ALDERSGATE GROUP Leaders for a sustainable economy

Measuring National Wellbeing

April 2011

ONS Consultation

The Office of National Statistics (ONS) is developing new measures of national wellbeing, to meet a wide range of uses. The new measures are intended to cover the quality of life of people in the UK, the environment and sustainability, as well as the economic performance of the country. Before ONS can start to measure national wellbeing we need to find out what it means to those who are interested and how the new measures would be used.

The aim of this consultation is to ask people, organisations, businesses and government across the UK, What is it that makes our lives worthwhile? What would improve, or detract from, our national wellbeing?

Aldersgate Group (AG)

The AG is an alliance of leaders from business, politics and society that drives action for a sustainable economy. The views expressed in this consultation response can be attributed to the AG only and not to individual members.

AG Consultation Response

1. Statistical indicators are crucial to measure social and economic progress and it is essential that they assess the right thing.

2. It is now widely recognised that it is not possible to gauge the progress or wellbeing of a nation by looking at one measure alone. There is growing political awareness, as demonstrated by recent initiatives from David Cameron and Nicholas Sarkozy, that Gross Domestic Product (GDP) can only provide a limited picture of a nation's wellbeing. The AG welcomes the national debate in the UK on what measures would provide a more accurate reflection of wellbeing.

3. What gets measured gets managed. Measurement affects the decisions we make so if the wrong things are measured the wrong decisions are likely to be made. The report by the Commission on the Measurement of Economic Performance and Social Progress states that "we often draw inferences about what are good policies by looking at what policies have promoted economic growth; but if our metrics of performance are flawed, so too may be the inferences that we draw". As an example, it states, "choices between promoting GDP and protecting the environment may be false choices, once environmental degradation is appropriately included in our measurement of economic performance".

4. The effects of environmental degradation such as climate change, resource depletion and the loss of biodiversity generally have negative impacts on wellbeing; both now and in the future. Therefore, the movement to understand the value of natural system services to our socio-economic activities is a powerful

concept that should be a driver for higher environmental standards, leading to increased economic performance and wellbeing.

5. Prices must reflect environmental realities to address market failures effectively. While it is invariably complex to price environmental externalities (environmental changes that impact human welfare and the biosphere but are not reflected in markets), current prices are a long way off providing a sufficient incentive for investments at the pace and scale required to meet environmental challenges. This can most clearly be illustrated by the inadequacy of current policy to create a sufficiently stable, high and credible carbon price (such as through the EU ETS).

6. While the policy framework to drive carbon prices may be developing, we have only started to scratch the surface in terms of accurately pricing other resources. In a world where the efficiency of resource use matters more and more, this is critical. The AG's *Beyond Carbon* report notes that there are significant political and economic difficulties in pricing externalities even when we think we understand them, but that there are also many externalities that are poorly understood. A major international research effort on the economics of ecosystems and biodiversity (TEEB)[1] draws attention to the long-term costs and benefits of ecological systems but we are a long way from being able to calculate or allocate the external costs.

7. In addition, there are a number of limitations to price the few externalities that are better understood as methodologies are often subjective and contentious. To avoid the potentially severe long term economic impacts of climate change or a resource crunch, high values should be accorded to the natural resources whose use is contributing to these market failures; essentially what Lord Nicholas Stern did by using a low discount rate for future carbon costs. Policy appraisals on the basis of current or anticipated market prices are not adequate tools for addressing wider, longer-term challenges facing our economy and society.

8. Alongside efforts to price environmental externalities more accurately, policy makers must also take into account changes in natural capital and in particular potential thresholds and tipping points that threaten large irreversible non-linear changes. Well-being indicators should include some measures of human use of and damage to natural resources and the environment, which are crucial to human well-being.

9. In measuring national wellbeing, the UK Government should seek to align its approach with international processes to increase comparability and credibility. This area has been approached by a wide range of people and institutions, generating multiple metrics and methods. As a first step the AG supports the EU's *Beyond GDP* initiative and its recommendation to extend National Accounts – which present production, income and expenditure in the economy – to include environmental and social accounts.

[1] http://www.teebweb.org/

Appendix One: Notes from AG roundtable

The AG hosted a roundtable with the ONS to debate key issues arising from the consultation and this section reflects a number of individual comments that were raised. ***The quotes below do not necessarily reflect AG and/or member views.*** They are provided in the context of the national debate and to provoke further discussion.

"There are two forms of efficiency an economy can display: resource efficiency and wellbeing efficiency. The latter asks: how much wellbeing does the economy generate for any given level of activity? How can we make the economy more wellbeing efficient – in other words, get more units of wellbeing per unit of GDP?"

"Businesses will need to ask how much wellbeing they generate for individuals with whom they interact (through their output and products) and what are the associated business benefits. The 'wellbeing strategy' of a business could impact on all the people with whom it interacts, such as customers (loyalty), staff (retention), community (goodwill) and the supply chain (efficiency)."

"A wellbeing metric will provide an additional indicator of competitive advantage. Businesses that are better at creating wellbeing will build greater customer loyalty and staff engagement, particularly if staff feel valued and more responsible. Comparable metrics will allow companies to benchmark performance against their peers."

"Understanding wellbeing will be important to new product development. Measurement of customer wellbeing will need to be translated so it can be used to guide future development decisions."

"Governments and businesses have tended to cherry pick wellbeing data which puts them in the most favourable light. How can we ensure longevity for this agenda if wellbeing metrics produce unfavourable results?"

"Some politicians are beginning to ask why we assume perpetual progress? Maybe we need to find a state in which we can live without assuming constant expansion and improvement."

"The usefulness of long-term measurement versus the short-term interests of media and politicians will be a major challenge for this agenda. Will measures that require short-term pain for long-term gain be marginalised?"

"Any new wellbeing measures must become a practical part of the policy making process. For example, it could help target areas for social cohesion that will reduce spending on crime and health in the longer term."

"A dashboard of the most important wellbeing metrics would be more helpful than one single wellbeing measure that would lack context."

"A distinction should be made between stocks and flows. Stocks are associated with learned habits, psychological attitude, reflection on past experience and trust in others, while flows are associated with wellbeing at a certain moment in time. Policy should

focus on improving individual stocks that would have a more permanent benefit. Unemployment, for example, can lead to a permanent 15% drop in a person's wellbeing."

"Prospect theory studies suggest that people are made more unhappy from a loss than they would be made happy from a comparable gain – the human preference is for the status quo."