03 March 2021

Supplementing GDP as welfare measure: proposed joint list by the European Social Partners

What could an alternative set of indicators look like to measure economic, social, and environmental progress?

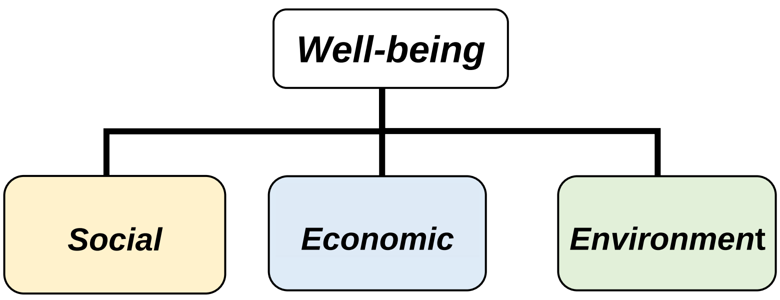
GDP (gross domestic product) has become throughout its history one of the macroeconomic indicators most used and the yardstick of economic success or failure of countries.

However, since its creation, by methodological issues, has raised justified concerns about its adequacy to be the right instrument to measure well-being and social progress. As studies show, the level and development of GDP is closely connected to welfare and well-being, but GDP (and GDP based ratios) alone may still fail to predict the reliability of an economy because *the welfare of a nation can hardly be inferred from only its National Income*.

Past attempts, such as, for example the Inclusive Wealth Report (UN), the Better Life Index (OECD) or the World Happiness Report (Layard, Sachs et al) have led to the definition of the 2030 Agenda which explains that a sustainable well-being is nothing else than a sustainable development agenda. But still consensus must be found on a set of indicators that can complement or integrate the function that GDP exercises in the economic policy planning.

The European Social Partners welcome the opportunity to contribute to this important debate. The proposition at hand centres on three shortcomings of GDP and specifically its failings to fully reflect individual well-being. As the graph below shows, we should analyse the possibilities of complementing GDP by considering additional economic, social, and environmental indicators.

Graph: Complementing GDP as a measure of well-being



We believe that sustainable well-being is the result of a thriving economy that enables quality jobs and high living conditions for all, current and future generations. The economy can thrive in dynamic societies, where entrepreneurship is alive, workers are well-educated, highly skilled, and motivated, and where women, immigrants and young workers successfully participate in the labour market in stable jobs. An open economy thrives in fair societies where public infrastructure and services offer fertile ground for competitive businesses, ensuring development of all regions and stronger cohesion, especially in rural and remote areas, giving access to opportunities and a good quality of life to all, framed by stable and modern democratic institutions.

A dynamic labour market should offer opportunities that are accessible to all to motivate people to invest in their own skills and in education of their children. Thereby, we also reach a fairer distribution of income and wealth that will eliminate poverty, tackle inequalities, and trigger social mobility. Social protection systems should ensure dignity to people at all stages of life and in all adverse situations of life, while creating incentives for work education and preserving intergenerational solidarity. A positive sentiment of trust in the future, supported by a competitive business climate and by a culture of social dialogue, will push net investments up, driving innovation and environmental-friendly patterns of production. This in turn will enhance our capacity to preserve the planet and natural resources, promoting sustainable production models. Longer lives should be lived in good health and in a non-polluted environment. Protecting peoples' health is beneficial for individual well-being but also for thriving economies and dynamic societies.

To capture these multifaceted aspects of sustainable well-being, the European Social Partners propose key indicators based on a large consensus across economic and social actors and that better catch evolving needs of the population.

Regarding **social indicators**, it is widely accepted that issues such as employment, safety from crimes, efficient and non-corrupt institutions, well-functioning social security network, etc. are correlated with a positive evaluation of one's happiness. Unemployment, or criminality or inequality would work in the opposite direction.

New **economic indicators** would complement GDP, as a measure of "quality of growth", along with indicators such as corruption, labour market slack, entrepreneurship, and quality of public services (in terms of availability and performance). Particularly, productivity would be a metric for generating growth without increasing the use of resources and therefore be a proxy for sustainability. Furthermore, the disparity of regions and its development (convergence) should be reflected.

The inclusion of **environmental indicators** in the broader measure would reflect the environmental effects of growth, both in terms of costs as well as benefits as productivity and resource efficiency increases. It is widely accepted that environmental factors are highly correlated with individual variables and are key variables for evaluating sustainability, representing consumption of resources today without compromising the ability of future generations to meet their own needs. As a result of adding these new variables, the broader framework would be also compatible with the Sustainable Development Goals (SDG) framework.

Preferred indicators are the ones that have a positive correlation with growth and well-being. Indicators should be selected among those already available and qualitatively ready to use (stable, meaningful, observed in all countries, etc.).

It should be noted that we are not proposing the indicators be combined into a single composite indicator, but rather we consider that a broader scoreboard of wellbeing better fits with our common understanding of "beyond GDP".

In summary, we propose that the following indicators indicated in the table below might form a good starting point for deeper discussion of this issue.

Table 1.1: Examples of potential supplementary GDP indicators

SOCIAL	**ECONOMIC**	**ENVIRONMENT**
Proposed indicators:	Proposed indicators:	Proposed indicators:
1. Inequality (GINI Index) (or AROPE breakdown by age and gender) [EUROSTAT] 2. NEETs (breakdown by gender) [EUROSTAT] 3. Healthy life years (at birth or at 65, breakdown by gender) [EUROSTAT] 4. Labour market slack (breakdown by gender) [EUROSTAT][1] 5. Collective bargaining coverage (%) [OECD or to be created, maybe EUROFOUND]	6. Adults participation in learning (% of population aged 20 to 64) [EUROSTAT] 7. Outcome indicators for key infrastructures i.e., quality of life indicators connected to material living conditions (housing deprivation rate etc.), access to healthcare and health status and quality of education such as educational attainment etc. [EUROSTAT] 8. Global Entrepreneurship Index [GEDI] 9. Net total investment in non-financial assets [EUROSTAT by categories][2] 10. Regional GNI disparity (between regions in a country and between countries)[3]	11. Share of renewables in power generation [IAE] 12. Greenhouse gas emissions [EUROSTAT] 13. Air pollutants [EUROSTAT] 14. Biological diversity [EU biodiversity indicators - SEBI]

[1] Labour market slack serves better a hypothetical future narrative. Someone “employed” is someone who works regardless the quality of this employment, if it is voluntary or involuntary part time, etc. It is important to make an exemption. Labour Market slack helps to measure the “quality” of employment and it is a better proxy for state of health of the economy, e.g., OECD, EUROSTAT.

[2] Investment is key to our economic prosperity, but forms is currently hidden away within overall GDP data, with expenditure on education not even considered as investment. We need to give more prominence to the important figure (including reducing for depreciation of existing investment); to be calculated from existing Eurostat data.

[3] Based on the European and Macro-regional Territorial Monitoring Tool.