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# **European Commission Bureau of European Policy Advisers**

## **Well-being and policy making**

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# On what should we base policies?

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- GDP or other members of that family
- Modified GDP
- Social indicators
- Happiness
- Opportunities
- A combination of the above



# Why do we need indicators?

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- Backward looking
  - evaluation: what works and what does not
  - international comparisons and time series
- Forward looking
  - put focus on new policy proposals
  - forecasting and ex-ante assessments
- Practical politics
  - provides common language in public debate
  - provides consistency in policy package
  - provides accountability



## Does it matter?

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- Do different indicators lead to radically different outcomes?
- Yes and no
- GDP per capita correlated with lots of other indicators, but not with all

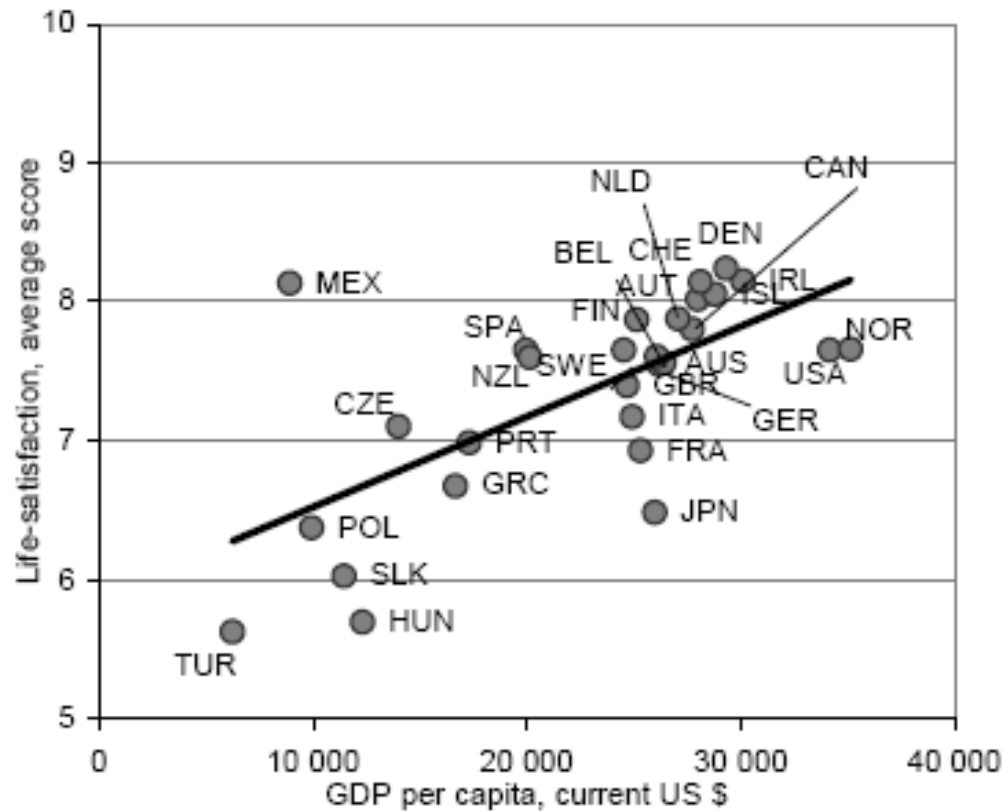
## Top 15 GDP vs happiness (taken from Diener)

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		<u>Income Rank (97)</u>
Denmark	8.0	5
Finland	7.7	12
Switzerland	7.5	4
Netherlands	7.5	7
Canada	7.4	8
Norway	7.4	3
Sweden	7.4	13
Australia	7.4	11
New Zealand	7.3	22
Belgium	7.3	9
United States	7.2	1
Israel	7.2	20
Venezuela	7.2	53
Spain	7.2	19
Ireland	7.1	2

# GDP vs life satisfaction

Figure 16. Cross-country relation between average life-satisfaction and GDP per capita in OECD countries, 2000



Well-being and policy making  
BEPA



# EU Pessimism

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"Things are going in the right direction" minus  
"Things are going in the wrong direction"

<b>EU 25</b>	- 20
<i>Italy</i>	- 21
<i>Germany</i>	- 27
<i>UK</i>	- 32
<i>Poland</i>	- 39
<i>France</i>	- 41
<i>Hungary</i>	- 48



# Happy planet index

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	GDP pc ranking	HDI ranking	HPI ranking
US	4	10	150
Russia	61	61	172
Japan	13	11	95
Brazil	66	62	63
Germany	14	20	81





# Horses for courses?

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- different indicators for different policy proposals?
- may work in an 'ideal world', but...
- political economy aspects ominous:
  - Forum shopping
  - Arbitrariness
  - Lobbying
  - Difficulties of comparisons (countries, time)
  - Lack of commitment device



# European policy: Trends

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- Responses to globalisation
- Demographics
- Changes in social risks
- Knowledge economy

[http://ec.europa.eu/citizens\\_agenda/social\\_reality\\_stocktaking/docs/background\\_document\\_en.pdf](http://ec.europa.eu/citizens_agenda/social_reality_stocktaking/docs/background_document_en.pdf)





# European policy: Citizens agenda

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- Commission has to bridge gap with citizens
- Citizens more critical and vocal
- World is changing rapidly and citizens feel insecure
- National politicians use Europe as scapegoat for own failure
- Commission has to adapt to these new realities

# Level of stress

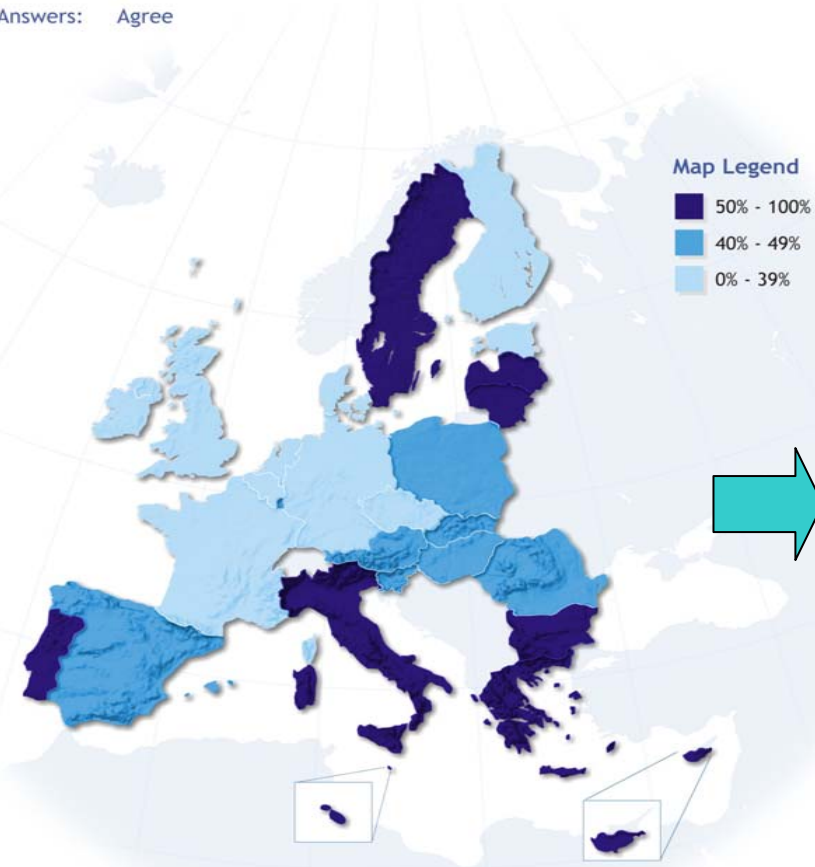
Country Results		
 Lithuania		71%
 Greece		70%
 Malta		67%
 Cyprus		62%
 Portugal		55%
 Sweden		54%
 Latvia		53%
 Italy		52%
 Slovakia		47%
 Austria		46%
 Luxembourg		45%
 Poland		43%
 European Union (25)		41%
 Spain		41%
 Hungary		41%
 Slovenia		40%
 Germany		39%
 Estonia		39%
 France		37%
 Ireland		36%
 Denmark		35%
 United Kingdom		34%
 Czech Republic		33%
 Belgium		32%
 Finland		25%
 The Netherlands		24%

Other Countries		
 Bulgaria		70%
 Romania		47%

Question: QA9.1. How much do you agree or disagree with the following statements describing positive and negative aspects of your job?

Option: My work is too demanding and stressful

Answers: Agree



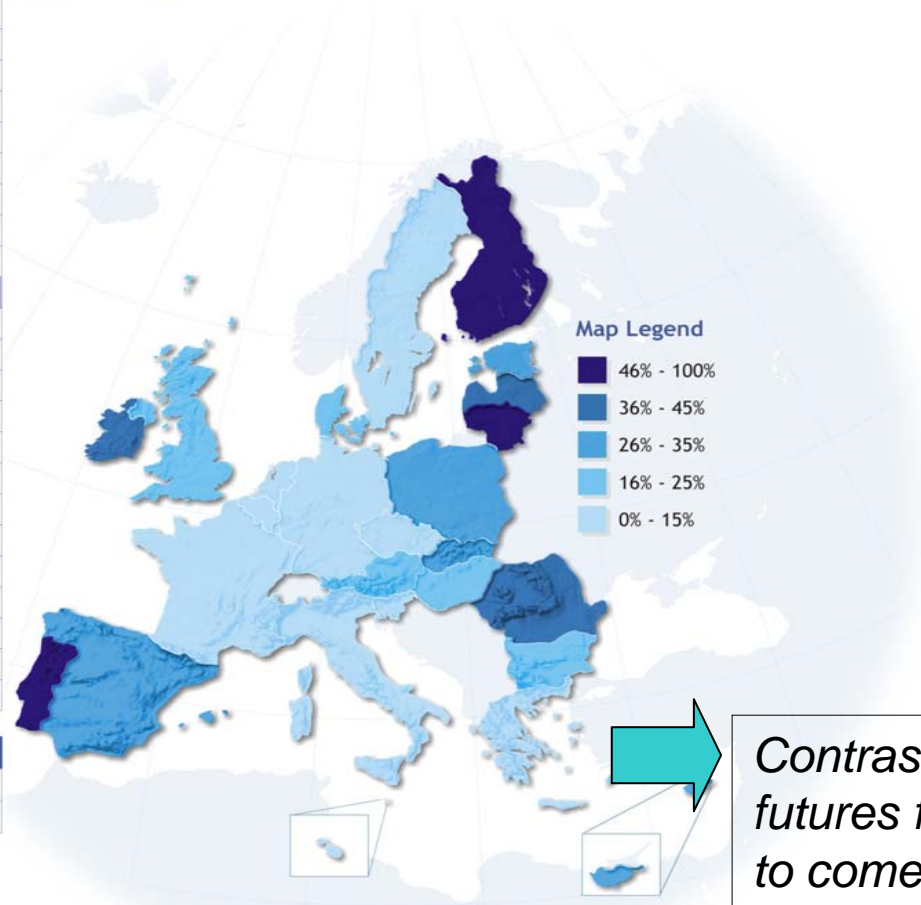
More stress in Eastern countries?

# Anticipated life for future generations

Country Results		
 Portugal		57%
 Lithuania		51%
 Finland		46%
 Ireland		44%
 Latvia		44%
 Poland		31%
 Slovakia		29%
 Cyprus		28%
 Estonia		28%
 Spain		27%
 Hungary		24%
 Denmark		22%
 European Union (25)		17%
 Austria		16%
 United Kingdom		16%
 Italy		15%
 Czech Republic		15%
 Luxembourg		14%
 The Netherlands		14%
 Slovenia		14%
 Belgium		13%
 Greece		13%
 Malta		10%
 France		8%
 Sweden		8%
 Germany		3%
Other Countries		
 Romania		36%
 Bulgaria		22%

Question: QA17. Generally speaking, do you think that the life of those who are children today will be easier, more difficult or neither easier nor more difficult than the life of those from your own generation?

Answers: Easier



*Contrasted anticipated futures for generations to come*



## European policy: beyond economics

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- European Commission is seen as overemphasizing economic goals
- Core competences are in trade, competition policy and internal market, but...
- ... increased interactions with social policies and labour market
- ... increased importance of best practices and soft law in other domains



## European policy: beyond multi-pillared Lisbon

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- 'Old Lisbon': social policies as *quid pro quo* for economic policies
- Social and economic policies as trade offs (equity/efficiency economists are to blame)
- Modern policy thinking: find institutions that reinforce each other



## European policy: beyond ‘Monnet method’

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- Top-down, centralised, uniform policies and grand designs were useful in the past (euro, internal market)
- Today diversity is the name of the game
- New ways of policy making should emerge accordingly





# European policy: priorities

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- Cross-cutting and long term policy priorities
  - Migration
  - Energy
  - Climate Change
  - Welfare State



## European policy: wrap up

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- Forward looking aspect of indicators vital
- Involvement of citizens, overall policy consistency and accountability more important
- In search of indicators that can deliver on these goals



# Four approaches

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- GDP family
- Composite indicators
- Happiness
- Opportunities



# The GDP 'family'

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- Still useful for the usual reasons, but...
  - May lack bite in crosscutting areas
  - Does not cross bridge to citizens
  - Leaves open the discussion how to value or measure non economic goals



# Composite indicators

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- Heroic attempt to square the circle, but...
  - Statistical difficulties
  - Prone to political tinkering
  - Apples and oranges
  - Black box



# Subjective happiness

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- Clear advantage: aggregates things that cannot be directly measured or aggregated otherwise
- Intriguing 'negative backward looking' merit: what if policies make people unhappy?
- Can be used in a forward looking way if it is clear what makes people happy
- Most academic critique can be countered (Diener, Veenhoven)
- But...



## (Still) not that useful for policy making

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- Not clear enough what makes people (un)happy and why
- Except from sex and work, but anyone for promoting sex or abolishing jobs?
- Myopia: today's happy people could be unhappy tomorrow (climate change)
- Difficulties to cross bridge with citizens, because no way yet to credibly link policies to (increased) happiness
- Difficult to explain to policy makers since it does not give them a clear focus



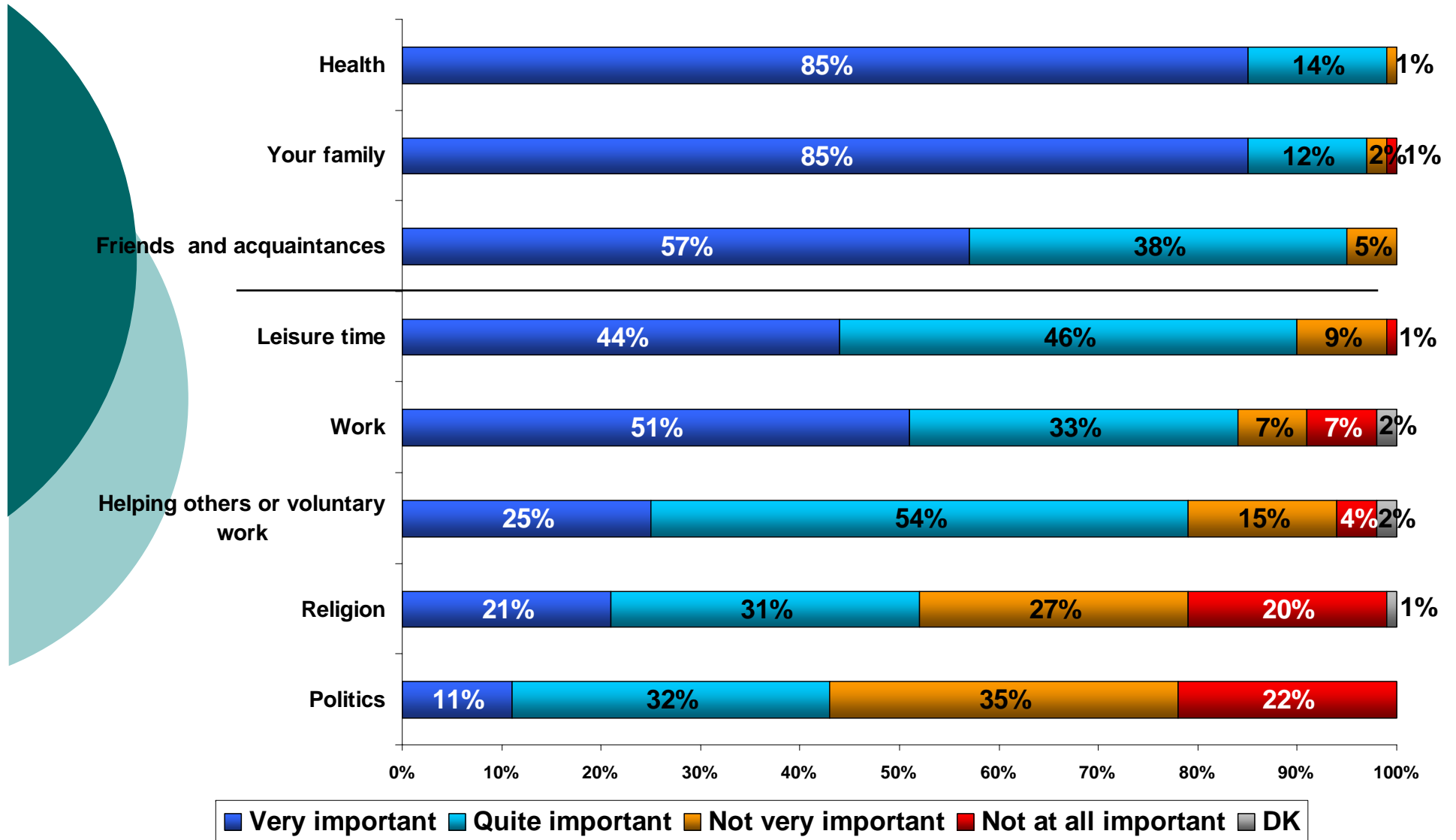
## On the positive side

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- More and more evidence on what makes people happy and why
- Happiness indicators do form a useful complement to GDP
- Useful for specific policy fields (example labour market)



# Things that are important to people





# Opportunities

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- People make the most of their opportunities
- How to design institutions and policies that enable or facilitate this
- 'Make the most' implies ambition, active participation by individuals and fits well in a rapidly changing world
- 'Their opportunities' implies an individually based, context and time specific approach
- Inclusive since it has a message to all citizens, irrespective of their capabilities
- Natural balance between individual and collective responsibilities



# Advantages

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- suitable for bridging gap with citizens
- equally suitable for treating different fields on equal footing
- forward looking
- equipped for bottom-up, diversity and rapid-change oriented policy making
- so all is well after all?



# Problems

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- how to measure it?
- HDI is an attempt but incomplete and more suited for developing countries
- attempts to improve on HDI turn into similar problems as composite indicators
- can we live with opportunities without measurement?



## What happens if we do not measure?

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- one can always claim policies broaden opportunities
- these claims become imprecise (can opportunities be seized? what are the costs? what are the alternatives? what happens to opportunities of others?)
- opportunities can provide a platform for vagueness, political tinkering and ex post justifications of policies



## Can we fix this?

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- Qualitative: be severe on costs, trade-offs and try to get a complete picture
- Quantitatively: combine idea of subjective wellbeing indicator with opportunities?
- Ask people whether their opportunities have been broadened
- Unexplored territory (with several pitfalls), but worthwhile a reflection



# Concluding

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- Opportunities approach fits best with policy priorities
- But lots of unsolved problems
- Meanwhile continue to use GDP and subjective happiness