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Wealth, welfare and well-being: how to reconcile them in a changing Europe?

Report

Committee on Economic Affairs and Development
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Summary

The economic crisis is presently forcing our societies to rethink their relationship with wealth creation and to consider economic growth in the light of societal well-being. The 21st century cannot be designed with software inherited from the 20th century.

Although gross domestic product (GDP) is still a key indicator for measuring our economies, it is insufficient for measuring well-being since it constitutes a purely accounting standard. Nowadays there is a need to take account of other indicators which reflect the variety of factors contributing to societies' well-being, such as health, the environment, education and democratic values.

Many European and international institutions have begun to consider this issue and the initial practical applications. The Council of Europe has contributed to this extensive debate and this Parliamentary Assembly's report reflects these discussions, which address fundamental issues of democracy, human rights and the rule of law, not least with regard to their economic aspects.

The report emphasises the need to take into account a variety of social aspects so as to make headway towards an improved measure of general well-being and a new definition of progress, which must in future reflect societal concerns that have been lastingly changed by the recent economic crisis.



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A. Draft resolution

1. The pursuit of prosperity and life in dignity for all is the overarching aim of European society. Ever since the destructive and disruptive world wars, Europe has sought to embrace a robust development path that would consolidate its commitment to the shared spiritual and moral values that underlie the principles of democracy, human rights and the rule of law. Yet the past decade has exposed many shortcomings in the prevalent development model based on excessive reliance on the wealthy post-war generation and the lack of a holistic approach. Economic growth, social wellbeing and protection of the environment must be rebalanced in a way that puts the quality of life at the centre of development policies.
2. Gross Domestic Product (GDP), which measures a country's level of production, has become the benchmark of the progress of our civilisation, and the well-being of our citizens. However, the current economic crisis is forcing us to re-examine how society relates to wealth and to take social well-being and environmental imperatives into account when considering economic growth. The Assembly believes that it is no longer sufficient to use GDP as the sole instrument for measuring our economic and social condition because it is a purely accounting tool. Automatically equating GDP growth with well-being has become obsolete.
3. The Parliamentary Assembly considers that the time has come to develop appropriate political, economic, social and environmental responses in a rapidly changing world and in a Europe where economic disparities subsist, notably between East and West. It therefore emphasises the need to use other parameters that take into account other non-monetary or non-financial factors that contribute to countries' national wealth and the well-being of their peoples. Political and economic decision-makers must now equip themselves with new transversal tools that reflect the major challenges of the 21st century, such as those stemming from the reorganisation of the global economy, climate change and demographic issues.
4. The Assembly welcomes the various initiatives of the Council of Europe (seminar on "Involving citizens/communities in measuring and fostering well-being and progress: towards new concepts and tools", Strasbourg, 27-28 November 2008), the Organisation for Economic Co-operation and Development (OECD), which has launched a global project on "Measuring the progress of societies", the European Commission, the European Parliament, the Club of Rome, the World Wide Fund For Nature and the OECD, with their joint international conference "Beyond GDP – measuring progress, true wealth and the wellbeing of nations" (Brussels, 19-20 November 2007) and its follow-up, and the international Commission on the Measurement of Economic Performance and Social Progress which delivered its recommendations on 14 September 2009.
5. The Assembly calls on national parliaments to draw upon the work accomplished by the various international organisations and experts in drafting future legislation and to hold country-specific debates on the implications of the above initiatives in a national context.
6. In particular, and in order to secure a clearer picture of the well-being of Europeans, the Assembly urges the Council of Europe member states to take better account of the following principles:
 - 6.1. environmental issues are of fundamental importance for the well-being of European society and, above all, the survival of future generations. Global warming, depletion of natural resources, environmental degradation and the disappearance of animal and plant species all have a major impact on the immediate environment and living conditions of 800 million Council of Europe citizens. Precise measures are needed of the threats to, and the physical condition of, this natural capital and their impact on human capital;
 - 6.2. the health of European citizens, the management of public health systems and enhanced access to quality health services are essential. Demographic challenges are forcing our societies to make new health policy choices. While the increase in life expectancy has implications in terms of structural policies needed to adapt to the changing situation, it is also a source of economic growth;
 - 6.3. growing inequalities and the deterioration in social well-being are often the first consequences of economic crises. Today more than ever in the past we have a moral duty to protect and assist the most vulnerable members of the community and those who are most likely to suffer discrimination, for example as regards the wage gap between women and men or discrimination against persons from minority backgrounds in the employment and housing fields. One of the main priorities must be to develop indicators that provide us as precise a picture as possible of the state of social cohesion in Europe;

- 6.4. strengthening democracy, the rule of law and respect for human rights remain absolute priorities for the Council of Europe. Living in peace, the enjoyment of public and civil freedoms, a fair judicial system, anti-corruption efforts and respect for ethnic, linguistic and religious differences all increase political well-being, and this is rapidly transformed into economic benefits;
 - 6.5. a high standard of education is essential for the development of skills and thus for Europe's competitiveness in the context of globalisation;
 - 6.6. a continued deterioration of labour markets translates not only into human distress due to unemployment or precarious employment but also swelling public budget deficits and, inevitably, worsening general well-being.
7. The Assembly therefore calls on Council of Europe member states to ensure adequate budgetary support for their development policies with a view to pursuing more balanced and healthier economic growth.
 8. The Assembly further considers that the search for new indicators of societal well-being must not eclipse the general debate on ways to improve GDP measurement so that it covers economic data not measured so far, such as the various activities within the household economy.
 9. Well aware that measuring well-being can only be effective if there is general agreement on the subject and, above all, if the relevant initiatives have wide support, the Assembly wishes to see a continuing international debate on the question of well-being at major high-level gatherings and existing international forums, such as the G20 where a working group on growth indicators could be established. This debate needs to address key problems arising from our lifestyles, of which the shortcomings have been highlighted by the economic crisis, and seek to propose new economic solutions for our societies which do not come down to a mere choice between all-pervading government control and the sole rule of free-market economics.
 10. The Assembly also urges member states, and particularly local and regional authorities, to do much more to raise public awareness of what constitutes greater well-being. It therefore encourages all local authorities that so wish to collaborate with the Congress of Local and Regional Authorities of the Council of Europe, which has considerable expertise in this area.
 11. The Assembly also considers that civil society should be fully involved in the various activities concerned with identifying indicators. As those primarily concerned, citizens must be consulted on the basis of genuine participatory democracy before any indicators are applied. The new indicators can be established only within the framework of social consensus.
 12. Finally, the Assembly considers that the various bodies of the Council of Europe should continue working on the fundamental issue of well-being.

B. Explanatory memorandum, by Mr Vrettos, rapporteur

1. Introduction

1. The economic crisis which is seriously affecting European economies has highlighted the shortcomings of a system that has fostered severe economic and social disruption. In the name of ever-increasing growth and the reckless pursuit of wealth, bad economic practices have become widespread.

2. These practices have unfortunately been concerned less and less with the well-being of individuals, not only the most disadvantaged but also people seen as belonging to the middle classes. Moreover, “growth” has too often been perceived as a shortcut to progress, even as evidence accumulated concerning a growing imbalance between the economic, environmental and social aspects of development.

3. Since 1989 and the fall of the Berlin Wall, disparities in economic growth have been observed between European states in the West and those in the former Soviet Union’s sphere of influence, principally in central and eastern Europe. The well-being of these countries’ populations has therefore not developed along the same lines.

4. The analysis of growth, progress and well-being has often led not to a linking of these three concepts in the minds of political and economic decision makers but to emphasis being placed on only one or two of them, such as growth and progress, which, the decision makers believed, would automatically involve the third notion, that of well-being.

5. However, that did not happen. This was because, firstly, very little real interest was shown for well-being, which was intended to result somewhat “automatically” from the sum of all progress and growth, and, secondly, some elements of that progress began to decline, for example health and the environment. The mistake lay in failing to define precisely what was meant by well-being and progress, which had for a long time been regarded as general notions ensuing from gross domestic product (GDP).

2. Is it possible to define well-being in economic terms?

6. There has been much discussion about the notions of well-being and progress. What do they cover? How can they be defined? How does the economy influence well-being and typify progress? Is there a link with the concept of happiness, which is even less quantifiable?

7. The idea of well-being goes back to the Greek philosophers, especially Plato, who, in *Gorgias* and *Philebus*, defines the notions of well-being and happiness as a feeling of satisfaction associated with the pursuit of possessions but points out that it is not without bounds. Plato also believed that progress was a continuous process that made it possible to attain an ever-higher level of political and economic organisation.

8. Other thinkers, such as Auguste Comte or the Count of Saint-Simon, pursued this philosophical idea of the correlation between progress and well-being and the economic improvement of societies. In his theory of utilitarianism, Jeremy Bentham even proposed to bring about “the greatest happiness of the greatest number”. As they were very quickly overwhelmed by the economy’s omnipresence in societies, rulers decided to draw an analogy between economic progress and societal well-being, with the one inevitably leading to the other, the reasoning being that the wealthier the state, the greater society’s well-being. Subsequently economists formalised this idea and placed it within strict limits, creating what might be called a new economics of well-being, according to the theory of Pareto optimality. This theory, formulated by the Italian economist Vilfredo Pareto at the beginning of the 20th century, establishes that there is a point at which it is impossible to improve anyone’s well-being without reducing that of someone else.

9. A nation’s wealth soon became quantifiable thanks to the development in 1934 of the concept of GDP, an economic indicator that measures a country’s level of production in terms of both goods and services. Introduced after the crisis of 1929 and the ensuing Great Depression, GDP was an effective instrument for measuring economic activity, especially during the post-Second World War reconstruction of Europe. Its creator, Simon Kuznets, who won the Nobel Economics Prize, declared before the United States Congress that “(t)he welfare of a nation can scarcely be inferred from a measurement of national income”. The United States Attorney General Robert Kennedy went even further when he said that “GDP measures everything, in short, except that which makes life worthwhile.”

10. This criticism of GDP, raised by Simon Kuznets from the outset, persisted but became more muted during and, in particular, after the Second World War with the establishment of the Bretton Woods institutions and the discussions that took place on economic matters, above all monetary policy – especially as economic

growth was the order of the day. However, when growth began to slow down in the early 1970s the outcome was a resurgence of interest in well-being. In a report entitled *The Limits to Growth* (1972), the Club of Rome was the first to sound the alarm bells by showing that economic growth did not automatically lead to citizens' well-being, and this idea was quickly taken up by other economists, such as William Nordhaus and James Tobin (the Nobel economics laureate in 1981), who pondered the question of monetary well-being.

11. It thus rapidly became clear that GDP does not enable well-being to be measured, nor even the wealth of a society and its members. This was the idea posited by the Easterlin paradox (1974), according to which growth in GDP does not necessarily result in increased well-being. Even worse, GDP growth may prove deceptive and actually conceal losses of wealth and well-being, deepen inequalities and increase adverse effects on development. While the GDP of a majority of the world's economies did not stop growing from the 1950s to 2008, well-being did not always follow the same upward trend.

12. The work of the Indian economist Amartya Sen (1998 Nobel Economics Prize) on the development of economic policies in terms of their effects on the well-being of societies has highlighted some parameters that cannot be measured by GDP, such as access to health care and information or the enjoyment of fundamental rights, which play a part in increasing well-being. According to Sen,¹ what we can or cannot do differs substantially according to the societies and communities to which we belong, and the epidemiological realities of the area in which we live can have a profound impact on our health and well-being.

13. As regards happiness, the concept has often been considered to be purely philosophical even though it is also economic in nature. Since the work published by Ed Diener, Professor of Psychology at the University of Illinois, it has been accepted that happiness is a creator of economic growth (inventiveness, sociability, the ability to take decisions and deal with complex and difficult situations).

3. Existing economic indicators of well-being

14. Today, economic well-being results from many different factors, which explains the difficulties encountered in trying to measure and quantify it. Among its various components, mention might be made of: a healthy environment, easy access to education, low unemployment, easy access to health services, an adequate income, a tolerant living environment with no discrimination, social diversity, a stable democracy in which each citizen can freely express his or her opinions, access to pluralist information, equality before the law and respect for human rights, to cite but a few examples.

15. In his work *Les indicateurs sociaux* ("Social indicators") published in 1971, Jacques Delors, the future President of the European Commission, identified 14 indicators likely to influence well-being. The purely economic indicators, such as income use, use of national resources and asset growth, were mentioned alongside the development of solidarity, social mobility, time use and urban development.

16. Bhutan was the first state in the world to devote a partially economic indicator to well-being. The gross national happiness (GNH) indicator proposed by King Jigme Singye Wangchuck in 1972 is made up of four pillars: fair and sustainable socio-economic development, the preservation and promotion of cultural values, nature conservation and good governance. The GNH already includes a number of parameters that concern areas other than the purely economic domain, such as social conditions, respect for cultural identities or the protection of the environment.

17. The Human Development Index (HDI) established by the United Nations in 1990 attempts to formalise these various aspects of well-being in concise terms. It stemmed from the work of the former Minister for Finance of Pakistan, Mahbub ul Haq (1934-98), who was quick to realise in his own country that economic growth did not necessarily lead to poverty reduction. Having devised the theory of "pro-poor growth", he showed that growth and increased incomes did not automatically result in well-being among the population – a finding that ultimately led to the emergence of the HDI. While taking account of per capita GDP, the HDI goes further by also considering life expectancy and level of education. Here too, access to health care and education help to determine well-being.

18. Other indicators of well-being then emerged to measure the happiness of people and societies. Among the most important, mention can be made of "Subjective Well-Being Measurement" (SWBM) devised by Leicester University's Professor Adrian White, who draws on subjective studies, mostly surveys and

1. Amartya Sen, *Inequality re-examined*, Oxford University Press, 1992.

microeconomic analyses. Many economists have been working for years on this now so topical question, such as the French economist Patrick Viveret or the New Economics Foundation and its “Happy Planet Index”, which has shown that beyond US\$15 000 GDP per capita, well-being is no longer dependent on income.

19. Other indicators such as the genuine progress indicator advocated by many economists and public policy think-tanks in the field of “redefining progress”, and the index of sustainable economic welfare or the adjusted net savings indicator developed by the World Bank attempt to compensate for the shortcomings of GDP by taking account of certain non-monetary economic activities such as housework or the damage caused by pollution. Adjusted net savings already makes it possible to go beyond GDP without necessarily fully defining well-being. It measures the changes in a country’s economic, human and natural resources by adjusting gross national savings on the basis of four variables – fixed capital consumption, which it deducts, human capital investments (equated with education spending), which it adds, and, finally, depletion of natural resources (energy, minerals, forests) and damage caused by pollution (particularly CO₂ emissions), both of which it deducts. For example, states such as the Russian Federation which are too dependent on the export of non-renewable resources have negative net adjusted savings. In this way, steps to measure the depletion of natural assets have made it possible to begin delimiting well-being more accurately.

20. Other initiatives might be cited, such as the World Happiness Index developed by Pierre Le Roy, editor of the magazine *Globeco*, which is combined with a global divide indicator and a globalisation index, or the net gross happiness indicator (the *BIN*), devised by the French magazine *l’Expansion* and the Canadian Centre for the Study of Living Standards (CSLS), which takes account of four variables – average consumption, social equality, economic security (unemployment, benefits, health costs, etc.) and human capital (education levels and the state of the environment).

21. These various instruments for measuring well-being and happiness all more or less give the same end result when their rankings of states are compared, especially as regards the Council of Europe member states where well-being is highest: Norway, Denmark, Sweden, Iceland, Austria and the Netherlands head the HDI, SWBM and World Happiness Index rankings.²

22. Today, it can be seen that these indicators are not enough to reflect economic well-being with any degree of accuracy since, as Enrico Giovannini, former Chief Statistician of the OECD, has pointed out “it is not possible to invent a synthetic indicator, a sort of happiness GDP. It is not possible to aggregate the economy, the environment and psychology. On the other hand, it is possible to develop complementary indicators that, alongside economic indicators, measure human rights or the quality of governance.”³ It is accordingly necessary to find new tools that will provide a far more precise indication of economic well-being.

4. The need for new tools

23. There are therefore many areas that determine well-being. Although not necessarily purely economic, they significantly influence the economic choices made by the state as well as citizens’ well-being. They include revenue and employment, health, the environment, education, equality and governance.

4.1. Revenue and employment

24. The primary source of income and often also personal fulfilment, employment can be seen to be one of the key concerns of economic agents, above all in the very midst of an economic crisis that is driving up unemployment in the United States, where tens of thousands of jobs are destroyed each month, and in the major European economies. Having a stable, well-paid, fulfilling job is a priority for virtually all European citizens and has a significant impact on well-being, including as regards its economic implications.

25. Losing one’s job is very often synonymous with a fall in one’s standard of living and with possible growing financial difficulties; it can even be the first stage of a long descent into hell for individuals whose sole option is to rely on the benefits system, with all the personal humiliation that can entail, or to sink into spiralling debt. In personal terms, a period of unemployment leads to a feeling of uselessness and to stress, which can have serious medical consequences.

2. Raphaël Wintrebert, “Mesurer le bonheur: des indicateurs pertinents pour la France?”, Fondation pour l’innovation politique, April 2007.

3. *Le Devoir*, 24 July 2007.

26. Well-being at work is therefore of key importance as it very often determines economic activity, and in particular consumption. In addition, it is not linked solely to losing or retaining one's job but also to the psychosocial load of the work performed. For instance, the succession of suicides at the French firm France Telecom in 2008 and 2009 revealed a deep-rooted "ill-being" (*malaise*) among its employees, which seriously affected their occupational and economic well-being. Belgium has had a law on well-being at work since 1996 and, in November 2008, launched a National Strategy for Well-Being at Work (2008-12), which encompasses reinforcing preventive measures and fostering changes in employees' attitudes through the promotion of a risk prevention culture and a focus on new well-being-related problems (stress, drug and alcohol use, new technologies, etc.).

4.2. Health

27. Health plays a big role in a society's well-being and also contributes to a country's economic growth. Easy access to quality health care has a deep impact on a country's demographic structures (increased life expectancy linked to disease prevention and a better diet, for example) and makes it possible to boost all aspects of economic growth (consumption, labour market, higher incomes, savings, etc.). Moreover, in some countries or regions, an improvement in health-care systems also leads to better public health, which in turn helps attract foreign investment, the results of which (in terms of jobs and services) then considerably benefit the local population and, accordingly, improve their well-being.

28. It is therefore established that improved health enables an increase in both national wealth and well-being. David E. Bloom and David Canning, both economics professors at the University of Harvard, have shown that one year added to life expectancy increases per capita GDP by 4%. In addition, poor working conditions linked with insecure financial situations and redundancy or business restructuring schemes have adverse effects on the health of economic players, resulting in illness and repeated absences, which seriously undermine firms' economic activities.

4.3. The environment

29. Nowadays, environmental well-being is more than ever before intimately linked to the well-being of our societies and the economic growth of our states. The dangers of climate warming have forced our governments to attach the highest priority to sustainable development when devising their economic policies. According to numerous specialists, Europeans are living as though they had 2.6 Earths at their disposal. This lifestyle that fails to take account of the environmental factor when making economic choices may very quickly sound a death knell for both our growth and our well-being. GDP, however, takes no account of the depletion of natural resources, environmental damage or the extinction of certain animal or plant species. Speaking before the Committee on Economic Affairs and Development,⁴ Ms Corinne Lepage, MEP and Vice-Chair of the European Parliament's Committee on the Environment, Public Health and Food Safety, said that there was a need to "offset GDP's inherent lack of vision by combining it with fundamental data such as the deterioration of biodiversity, the climate and water, which have an economic impact, and make an unprecedented effort in the area of industrial reconversion so as to foster new economic development".

30. Living in a healthy environment which commands respect in terms of food production, urban planning, energy consumption and the preservation of natural areas and species makes a big contribution to our fellow citizens' well-being. Conversely, failing to meet the challenges associated with climate change and the over-exploitation of natural resources can "undermine future progress, well-being and prosperity", according to Stavros Dimas, the European Commissioner for the Environment, who is determined to work on this environmental indicator. In his opinion, "(w)e need to take account of ecological and carbon footprints and other indicators that measure the impact of investments in terms of the loss of natural and human capital".⁵

31. There are now a number of instruments that attempt to assess the impact of the environment on people's well-being and on economic growth. One example is the carbon footprint, which is a means of quantifying businesses' and organisations' greenhouse gas emissions. Another is the ecological footprint, which is a measure of the total area of land required by a population to produce all the resources it consumes and assimilate all the waste it discharges. This indicator, which was endorsed by the economist William E. Rees, has tremendous potential as a possible means of reconciling human needs with the planet's environmental capacity so as to create a healthy environment, conducive to well-being.

4. At a hearing during the meeting of the Committee on Economic Affairs and Development, at OECD headquarters on 19 June 2009.

5. Parliament Magazine, 29 October 2007.

32. In two reports,⁶ the French Social and Economic Committee has singled out the ecological footprint as a key indicator. In his report on sustainable development indicators and the ecological footprint, the rapporteur, Philippe le Clézio says that the aim of the footprint is to “steer public decisions and the behaviour of economic players in a direction that is conducive to sustainable development, in other words one which respects the environment, of course, but also supports social cohesion and continues to satisfy population’s needs ever more broadly while safeguarding those of future generations”.⁷

33. However, the ecological footprint is only part of the answer as it does not cover other fundamental factors which contribute to well-being. A report submitted in May 2008 to the European Commission’s Environment Directorate General by several research institutes, such as Ecologic and the Sustainable Europe Research Institute (SERI)⁸ recognised the ecological footprint’s major potential but recommended combining it with other indicators measuring sustainable development.

34. The European Commission has concentrated its efforts on a comprehensive environmental indicator which takes account of various impacts on the environment such as climate change and the use of different forms of energy, changes to nature and biodiversity, air pollution and its impact on health, waste production and the use of resources, adequate hygiene levels and water use and water pollution, in view of the fact that nearly 1.2 billion of the world population do not have access to drinking water. The European Commission therefore has undertaken to present, in 2010, a test version of an environmental pressure indicator, which will make it possible to measure all environmental damage in the European Union and could ultimately be published alongside GDP figures.

35. Furthermore, as sustainable development is one of the European Commission’s priorities and it considers it to influence the well-being of current populations and future generations, the Commission decided, from 2009 onwards, to set up a pilot version of a sustainable development scorecard based on sustainable development indicators (SDIs). Lastly, the European Commission also wishes to look into the possibility of developing an indicator allowing it to measure environmental impacts outside the European Union and a global environmental quality indicator.

36. It is also essential for this acknowledgement of environmental aspects to be combined with a feeling of social justice between different categories of the population or, to be more specific, between the rich and the poor. If the rich pollute more, the poor suffer the consequences. As stated in the conclusions of the report by the Stockholm Environment Institute,⁹ it is essential for all sectors of society to be involved in the establishment of this kind of process and, in particular, for the costs of the process not to penalise disadvantaged groups.

4.4. Education

37. The level of education in the various societies plays a role in increasing well-being and also in a state’s economic growth. An increase in the level of education and efforts to combat illiteracy are fundamental indicators to be taken into account in this new debate on the growth of nations. It is moreover interesting to note that developing countries often devote a large proportion of their budget to education, one example being Tunisia where 99% of six-year-olds go to school and there is an extremely large number of students.

38. However, the educational aspect of well-being is not confined to these two indicators. Well-being also comes about through higher education, through the acquisition of theoretical knowledge and through training in manual occupations, which enable those concerned to acquire a solid specialisation. It also stems from access to general culture (through the press, a diverse range of films and uncensored books). This will benefit both citizens in terms of their personal and economic satisfaction (a higher income and, consequently, greater purchasing power, for example) and the state, which will provide itself with innovative skills that can be exported to the various world markets.

6. “Dépasser le PIB – indicateurs pour un développement durable” (“Looking beyond GDP – indicators for sustainable development”), 22 October 2008, and “Les indicateurs du développement durable et l’empreinte écologique” (“Sustainable development indicators and the ecological footprint”), 3 June 2009.

7. “Sustainable development indicators and the ecological footprint”, 3 June 2009.

8. “Potential of the Ecological Footprint for monitoring environmental impacts from natural resource use”, report to the European Commission, DG Environment, May 2008.

9. “Addressing the social dimensions of environmental policy – A study on the linkages between environmental and social sustainability in Europe”, Report commissioned by the European Commission, DG Employment, Health and Social Affairs, December 2008.

39. Lastly, family upbringing must also be taken into account as time devoted to children also adds to well-being and indirectly increases GDP. More generally speaking, activities carried out by women in the home such as housework and preparing meals must be brought into the equation, as in some Council of Europe member states such as Germany and Finland these activities account for about 30% of GDP.

4.5. Reducing inequalities

40. Reducing economic and social inequalities and bringing about increased social justice also help to increase populations' feelings of well-being and happiness. This makes these factors absolute priorities, particularly in periods of economic crisis. Consequently, we have to be able to find out as much as we can about the state of inequalities and social cohesion in our societies. The point was emphasised by the Socialist International at the end of the meeting of its committee on global financial issues on 31 March 2009 when it said that we had to ensure that social cohesion would be a priority both during the crisis and beyond and that the challenge of the 21st century was to combine the global economic system with the values and principles of a democratic, fair society. The 18 so-called Laeken indicators adopted by the European Council in December 2001 attempt to assess social inclusion through factors such as financial poverty, employment, health and education, thus taking account of the multifaceted nature of social exclusion.

41. Of course, economics has several instruments by means of which it can gauge these inequalities. These include the Lorenz curve and the Gini coefficient, which can both be used to measure inequality of income. However, these curves and graphs are more the reflection of a mathematical state than a physical reality. The index of social health has existed since 1959, when it was devised by the Fordham Institute. It is based on 16 variables, which are generally divided into different age categories, and takes account of factors such as child abuse, drug use, health insurance coverage, violent crime and access to affordable housing. In the United States, GDP has continuously risen since 1973 but the index of social health has steadily declined. The European Foundation for the Improvement of Living and Working Conditions has also begun looking into this issue. It has conducted surveys in many European Union countries and is now attempting to compile the results so that it can establish a measure of well-being linked to factors such as wages, fair remuneration of effort, job security, time available outside work, relations with colleagues, autonomy and violence in the workplace. In the Czech Republic, for example, while workers are most satisfied with their relations with their colleagues, this comes only fifth in their order of priorities after wages, fair remuneration, job security and the attitude of their superiors.¹⁰

42. The European Commission has understood that rising GDP can conceal many incongruities such as inequality and poverty, which can grow in parallel. As social cohesion is one of the European Union's main objectives, the European Commission would like to have data by means of which it can investigate social circumstances alongside the purely economic aspects.

43. Lastly, whenever the question of inequality is raised, it is essential to deal with the persistent disparities between women and men in many spheres, particularly in economic matters (salary levels, purchasing power, activities within the household economy and so on). The Gender-related Development Index (GDI) adjusts the HDI according to inequalities between the sexes by taking account of longevity and health (life expectancy), education and access to knowledge (literacy and school attendance rates) and standards of living.

4.6. Governance

44. Certain parameters associated with democracy, the rule of law and the human rights of all citizens foster the well-being of our societies. Without entering into a debate on what is the best economic system or on whether liberalism is good or bad, it should be recognised that economic freedom significantly promotes growth and well-being. In this connection, respect for democracy in terms of regular consultation of the people, alternating government, freedom of assembly and expression, freedom of movement, the possibility of consulting a pluralist press, a lack of corruption within public administrations and political bodies, and upward social mobility based on merit and competence greatly contribute to the well-being of the members of a dynamic society on the move wishing to make efforts to improve itself, increase its wealth and make further progress. Democracy is one of the major criteria used by Pierre Le Roy for his World Happiness Index along with security, freedom and respect for human rights.

45. Peace may be taken as read in western Europe but there are still dangerous areas or conflict zones in some Council of Europe member states (such as Abkhazia, South Ossetia, Nagorno-Karabakh, the Northern Caucasus and Transnistria), where peace and security are a major contributory factor towards people's well-

10. "Report on satisfaction with the main aspects of working life", April 2009.

being. According to Pierre Le Roy, “when we are talking about freedom, democracy and human rights, it is difficult to select the assessment criteria as there is inevitable controversy about questions such as the degree of democracy in our country or the extent of freedom of the press”.¹¹ However, as he goes on to explain, there are two universally accepted criteria, namely election turnout rates, which Le Roy regards as “a good gauge of the vitality of our democracy”, and the way in which women are treated, which is also a way in which the GDI measures democratic well-being. Lastly, living in a country where people are generally protected against crime and violence and everyone can walk the streets without risking their lives is also a major factor of well-being.

46. Furthermore, for many central European countries, accession to the European Union has resulted in increased well-being linked to parameters such as integration into the European economic market, the possibility of participating in the work of the European institutions and geopolitical and occupational security.

47. Respect for ethnic, linguistic and religious minorities and their integration into, and proper adaptation to, society also helps to create a sense of harmonious co-existence which can only be a source of well-being. The Social Cohesion Directorate of the Council of Europe stated in one of its publications¹² that “an integrated notion of well-being ought to become mainstream in every area of policy and be the shared responsibility of all the players concerned, and even the focus of co-ordination efforts on the part of the various players with competence in migration and integration.”

48. National parliaments have a fundamental role to play in this respect. Europe’s political representatives should now be taking up the work done by various international organisations and experts and using it as the basis for future legislation and other public decisions.

5. The various initiatives

49. The Council of Europe and its Parliamentary Assembly have long been considering these issues of well-being and economic growth. As far back as 1975 – two years after the first oil crisis – the Assembly adopted [Resolution 592 \(1975\)](#) on the economic consequences of the limits to growth, in which it expressed the belief that “a larger part of the fruits of economic growth should be used to solve social and ecological problems, and to combat wastage of scarce resources”.

50. More recently (in 2005), the Council of Europe and its Social Cohesion Development Division drew up a “Methodological Guide to the Concerted Development of Social Cohesion Indicators”. The same division, in partnership with the OECD and the autonomous province of Trento, also organised a large-scale seminar on “Involving citizens/communities in measuring and fostering well-being and progress: towards new concepts and tools”.¹³ The seminar dealt with such themes as the institutional aspects, relations with the authorities, correlations between the various indicators, the development of participatory processes and the invention of new tools and concepts. All the experts concurred that it was necessary to go beyond GDP. Your rapporteur delivered the concluding remarks at this seminar.

51. The European Commission has also done some work on these specific subjects. On the occasion of an international conference entitled “Beyond GDP, – measuring progress, true wealth, and the well-being of nations”, held in Brussels on 19 and 20 November 2007 in partnership with the European Parliament, the Club of Rome, the WWF and the OECD, the President of the European Commission, José Manuel Barroso, called for “the sort of breakthrough that we saw in the 1930s, a breakthrough that adapts GDP, or complements it with indicators that are better suited to our needs today and the challenges we face today.”

52. The European Commission therefore has launched a major activity in this field. In its communication to the European Council and the European Parliament of August 2009, the Commission stated that Europe’s indicators needed to be adapted to a politically and economically changing world and had to respond to citizens’ concerns. It programmed five activities to measure progress: 1. adding environmental and social indicators to GDP, particularly a global environmental index; 2. ensuring that information is available rapidly to improve efficiency; 3. improving means of measuring inequalities; 4. developing a European sustainable development scorecard; 5. extending national accounts to cover environmental and social issues.

11. See www.globeco.fr/public/index.php?a=bonheur-national-brut.

12. “Reconciling migrants’ well-being and the public interest – Welfare state, firms and citizenship in transition”, *Trends in social cohesion*, No. 19, Council of Europe Publishing, 2008

13. Council of Europe, Strasbourg, 27 to 28 November 2008.

53. According to the European Commission, which intends to prepare a report on these activities by 2012, “ultimately, national and EU policies will be judged on whether they are successful in delivering these goals and improving the well-being of Europeans. For this reason, future policies should be based on data that is rigorous, timely, publicly accepted and covers all the essential issues”. This approach will also make it possible to set the new strategic aims of the Lisbon Strategy after 2010.

54. However, the OECD remains the international organisation that is most involved in work on this particular issue. It has launched a global project, “Measuring the Progress of Societies”, the aim of which is to develop key indicators in the economic, social and environmental fields in order to provide an overall picture of the way in which the well-being of a society develops. The project encompasses many activities with over 1 200 participants from nearly 130 countries, who address the major world forums on this subject held by the OECD in co-operation with the European Commission, the United Nations, the World Bank and the Organisation of the Islamic Conference.

55. At the second OECD World Forum (27 to 30 June 2007), the parties adopted a joint declaration (the Istanbul Declaration), in which they agreed that “welfare depends in part on transparent and accountable public policy making. The availability of statistical indicators of economic, social, and environmental outcomes and their dissemination to citizens can contribute to promoting good governance and the improvement of democratic processes.” This declaration is entirely consistent with the values promoted by the Council of Europe and its Parliamentary Assembly, especially the Committee on Economic Affairs and Development, which has always argued that good economic governance is a factor for democratic stability. Finally, the signatories to the declaration expressed their desire, *inter alia*, to “share best practices on the measurement of societal progress” and “stimulate international debate, based on solid statistical data and indicators”.

56. Among the main themes of the third OECD World Forum on “Statistics, Knowledge and Policy”, held in Busan (South Korea) from 27 to 30 October 2009, were new paradigms to measure progress and better ways of preserving and, in particular, measuring populations’ well-being. Representatives of the economic, political and social spheres but also members of civil society, including both NGO activists and artists, expressed their views on well-being and ways of assessing it.

57. On the initiative of French President Nicolas Sarkozy, a Commission on the Measurement of Economic Performance and Social Progress was set up on 8 January 2008. Its key remit was to engage in a “dialogue on ways of avoiding too quantitative an approach to measuring our collective performances” and, above all, to draw up new wealth indicators. Chaired by the Nobel economics laureate Joseph Stiglitz (hence its name “Stiglitz Commission”), it brought together other Nobel Prize winners and leading figures who had worked on the issues of happiness and economic well-being, such as Amartya Sen and Daniel Kahneman, as well as Kenneth Arrow, James Heckman, Nicholas Stern and Enrico Giovannini. The commission’s objective complemented the OECD initiative and its “Measuring the progress of societies” project. It concentrated more on quality of life than on happiness strictly speaking in order to cover a broader spectrum.

58. As Joseph Stiglitz puts it, the problem lies in “the often wide gap between measures of such important variables as economic growth, inflation, inequality, and social mobility and public perceptions. Incomes may rise, but people feel poorer, or inflation may fall, yet people see higher prices in their local stores.”¹⁴ With this in mind, the commission focused on three areas of work, which resulted in the setting up of three working groups: 1. How to extend and modify GDP; 2. How economic growth and social progress can be linked to sustainable development and the environment; 3. How to assess the quality of life using data that measure the way in which citizens lead their lives and perceive their well-being.

59. The commission held a number of meetings, which enabled progress to be made on these questions of well-being. One of these meetings, held on 22 and 23 April 2008, further considered the importance of identifying the correlations between macroeconomic information, such as GDP data, and social and environmental indicators. The need for regularly updated indicators was also stressed. The conclusions of the Stiglitz Commission’s work were published on 14 September 2009 and comprise 12 recommendations.

Recommendation 1: When evaluating material well-being, look at income and consumption rather than production.

Recommendation 2: Emphasise the household perspective.

Recommendation 3: Consider income and consumption jointly with wealth.

Recommendation 4: Give more prominence to the distribution of income, consumption and wealth.

14. Joseph Stiglitz, “Progress, what progress?”.

Recommendation 5: Broaden income measures to non-market activities.

Recommendation 6: Quality of life depends on people's objective conditions and capabilities. Steps should be taken to improve measures of people's health, education, personal activities and environmental conditions. In particular, substantial effort should be devoted to developing and implementing robust, reliable measures of social connections, political voice, and insecurity that can be shown to predict life satisfaction.

Recommendation 7: Quality-of-life indicators in all the dimensions covered should assess inequalities in a comprehensive way.

Recommendation 8: Surveys should be designed to assess the links between various quality-of-life domains for each person, and this information should be used when designing policies in various fields.

Recommendation 9: Statistical offices should provide the information needed to aggregate across quality-of-life dimensions, allowing the construction of different indexes.

Recommendation 10: Measures of both objective and subjective well-being provide key information about people's quality of life. Statistical offices should incorporate questions to capture people's life evaluations, hedonic experiences and priorities in their own survey.

Recommendation 11: Sustainability assessment requires a well-identified dashboard of indicators. The distinctive feature of the components of this dashboard should be that they are interpretable as variations of some underlying "stocks". A monetary index of sustainability has its place in such a dashboard but, under the current state of the art, it should remain essentially focused on economic aspects of sustainability.

Recommendation 12: 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 those associated with climate change or the depletion of fishing stocks).

60. A group of associations, researchers and civil society networks called the Forum for Other Wealth Indicators (Forum pour d'autres indicateurs de richesses – FAIR) was also set up in 2008 in the context of the Stiglitz Commission, with which it has a close working relationship. Its main remit is to provide a renewed understanding of wealth or sustainable human development and move beyond mere economic indicators. According to one of its members, Florence Jany-Catrice, an economist and lecturer at the University of Lille I, new indicators should be devised to permit the "collective embodiment of societal progress, the quality of life, well-being for all, social health, and wealth in all its many dimensions: cultural, social and environmental".

6. Initial applications in Council of Europe member states

61. Several Council of Europe member and observer states are beginning to take account of the diversity of these economic, social, environmental and democratic indicators. In association with the Council of Europe or on their own initiative, they aim to ensure the well-being and progress of their societies and to take this particular criterion into account in their authorities' policy debates and decisions.

62. The United Kingdom, especially Wales, has had a pioneering role here. Since 2001, the Welsh Assembly has incorporated these various indicators in its administrative decision-making process, thus becoming the leading authority worldwide in this field. Canada has also developed a new index that takes seven factors into account: standard of living, time use, health, environment, education, community life and civic engagement.

63. Several local and regional authorities have launched tangible projects along these lines with the public's support. Italy, for example, has seen the adoption of major urban strategy plans in nearly 70 towns and cities since 1999, aimed at promoting forms of deliberative democracy with civil society at local level. One such town is Piacenza, which has set up a local scheme for monitoring social needs that involves around 60 social workers identifying local people's requirements in order to improve their lives and well-being. It has also initiated the Fabbriche della Felicità ("Happiness Factories") cultural festival, which has made it possible to identify new indicators and forms of behaviour that generate well-being and happiness and also to conduct a search for urban sites likely to produce well-being or, conversely, discomfort.¹⁵

15. Paolo Rizzi, head of the "Local Economy Think Tank" (Laboratorio dell'Economia Locale), Sacred Heart Catholic University of Piacenza, seminar on "Involving citizens/communities in measuring and fostering well-being and progress: towards new concepts and tools", 27-28 November 2008, Council of Europe, Strasbourg.

64. In association with its Congress of Local and Regional Authorities, which has examined this question in some detail, the Council of Europe has run several experiments applying the principles set out in the Guide to the Development of Social Cohesion Indicators in neighbourhoods, companies, schools or public services, for example in Mulhouse (France) and Timisoara (Romania). In Mulhouse, the experiment showed the impact of various human activities (businesses' economic activities, projects or specific measures) on the well-being of people living in the area concerned.

65. While public authorities have made an effort to measure and improve their citizens' well-being, as in Bulgaria, where in 2007 the Ministry of Regional Development and Public Works launched a major programme for the renovation of multi-family housing blocks in co-operation with the United Nations Development Programme (UNDP), there are also towns and cities where the citizens themselves have taken steps to promote their economic well-being, often laying emphasis on values such as solidarity, co-operation or redistribution. These citizens' initiatives take the form of occupational micro-loan schemes, general-interest social services, social enterprises or businesses that run integration schemes. A report by the Congress of Local and Regional Authorities also tends in the same direction, advocating the creation of new qualification/quantification indicators to account for time spent by citizens on projects producing a social added value and "low-profit" local production.¹⁶

7. Conclusion: wealth and well-being in the light of the economic crisis

66. The economic crisis is presently forcing our societies to rethink their relationship with wealth and consider economic growth in the light of societal well-being. The 21st century cannot be designed with software inherited from the 20th century.

67. While GDP is still a key indicator of the size of our economies, it is insufficient for measuring well-being as it remains a purely accounting tool. Today, indicators that reflect the variety of elements that make up the well-being of societies, such as health, the environment, education and democratic values, need to be taken into consideration. However, GDP must not necessarily be abandoned; on the contrary, it needs to be improved, perfected and enriched.

68. The studies and work carried out to date by the major European and international organisations, especially the Council of Europe and the OECD, must be continued and supported so that the economy is better able to reflect, in economic terms, the actual needs of our societies, such as awareness that resources are limited or the key role of the state in our economies and in management of public services. These organisations also have the difficult task of devising the economic solutions of tomorrow, with their far-reaching consequences for future generations.

69. In recent years a debate has sprung up about what is known as "degrowth". This economic theory, devised by the Romanian economist, Nicholas Georgescu-Roegen (1908-94), attempts to show that economic growth is not sustainable and that its indicator, GDP, fails to take account of other indicators such as the environmental cost of resources' exploitation. The various proponents of this idea think it is possible to devise an economic model that does not involve a permanent quest for growth and submit that growth is not synonymous with progress. The Committee on Economic Affairs and Development heard a presentation by Nicolas Ridoux, the author of *La décroissance pour tous* ("Degrowth for everyone") (2006), in which he stressed that our current wealth is sufficient and that instead of continuing to accumulate it to the detriment of the environment, for example, it would be better to share it out.

70. The economic crisis has put the idea that human aspects should be given precedence over material wealth firmly back on the agenda. And this in turn has raised a number of economic and social questions such as whether we should be increasing the length of working hours to meet industrial needs when the economy recovers or whether we should be trying to reduce them, putting the emphasis on the well-being of people, who would no longer be encouraged to indulge in excessive consumerism; and whether our economies, which will be required to show more respect for the environment and be more carbon-free, should make human beings its major preoccupation instead of financial profits gained through capital from the stock exchange, which results in redundancies, restructuring and relocations.

16. "Responsible consumption and solidarity-based finance", Pauline Dee, United Kingdom (L, ILDG), Committee on Social Cohesion, 15 April 2008.

71. Fostering the well-being of societies while maintaining a sufficiently high level of wealth certainly seems to be the main challenge that our states' economies will face in years to come. States must also understand that the indicators will be constantly changing because the world is changing so rapidly under the influence of the development of communication tools, the economic crisis and global warming.

72. For the efforts to produce and identify new indicators to be effective and beneficial for as many people as possible, there should be a broad international consultation on the subject which could form part of the current major discussions, like those of the G20, on the introduction of more moral standards into global capitalism and the establishment of new rules in international finance.

73. We need to place more emphasis on people and less on the market because we have understood that economic growth means nothing unless it is combined with the well-being of our fellow citizens. And to achieve this we need to improve people's economic and social circumstances. These new indicators will help us to determine more readily exactly what these circumstances are and, as Joseph Stiglitz points out, "producing better, truer, ways of measuring economic, environmental and social performance, is a critical step in making progress towards building a better world".¹⁷

74. It is also important that this intense debate about wealth indexes and ways of measuring well-being does not continue to be a matter for the experts alone. We should not produce too many indicators as this may cloud the issue or, more critically, dampen public interest. This implies making a choice, which will have to be as wise as possible. We will also have to be as precise as we possibly can, identifying the constituent parts of well-being with total accuracy, as no one will identify with an average estimate, especially if inequalities endure or even increase.

75. Political leaders must now take a firm grasp of this question and draw on it to devise new economic, social, environmental and health policies. Even if the situation is shown to be negative, we have a duty to be honest as setting up new indicators which showed that populations were perfectly content and that well-being was at a peak whereas social inequalities endure and insecurity is on the increase would be a major blow to the credibility of elites and political leaders already undermined by the low electoral turnouts in Europe. Consequently, civil society will be a key partner, helping to identify the expectations of Europe's peoples more precisely and above all to satisfy them more effectively.

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Members of the committee: **Mr Paul Wille (Chairman)**, MM. **Ruhi Açıkgöz**, **Miguel Arias Cañete**, Robert Arrigo, Viorel Riceard Badea, Mrs Doris Barnett, Mrs Maryvonne Blondin, MM. Fernand Boden, Márton Braun, **Patrick Breen**, **Erol Aslan Cebeci**, **Lord David Chidgey**, Per Dalgaard, **Kirtcho Dimitrov**, **Tuur Elzinga**, Relu Fenechiu, Erich Georg Fritz, Guiorgui Gabashvili, Giuseppe Galati (Third Vice-Chairperson), Marco Gatti, Paolo Giaretta, Francis Grignon, Mrs Arlette Grosskost, Mrs Azra Hadžiahmetović, Mrs Karin Hakl, MM. Stanislaw Huskowski, Igor Ivanovski, Čedomir Jovanović, Mrs Nataša Jovanović, MM. Antti Kaikkonen, Oskars Kastens, Serhiy Klyuev, Albrecht Konečný (Second Vice-Chairperson), **Bronislaw Korfanty**, Ertuğrul Kumcuoğlu (First Vice-Chairperson), Mrs Athina Kyriakidou, MM. Bob Laxton, Harald Leibrecht, **Mrs AnnaLilliehöök**, MM. **Arthur Loepfe**, Marian Lupu, Denis MacShane (alternate: **Earl of Alexander Dundee**), Dirk van der Maelen, Yevhen Marmazov, Jean-Pierre Masseret, Silver Meikar, **Miloš Melčák**, José Mendes Bota, Andrey Molchanov, Mr **Juan Moscoso del PradoHernández**, Ms Lilja Mósesdóttir, **Mr Alejandro Muñoz Alonso**, Mrs Olga Nachtmannová, Mrs Hermine Naghdalyan, **Mr Gebhard Negele**, Mrs Miroslawa Nykiel, Ms Vassiliki Papandreou, Ms Ganira Pashayeva, Mrs Marija Pejčinović-Burić, MM. **Petar Petrov**, Viktor Pleskachevskiy (alternate: **Mr Vladimir Zhidkikh**), Mr Jakob Presečnik (alternate: **Mr Peter Verlić**), Mr Maximilian Reimann, Mr Andrea Rigoni (alternate: **Mr Dario Franceschini**), Mrs Maria de Belém Roseira, MM. Giuseppe Saro, Mrs Ingjerd Schou, Predrag Sekulić, MM. Samad Seyidov, Leonid Slutsky, Serhiy Sobolev, MM. Christophe Steiner, Vyacheslav Timchenko, Mr Joan Torres Puig, Mrs Arenca Trashani, Mr Mihai Tudose, MM. Árpád Velez, Mrs Biruté Vėsaitė, MM. Oldřich Vojtíš, **Konstantinos Vrettos**, Harm Evert Waalkens, **Mr Robert Walter**, Mr Karl-Georg Wellmann, Mrs Maryam Yazdanfar

NB: The names of the members who took part in the meeting are printed in **bold**

Secretariat of the committee: Mr Newman, Ms Ramanauskaite, Mr de Buyer and Mr Pfaadt

17. *OECD Observer*, No. 272, April 2009.