step. In this task, the Government does not fail and commits itself to develop broader indicators. This leads us to the second step. How can we measure this “more to life” to capture sustainable development and well-being?

Some illustrations of UK Government approach to this question, including the ONS work, have been provided throughout this paper. It seems that the current Government focus on economic objectives and still assumes that economic growth will deliver the desirable outcomes in terms of social well-being, which furthermore is mainly measured through subjective indicators. This ignores the Sen’s capabilities approach promoted by the Stiglitz Report as well as the integrated approach of sustainable development, which sees economic, social and environmental factors as mutually supportive. Critically, a sustainable development approach requires achieving one objective without having an unforeseen negative impact on another. Any new indicators measuring societal progress tend to fit with conventional economics, and match with the assumption that growth is the vehicle for our happiness. A sustainable development approach questions this assumption.

One risk of such an approach is the following. What matters, namely the “more to life”, should be measured in such a way that policy-makers pay attention to them *alongside* the GDP. If material

outcomes and income remain the main point of reference, society will continue to use a view of prosperity based on increasing material opulence. And to give a fuller picture of this material opulence, income has to be adjusted for government services provided in kind.

Furthermore, to allow a comparison with GDP, unpaid household work has to be measured in terms of output generated through household production. In this model, distributional aspects are taken into account but only focus on how income is distributed, and ignore the other dimensions of quality of life as well as the loss of well-being triggered by unequal societies.

So, even though the Prime Minister recognises that for Britain to become a happier nation, economic growth should cease to be the over-riding priority of Government, he still claims that *'Growth stays the foundation of all our aspirations'*. However, the picture should be completed by this 'more to life'. At a UK level this is being described as a measure of happiness, but this does not aim to *'bottle'* well-being. The Prime Minister would be *'the first to roll his eyes'* if it was the case (David Cameron, 25 November 2010). So might this new measure only aim to show that even if government cuts impoverish people, they still feel happy?

The SDC view is that although environmental assets and social organisations contribute significantly to well-being through the economy, they also contribute to well-being directly. Therefore, is this process of monetising variables which by definition are non-monetary the necessary step to guarantee that attention is paid to what contributes to our well-being directly, without transiting through income? Doing this, are we really valuing all that matters?

One of the Stiglitz Report's key messages is to shift from measuring production to measuring well-being. If we want it to happen, then the political context should be such that it recognises well-being, namely improved human flourishing, as the foundation of all our aspirations instead of growth of GDP.

The measurement implications of such an approach are not precisely defined yet but the broad messages are quite clear:

- Prosperity as human flourishing should be the ultimate goal of politics. This implies recognising the direct contribution to well-being of both economic activities which does not occur in a market and of government services in kind. It also implies an assessment of how unequal societies affect these capabilities for flourishing.
- The capabilities for flourishing are a good starting point from which to define what is present-well-being. However, to allow this present-well-being to be sustained over the future, this notion has to be interpreted as 'bounded capabilities'.⁴² This means living within certain clearly defined environmental limits that has been set up through science, economics intervening only as a tool of regulation among others.

The SDC fully endorse the Stiglitz Report's call for a shift from measuring production to measuring well-being. It is time to move beyond GDP and focus on all other aspects of life which contribute meaningfully to well-being.

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