TEN YEARS AFTER

From the SSF to the HLEG report

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OCDE
DES POLITIQUES MEILLEURES
POUR UNE VIE MEILLEURE

Not a reference to..

... but time since the release of the SSF report in 2009

- **Commission on Measurement of Economic Performance & Social Progress**
  - Convened in 2007 by President Sarkozy to explore limits of GDP as a welfare metric and to suggest possible alternatives
  - Key message: "GDP is <u>not</u> a measure of well-being. Growth is a means to an end, rather than end in itself" *(Mismeasuring Our Life, 2009)*

- **Many of the same arguments had been made before: so what accounted for the SSF success?**
  - Providing a <u>vocabulary</u> and <u>grammar</u> that allowed practitioners from very different disciplines and perspectives to communicate
  - Showing <u>complementarity</u> rather than competition between ≠ perspectives
  - <u>Balanced consideration</u> of objective & subjective aspects, average & inequalities, well-being today & tomorrow (sustainability)

  ➢ *More generally: Catching a mood!!!*

The High Level Expert Group

- **Independent group**, hosted by OECD, established in 2013 to pursue the 'Beyond GDP' agenda undertaken since 2009 nationally and internationally

- **Two reports** released in November 2019 in Incheon (Korea) at 6th OECD World Forum on Statistics, Knowledge and Policy:
  - Chair's Summary (*Beyond GDP: Measuring What Counts for Economic and Social Performance*)
  - Collection of authored chapters by selected HLEG members (*For Good Measure: Advancing Research Beyond GDP*)

HLEG membership

Chairs

- Joseph E. Stiglitz, Columbia University
- Jean-Paul Fitoussi, Sciences-Po, Paris and Luiss University, Rome
- Martine Durand, OECD

Members

- Yann Algan, Sciences-Po, Paris
- François Bourguignon, Paris School of Economics
- Angus Deaton, Princeton University
- Enrico Giovannini, University of Rome Tor Vergata
- Jacob Hacker, Yale University
- Geoffrey Heal, Columbia University
- Ravi Kanbur, Cornell University
- Alan Krueger, Princeton University

- Nora Lustig, Tulane University
- Jil Matheson, Former UK National Statistician
- Thomas Piketty, Paris School of Economics
- Walter Radermacher, Former DG Eurostat
- Chiara Saraceno, Honorary fellow, Collegio Carlo Alberto, Turin
- Arthur Stone, University of Southern California
- Yang Yao, Peking University

Rapporteurs

- Marco Mira d'Ercole, OECD
- Elizabeth Beasley, CEPREMAP, Sciences-Po

Two key messages from HLEG reports

➢ **Measures:** What you measure affects what you do. If you measure the wrong thing, you will do the wrong thing. If you don't measure something it becomes neglected, as if the problem did not exist

➢ **Policies:** Issues of measurement are not only technical, but go to the root of our democratic system; they will shape whether it can reconnect to the concerns of ordinary people

Three main themes of HLEG reports

1. **Better measuring the effects of the crisis**

   → *could have led to different policy response*

2. **Deepen analysis of themes already in SSF** (e.g. vertical inequalities, sustainability, subjective well-being) **and begin enquiry into new ones** (e.g. vulnerability, resilience, inequality of opportunity, trust)

   → *recognising and addressing concerns that weigh heavily in people's daily life*

3. **Encourage use of new well-being metrics in policy decisions**

   → *moving beyond identifying "problems", to anchor well-being metrics in the design, implementation and evaluation of public policies*
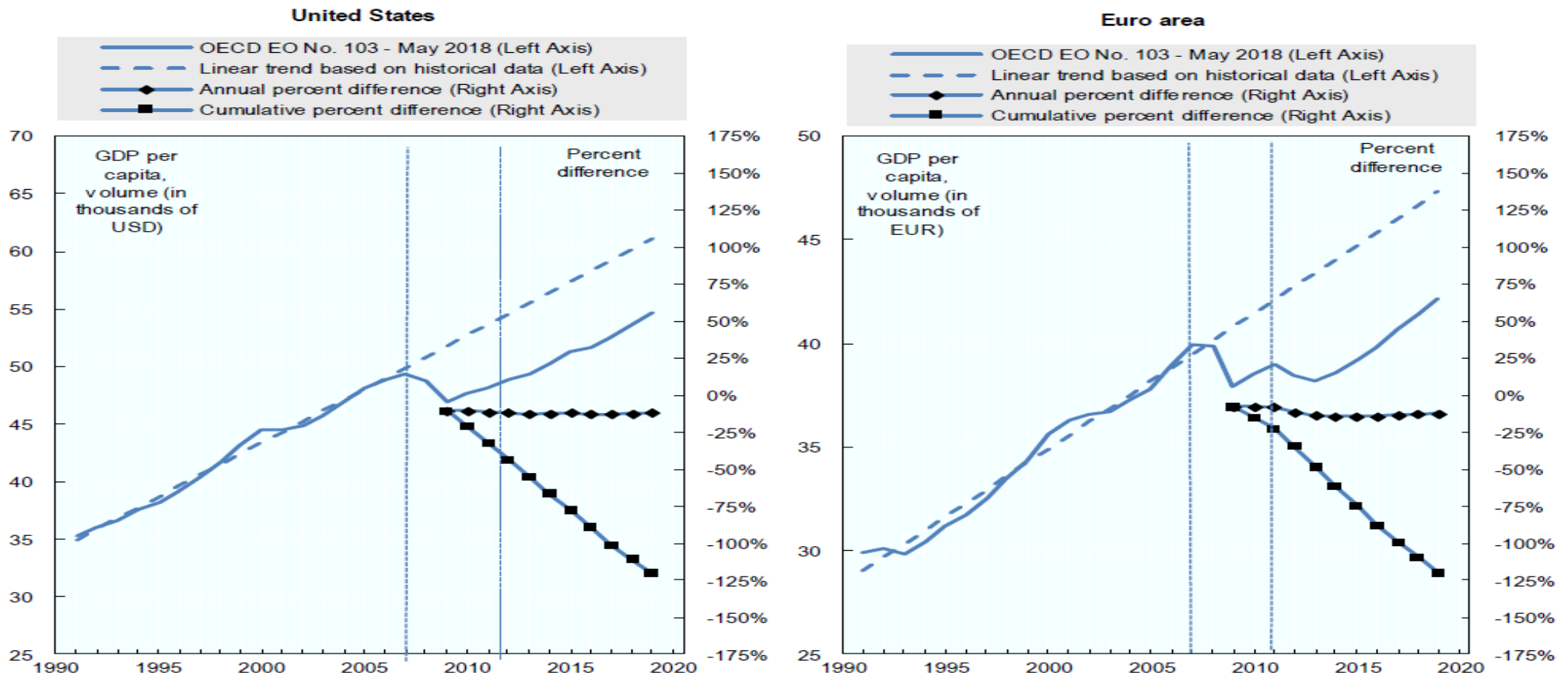
1. Better measuring the effects of the crisis

➢ Need to pay greater attention to:

- the **permanent effects of the recession** : **the "missing wealth"**

- **impacts** of the crisis **on more intangible aspects** of people's life (e.g. economic insecurity, subjective well-being, trust)

- **balance sheet** (liabilities <u>&</u> assets) **for all sectors** (private liabilities may become public when banks default)

# 1. Permanent effects of the crisis: "Missing wealth"?

The "permanent" effects of the crisis on GDP exceed 1 year of GDP

United States

- OECD EO No. 103 – May 2018 (Left Axis)
- Linear trend based on historical data (Left Axis)
- Annual percent difference (Right Axis)
- Cumulative percent difference (Right Axis)

Euro area

- OECD EO No. 103 – May 2018 (Left Axis)
- Linear trend based on historical data (Left Axis)
- Annual percent difference (Right Axis)
- Cumulative percent difference (Right Axis)

1. Unused labour resources much higher than standard measure of the unemployment rate
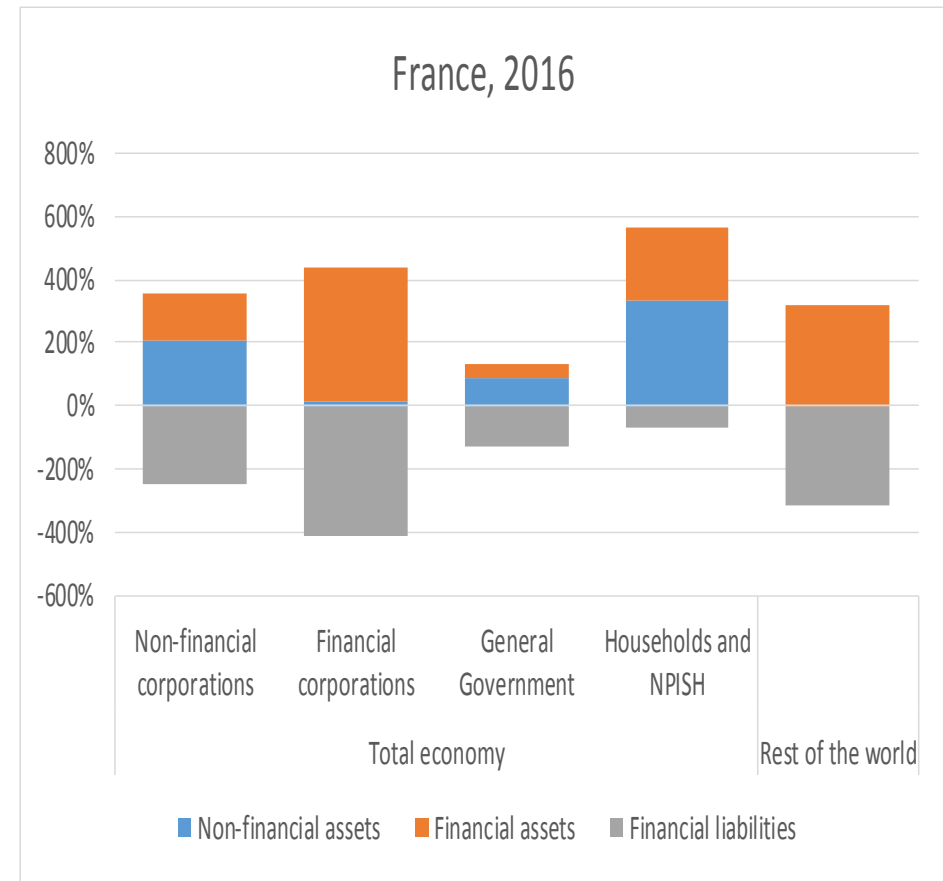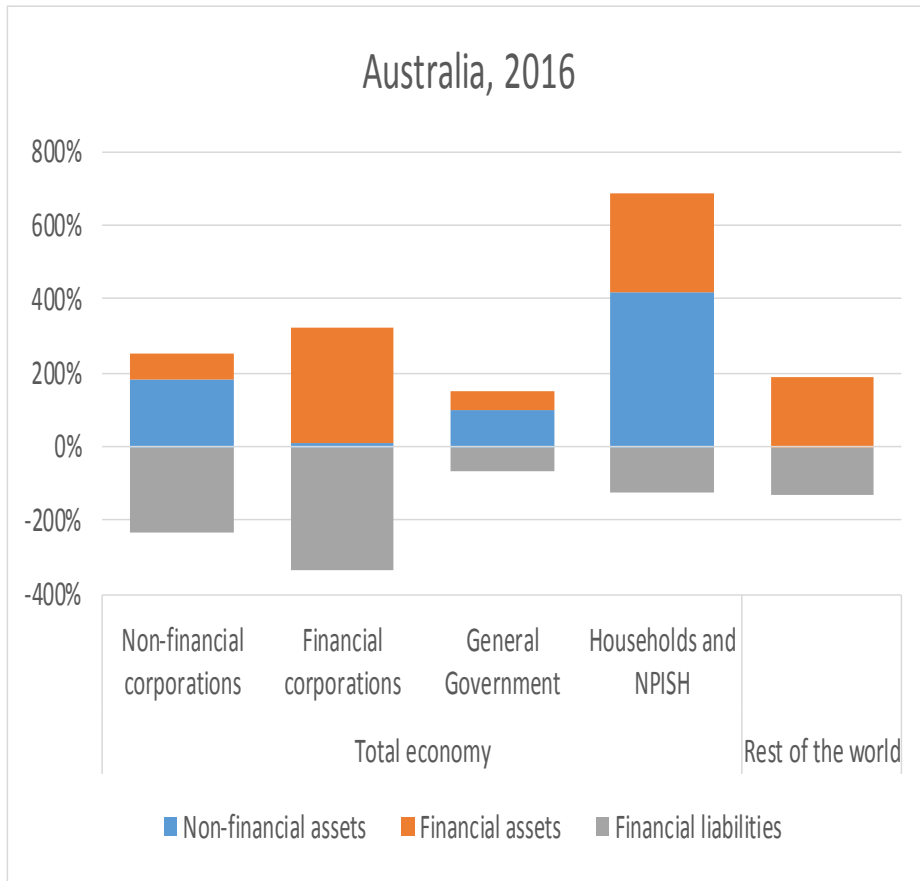
Unemployment rate
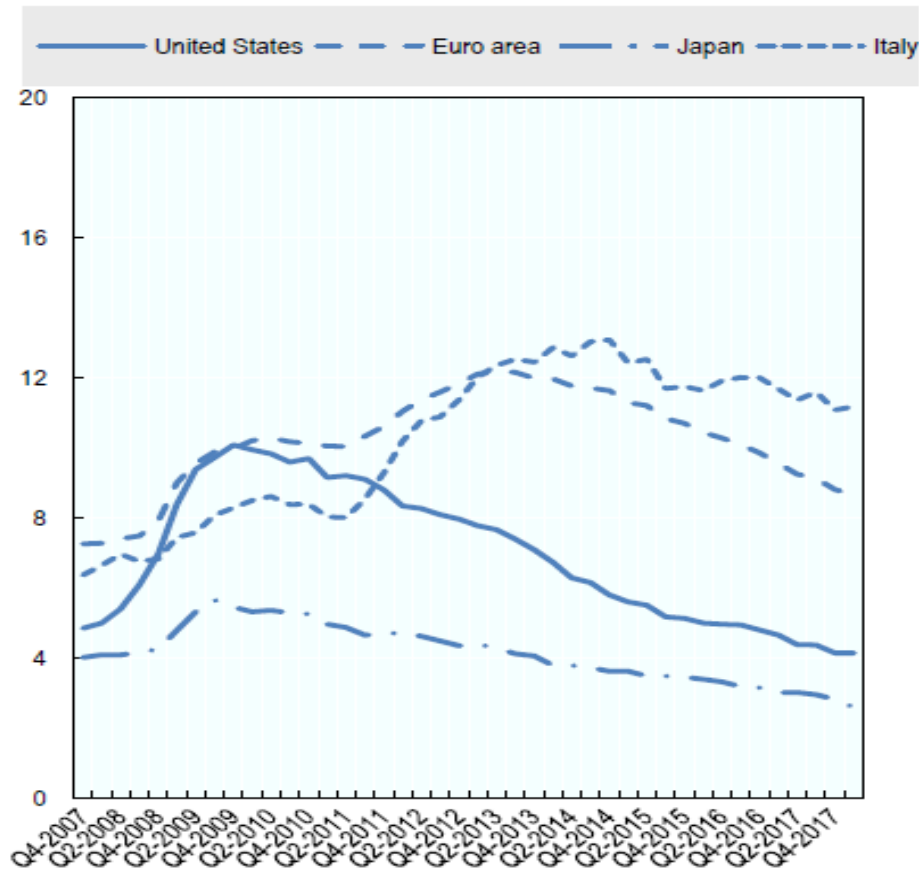
Labour force underutilisation
(incl. involuntary part-timers and discouraged workers)
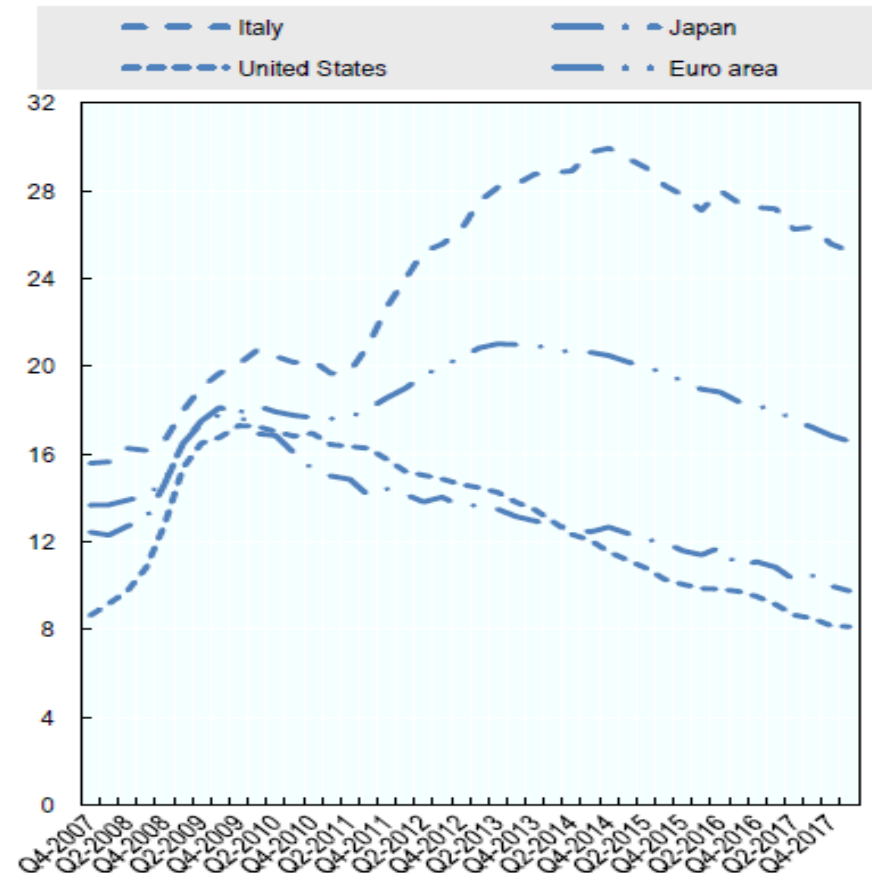
1. Gross public debt vs. net wealth of all institutional sectors

Australia, 2016

France, 2016

2. Deepen research and statistical efforts

A. Improving existing measures

– Vertical inequalities in economic resources

– Horizontal inequalities in quality of life

– Subjective well-being

– Sustainability

B. Developing metrics in new fields

– Economic insecurity

– Inequality of opportunity

– Trust

2A. Improving existing measures: vertical inequalities in economic resources (1)

- **What are they? Inequalities in earnings, income, consumption, wealth**
  - Within countries and at the world level
  - Integrating economic inequalities in macro-economic statistics (to answer the question *"who benefits form GDP growth*?")

- **Why are they important?**
  - Increases in GDP pc do not reflect what is being experienced by most citizen, especially when inequality is rising (as in recent years), leading to mistrust in data and governments

- **Where do we stand?**
  - Statistical standards exist for income inequalities but not for consumption and wealth; issues of timeliness, under-coverage, under-reporting at both ends of distribution
  - Much bigger issues of data quality in non-OECD countries.

2A. Improving existing measures: vertical inequalities in economic resources (2)

- **What should be done?**

  – Defining a more comprehensive income concept (incl. benefits in kind, consumption taxes, capital gains), with metrics produced as "experimental statistics"

  – Systematically assessing scope for underreporting and non-coverage of the rich, allowing NSOs to use (anonymised) tax records for linking to survey records

  – Using all data sources on wealth inequality (e.g. surveys, censuses, lists of large wealth-holders, administrative data on people's estate at death and on annual wealth taxes)

  – Addressing inconsistencies in international datasets used for research

- **General philosophy**

  – Different sources have different types of errors:
  by crossing different perspectives we can get a better understanding of reality

2A. Improving existing measures: horizontal inequalities (1)

- **Horizontal (group) inequalities in all well-being outcomes** (e.g. health, skills, political voice) **between people sharing common characteristics** (e.g. age, education, place of living, country of birth)

- **Why do they matter?**
  - They shape people's identity, affect people's well-being, are a source of discrimination, political grievances & mass mobilisation

- **Where do we stand?**
  - Few comparative measures of the relevant outcomes
  - Differences in range of individual characteristics considered in national and international studies for different outcomes
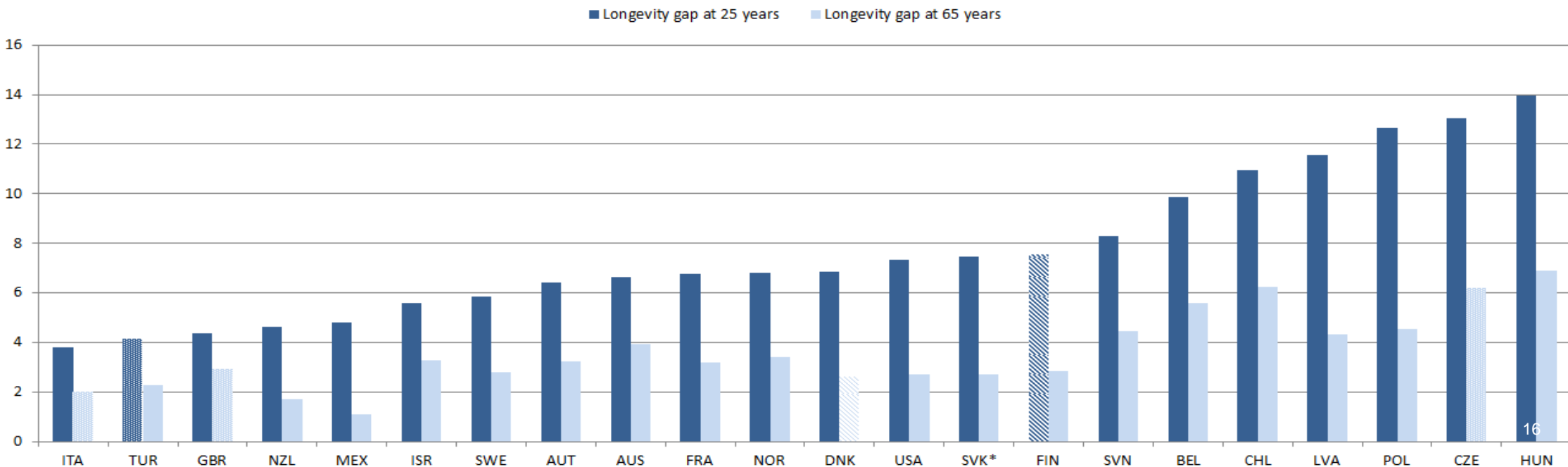
2A. Improving existing measures: horizontal inequalities (2)

- ## What do we know based on existing evidence?

  – Horizontal inequalities can be large

Life expectancy at age 25 and 65 by education
(lower secondary vs. tertiary education)

2A. Improving existing measures horizontal inequalities (3)

- **What should be done?**

  – Define common set of group categories (e.g. disability, gender, ethnicity, place of living) implemented throughout the statistical system, and assess broad range of inequalities (e.g. health, education, political voice) beyond economic ones

  – Move beyond assumption of full sharing of economic resources within households and develop measures of intra-household inequality through either the inclusion of specific questions in surveys or through more systematic collection of data for all household members

  – Develop measures of the "gender wealth gap" by including questions on ownership of key asset categories and through data on marital regimes (and what these imply)

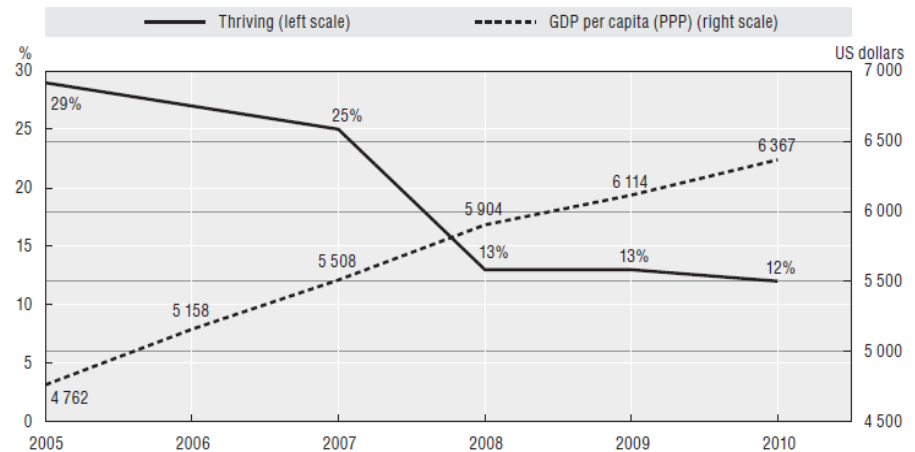# 2A. Improving existing measures: subjective well-being (1)

- ## What it is?

  – Not a single construct but 3 different concepts: ***evaluative measure*** (life satisfaction), ***experiential well-being*** (feelings, states and emotions at a given moment), ***eudemonia*** (meaning & purpose, flourishing & thriving)

- ## Why does it matter?
  Subjective well-being measures convey information that is not provided by more objective data (although the reverse is also true)

Figure 1.2. **Trends in subjective well-being and GDP in Egypt: 2005-10**
Recent trends in percentage "thriving" and GDP per capita (PPP)

Thriving (left scale) ----- GDP per capita (PPP) (right scale)

29% | 25% | 13% | 13% | 12%
4 762 | 5 158 | 5 508 | 5 904 | 6 114 | 6 367

Source: Gallop World Poll

2. Improving existing measures: subjective well-being (2)

- **Where do we stand?**

  - Significant uptake by OECD NSOs, following 2013 release of *OECD Guidelines on Measuring SWB*

- **What do we know based on existing evidence?**

  - **New knowledge** on both **substantive issues** (e.g. relation between SWB and income/GDP, age-patterns, correlates & determinants) and **methodological ones** (memory & recall periods, information on people behaviours based on how they value trade-offs between competing goals)

- **What should be done?**

  - Continue regular data collection based on standardised questions
  - Collect quality-data on joint distribution of SWB and other variables (income)
  - Look beyond life satisfaction (e.g. experiential well-being) and examine their relationship
  - Resolve methodological issues (systemic inter-personal ≠ in response styles)
  - Develop models of how ≠ SWB measures predict (and are affected by) other variables
  - Add SWB questions in randomised experiments of programs (*Moving to Opportunity*)

2A. Improving existing measures: sustainability (1)

- ## What it is?
  - Ensuring that individual and societal well-being can last over time

- ## What does it require?

  - Preserving resources needed by future generations <u>and</u> assessing relationship and risk-factors as part of broader "systems" (which requires looking beyond separate measures of stocks/flows of economic, natural, human and social capital)

- ## Where do we stand?

  - **Economic capital**: increased NSOs investment (G20 Data Gaps Initiative) in developing balance sheets for all institutional sectors, with more complete range of assets & liabilities, cross-border & cross-sectoral links, currency & maturity mismatches

  - **Natural capital**: approval of *SEEA Central Framework* as statistical standard (2014), with differences across countries in priority areas for implementation (assets account for land & sub-soil assets in many non-EU OECD countries, flow-accounts in EU). *SEEA <u>Experimental</u> Ecosystem Accounts* (2014)

  - **Human capital**: substantial progress in measuring attainment in formal education and (some) cognitive skills (OECD PISA/PIAAC), some countries implemented monetised HC satellite accounts typically limited to formal education

  - **System accounts**: experimental, specific applications (e.g. different drivers affecting water quality/quantity)

2A. Improving existing measures: sustainability (2)

- ## What do we know based on existing evidence?

  – Improved understanding of the relation between a range of environmental assets and well-being outcomes, existence and quantification of "**tipping points**" for many critical resources, assessment of haw far we stand from them

- ## What should be done?

  – *Capital approach*

    - **Economic capital**: full & timely balance sheets for all institutional sectors; assets & liabilities; better distinguish between changes in values & volumes, assets that add to production & those that don't (land); reconsider some distinctions between C & I)

    - **Natural capital**: fully implement SEEA; improve their timeliness (nowcasting) and communication (e.g. on "carbon space" left before reaching tipping point); improve measures of land & ecosystems; recognise non-linearities (e.g. climate) and limits of market prices

    - **Human capital**: improve individual-level measures of (cognitive & non-cognitive) skills; develop HC satellite accounts (covering education & training); cost-based approach for monetisation, further research on income-based valuation

  – *System approach*

    - Need for standardised vocabulary
    - Dialogue & horizontal co-operation across disciplines on how to conceptualise & measure "system resilience"
    - Create an International Task Force to improve measurement of systems resilience, links & interactions, dynamic properties
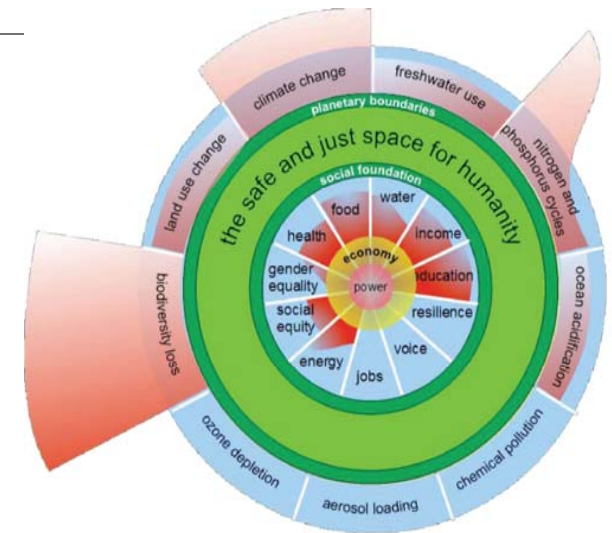
2B. Developing metrics in new fields : Economic insecurity (1)

- **What it is?**
  - "Vulnerability to economic losses". "Economic" used here as descriptor of the consequences (income losses) rather than of its cause (e.g. sickness, unemployment, family breakdown)

- **Why it matters?**
 - Many reforms have shifted risks from firms/governments towards households

- **Where do we stand in terms of measures?**
  - No measure (either objective of subjective) widely used and accepted
  - Some measures exist that are consistent with available theory and evidence, could be easily produced with existing data, and should be used in policy to reduce economic insecurity

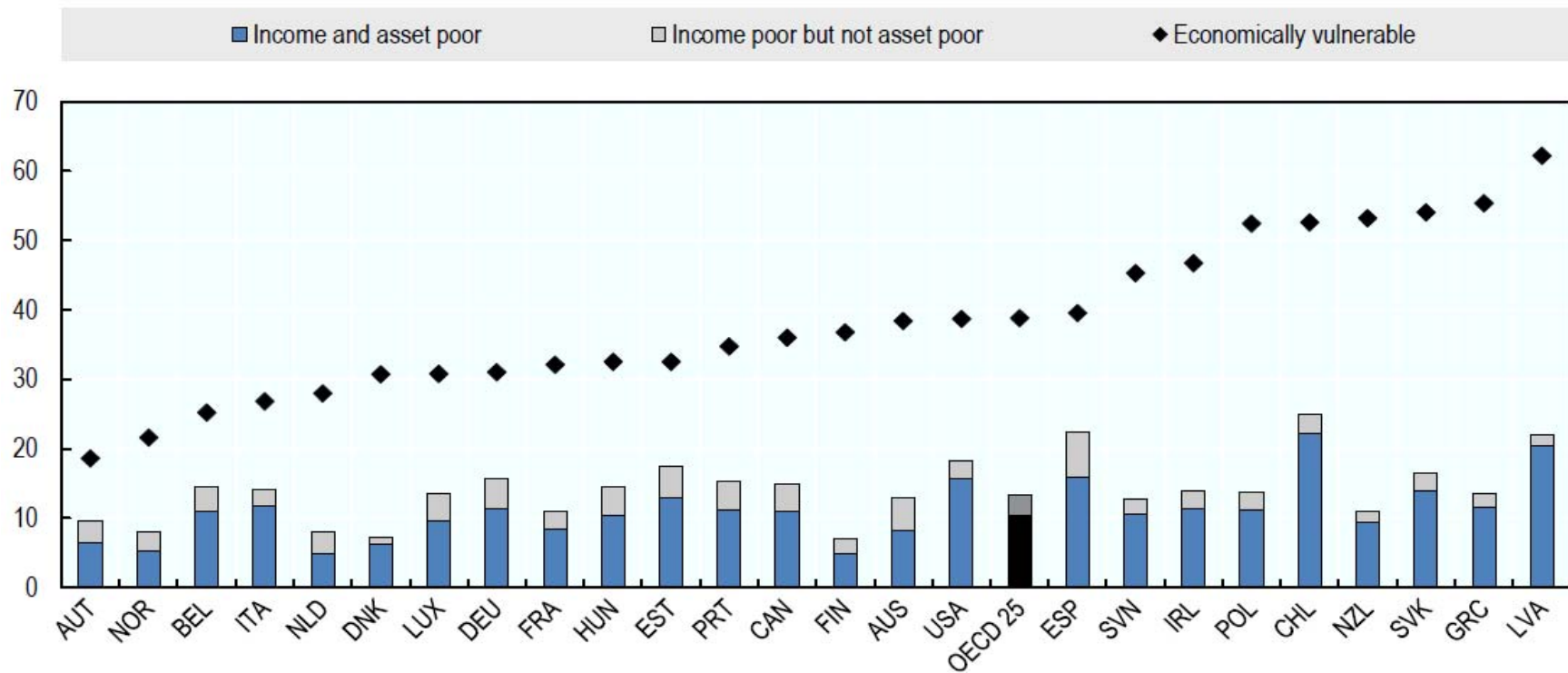# 2B. Developing metrics in new fields : Economic insecurity (2)

Share of people experiencing an income fall ≥ 25% from one year to the next

◆ Mean incidence of 25% arc decline
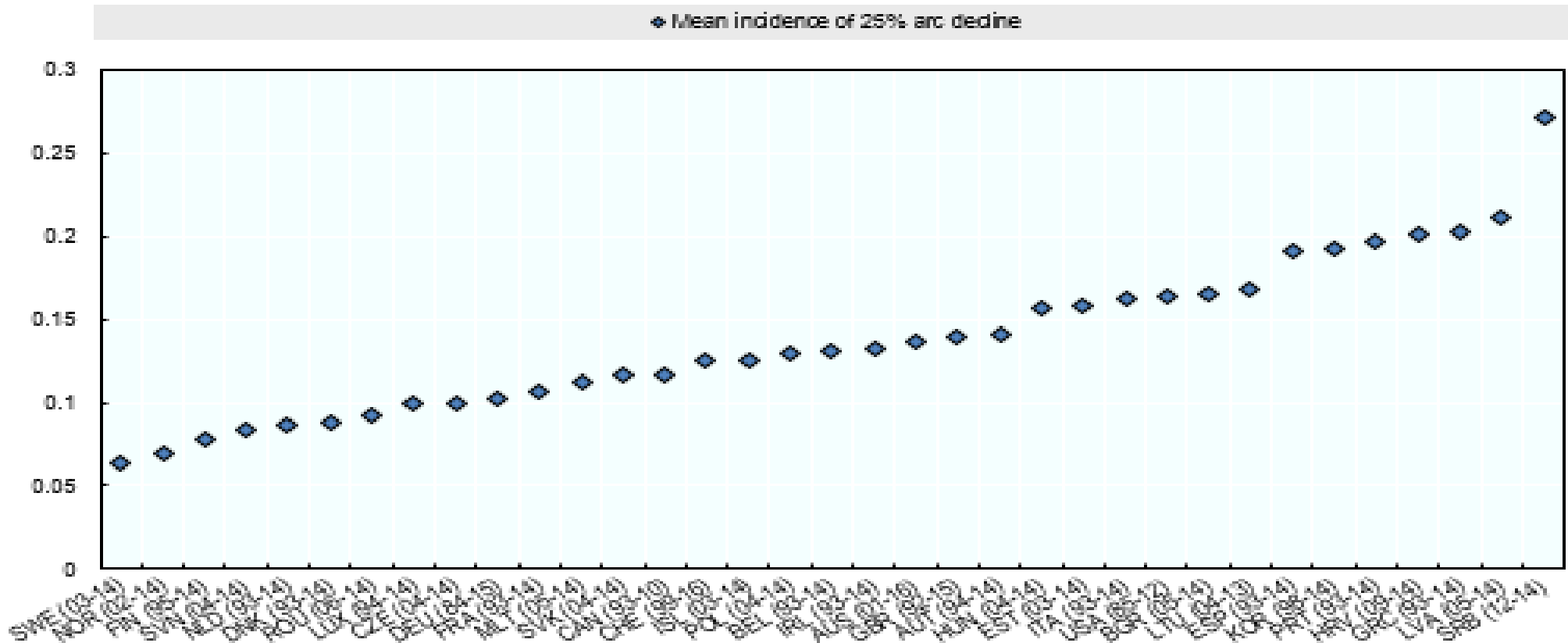
2B. Developing metrics in new fields :
Economic insecurity (3)

Share of population income-poor and economically vulnerable (not income-poor but with liquid assets insufficient to cover 3 months of poverty level consumption)

2B. Developing metrics in new fields : Economic insecurity (4)

- **What should be done?**

  – Encouraging multi-disciplinary research on concepts (salient risks, available buffers) and measures (identify causality and confounders)

  – Improving the evidence base (comparable panel data, linking panel and administrative data on benefit use, incorporate small set of 'security monitors' in opinion surveys, assess relation between objective and subjective measures)

  – Identifying small number of core metrics (e.g. income risks, available buffers, perceived insecurity, "named risks", e.g. unemployment, disability), not aggregated into a single index

2B. Developing metrics in new fields : Inequality of opportunity (1)

- **What is it?**
  - Circumstances involuntarily inherited or faced by people (i.e. ex ante inequality) that are shaping achievements later in life

- **Why it matters?**
  - They are one of the key drivers of outcome inequality
  - They are typically associated with discrimination and with factors standing in the way of full use of talents, hence also implying lower economic efficiency

- **Why it is difficult?**
  - Many "circumstances" cannot be observed
  - Other factors beyond "efforts" (e.g. preferences, luck) shape the relation between unequal circumstances and outcomes
  - We observe some opportunities (e.g. gender) but not others (parental upbringing), we don't observe "efforts"
  - The best we can do is observing mobility matrices (inequality of opportunities differs across different cells
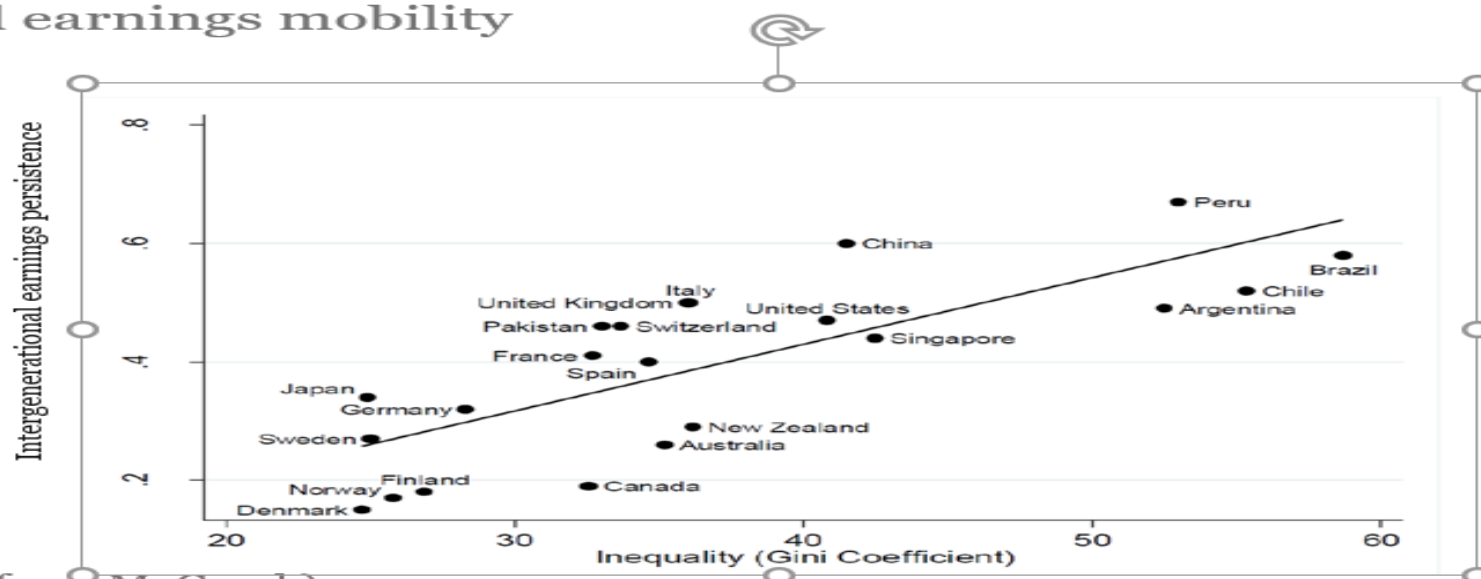
2B. Developing metrics in new fields Inequality of opportunity (2)

- **Where do we stand?**

  – A range of partial measures limited to selected outcomes (e.g. earnings) & circumstances (e.g. parental background), typically available for a single point in time

  – Average correlations (as in figure below) don't adequately describe income dynamics

  – Existing measure still belong to research rather than statistical practice

Intergenerational earnings mobility

Source: HELG 2019 (from M. Corak)

2. Developing metrics in new fields
Inequality of opportunity (3)

- **What should be done?**
  - Data requirements …
    - Long-term panels allowing to observe circumstances in childhood & adolescence
    - Linkage of administrative data (e.g. parents & children), as in Nordic countries
    - Recall questions on past family circumstances in cross-sectional surveys, with information available at regular intervals based on the same format (analysis for ≠ birth cohorts)
    - Standard questions on bequests in wealth surveys
    - PISA-type instruments to measure cognitive & non-cognitive skills for pre-school children
  - … with priority on following statistics
    - Inequality in PISA test scores and share of it explained by family background
    - Inequality of economic outcomes (e.g. income) arising from parental background and its share in total inequality of outcomes
    - Gender inequality in earnings, adjusted and unadjusted for differences in background characteristics (education, age, occupation, job experience..)

2B. Developing metrics in new fields: trust (1)

- **What it is?**
  - *"a person's belief that another person or institution will act consistently with their expectations of positive behaviour"* (OECD Guidelines on Measuring Trust, 2017)

- **What it matters?**
  - Extensive evidence that existing measures of trust are significantly correlated with economic and social outcomes (e.g. GDP per capita, life-satisfaction, life expectancy, income inequality)
  - Trust is affected by economic policies (response to the crisis in some countries lead to higher distrust in governments, contributing to poorer performance in subsequent years) and other institutional features

- **Where do we stand?**
  - Range of measures, based on small-scale, often one-off unofficial household survey, using ≠ questions, response scales, range of other people (e.g. strangers, people you know personally) or institutions (e.g. government, judicial system, the army, the press) considered

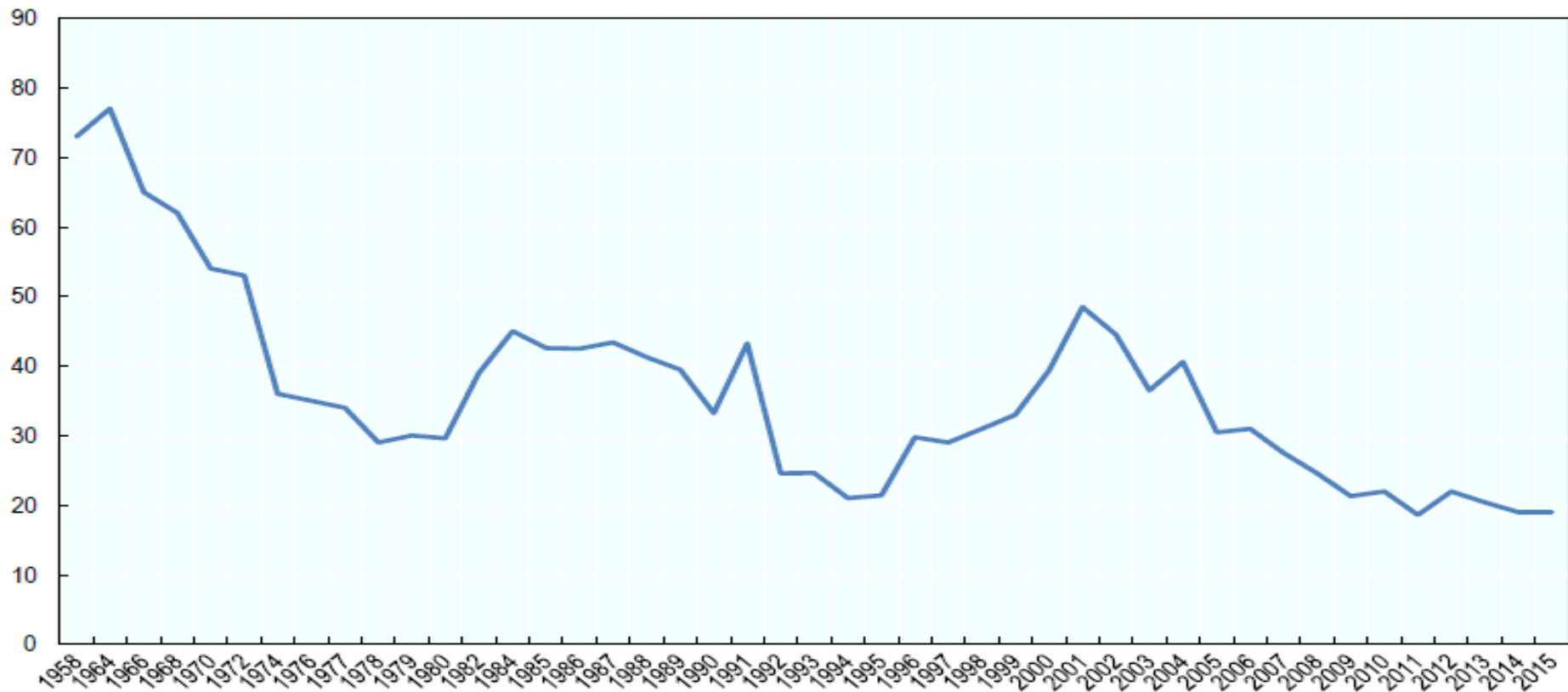# 2B. Developing metrics in new fields : Trust in others (2)

"Trust in people you don't know personally"(World Value Survey)

Proportion of people trust (%)
WVS/EVS/Afrobarometer

- [3.7 ; 7 [
- [7 ; 15 [
- [15 ; 23[
- [23; 68]
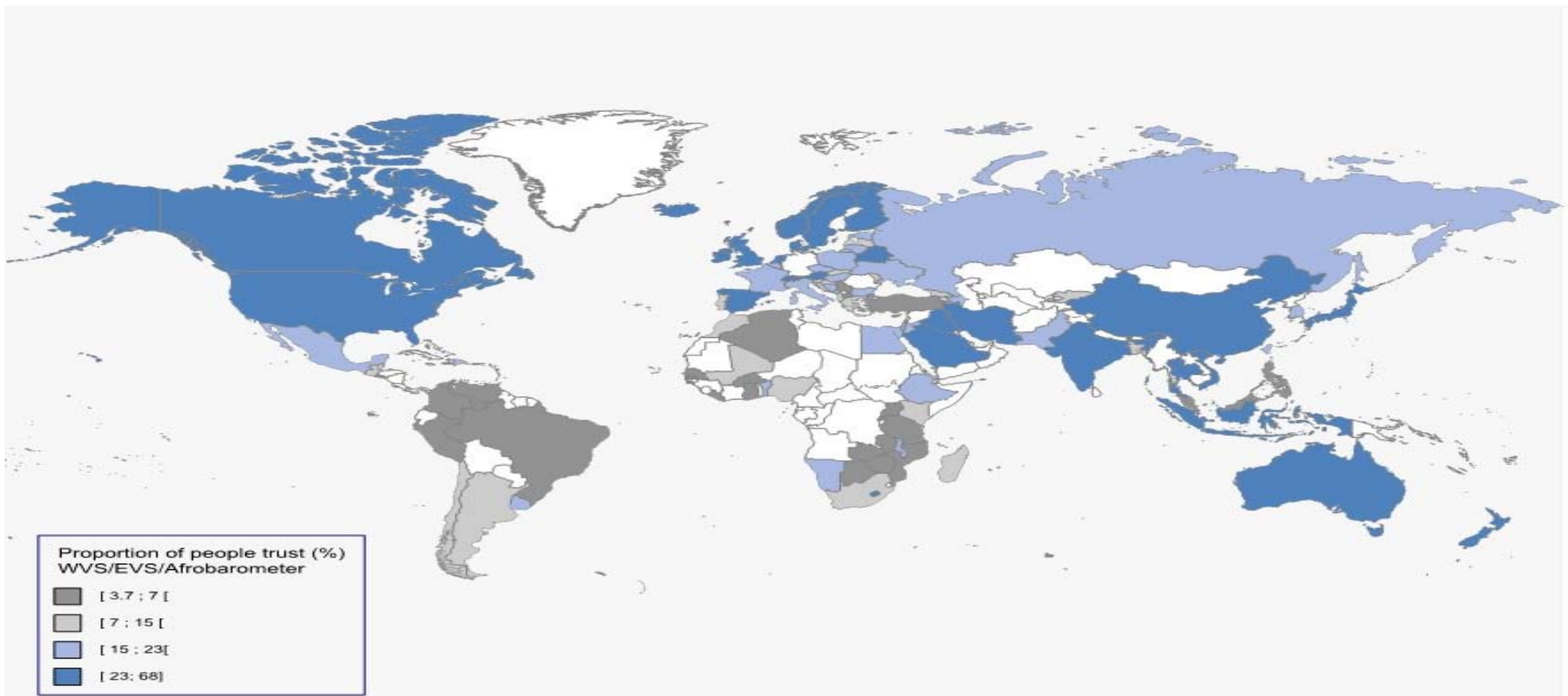
2B. Developing metrics in new fields : trust in institutions (3)

"Trust in the federal government in the United States"

(%), Pew Survey People & the Press

2B. Developing metrics in new fields: trust (4)

- ## What should be done?

  – Include trust questions in official surveys based on common approach (*OECD Guidelines*) and pursue research on properties & validity of these measures

  – Develop more experimental & quasi-behavioural measures of different types of trust and analyse their properties alongside survey measures (e.g. *Trustlab*)
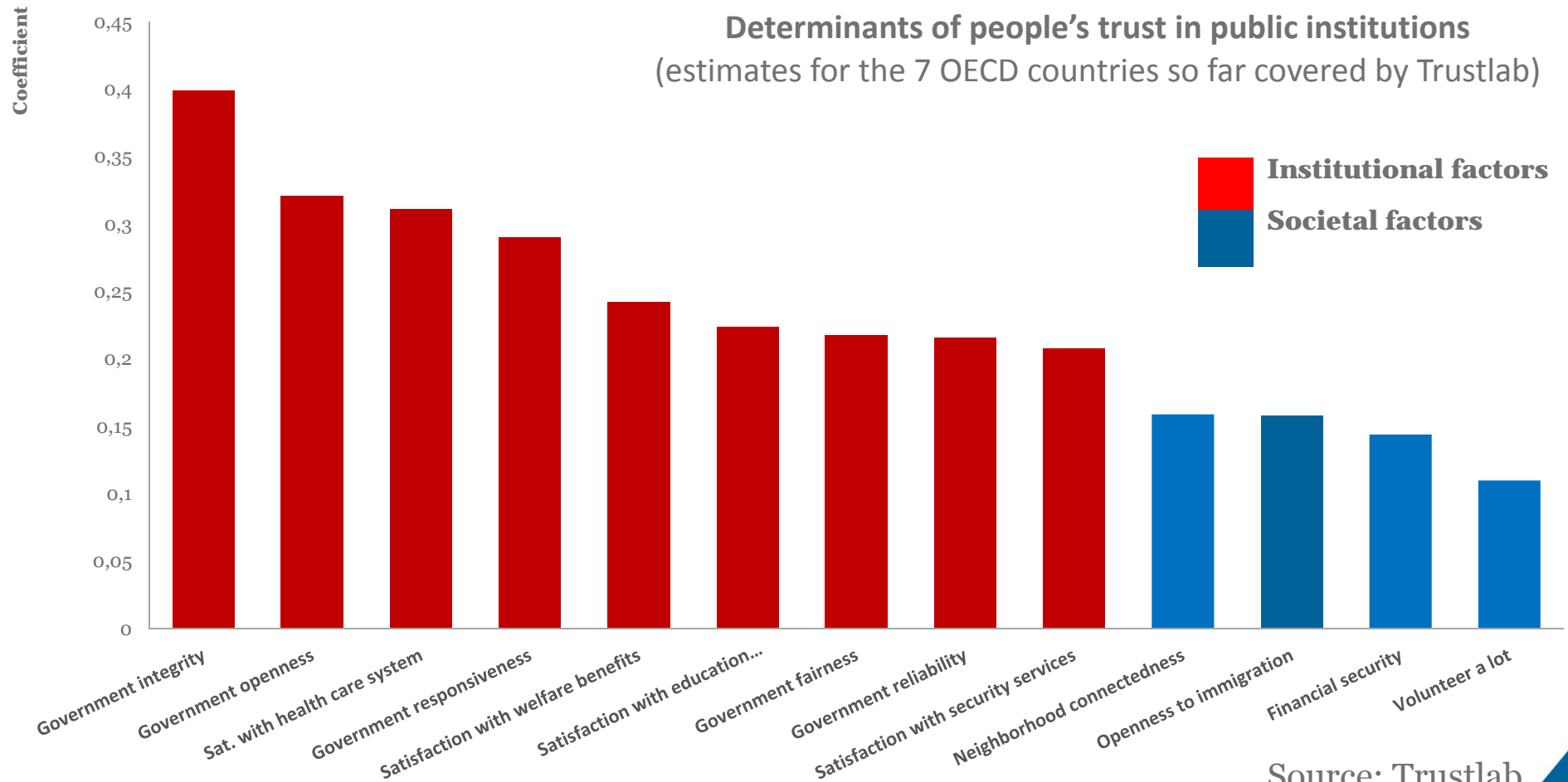
OECD Guidelines on Measuring Trust

OECD

OECD Better Life Initiative

Determinants of people's trust in public institutions
(estimates for the 7 OECD countries so far covered by Trustlab)

Institutional factors
Societal factors

Source: Trustlab

3. Using well-being metrics in public policies

- Anchoring these new well-being indicators in all phases of the « policy cycle », beyond the simple diagnostic

- Several national initiatives
  - France: Lois Sas in 2015
  - Italy: 2016 budget reform law
  - New Zealand: first "well-being budget" in 2019
  - Scotland, Slovenia, Slovak Republic: Performance framework, national development plans
  - United Kingdom: new institutions, new instruments for public officials
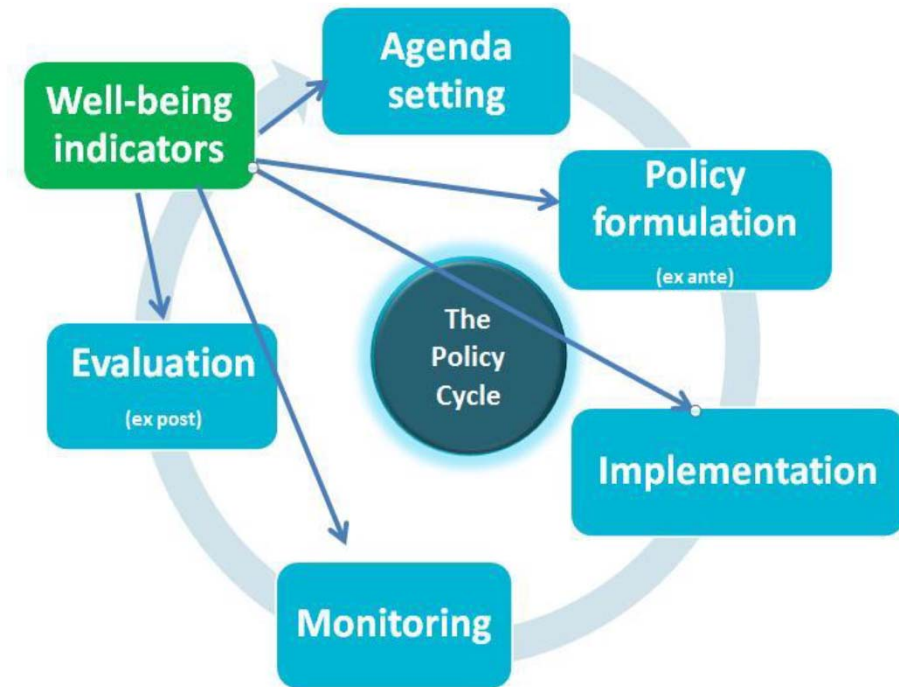
12 recommendations

Grouped under broader headings:

- **Improving measures of all types of inequalities** (economic, health, skills, opportunity, spatial, gender, within-families, world inequalities) and integrate them within macro-economic statistics (to answer question "who benefits from GDP growth?")

- **Assess sustainability through full set of balance sheets** (for all sectors of the economy, for all types of assets, including natural and human capital)

- **Develop new measures of people's economic insecurity** (both objective and subjective) and assess all policies for their effects on this insecurity

- **Develop measures of people's own evaluations and feelings** (subjective well-being, trust in public institutions and in others) combining surveys and experimental tools

- **Use administrative and big data for statistical purposes,** e.g. to have more timely and granular information

- **Use new well-being metrics to inform all stages of public policies** (when allocating budgetary resources, assessing ex ante various proposals, monitor implementation and effect, auditing programmes ex post)

Thank you !