



Jean Monnet Chair

Small Area Methods for Monitoring of Poverty and Living conditions in EU (SAMPL-EU)

II.2. From GDP to Well-being, Quality of Life and Poverty

Luigi Biggeri

Outline

1. From GDP to Economic well-being, quality of life and happiness
2. Social indicators, Well-being and the conclusions of Stiglitz Commission on the Progress of Society
3. Measuring the Quality of Life and Poverty: multidimensional nature of phenomena and type of indicators
4. Sources of data to compute the indicators
5. Some issues on the use of the indicators

From GDP to Economic well-being, ...-1-

Conclusions from the presentation of National Accounts

- Standard national accounts are **not** the truth and nothing but the truth!
- NA provide measure of aggregates and of the distribution of income, but not information on income distribution among families and individuals
- NA **do not provide direct measure of poverty**
- Alternative concepts, classifications, accounting conventions and supplementary datasets may help to enhance the analytical usefulness of the National Accounts in specific policy areas, and in particular on poverty and living conditions
- **Aggregate analyses are not sufficient**

From GDP to...Beyond the GDP? -2-

- **Many slogans!** GDP is no longer sufficient as a tool to measure the Economic Well Being (EWB);
- Actually, **never** GDP has been proposed as measure of EWB by the **main contributors** to the definition of GDP (for example, Kuznets, 1934); it was proposed only as measure of the market production activities
- From the beginning researchers are aware of the **conceptual and practical limitations** of the GDP also as measure of the economic welfare
- ❖ In fact, in the '60 and '70 years **a lot of works** have been conducted to **estimate the EWB** starting from the GDP by two ways:
 - i. **adding and subtracting components to GDP (see Appendix A)**
 - ii. **considering a vector of socio-economic indicators**

From GDP to Economic Well being -3-

- ✓ But GDP is sometime still used by European Commission (2001) for the evaluation of the economic development!
- ❖ Actually **EWB concept** is linked to **Disposal Income** resources at:
 - **Macro** level
 - **Micro** level
- ❖ **Moreover**, increase in wealth does not always correspond to increase in **subjective well-being**
- Two strands:
 - ✓ conceptual identity between **utility** and **well being**
 - ✓ abstract from utility concept (Sen): **functioning** and **capacity** (achieved results for health, education, labour; potential gains in freedom to do and to be)

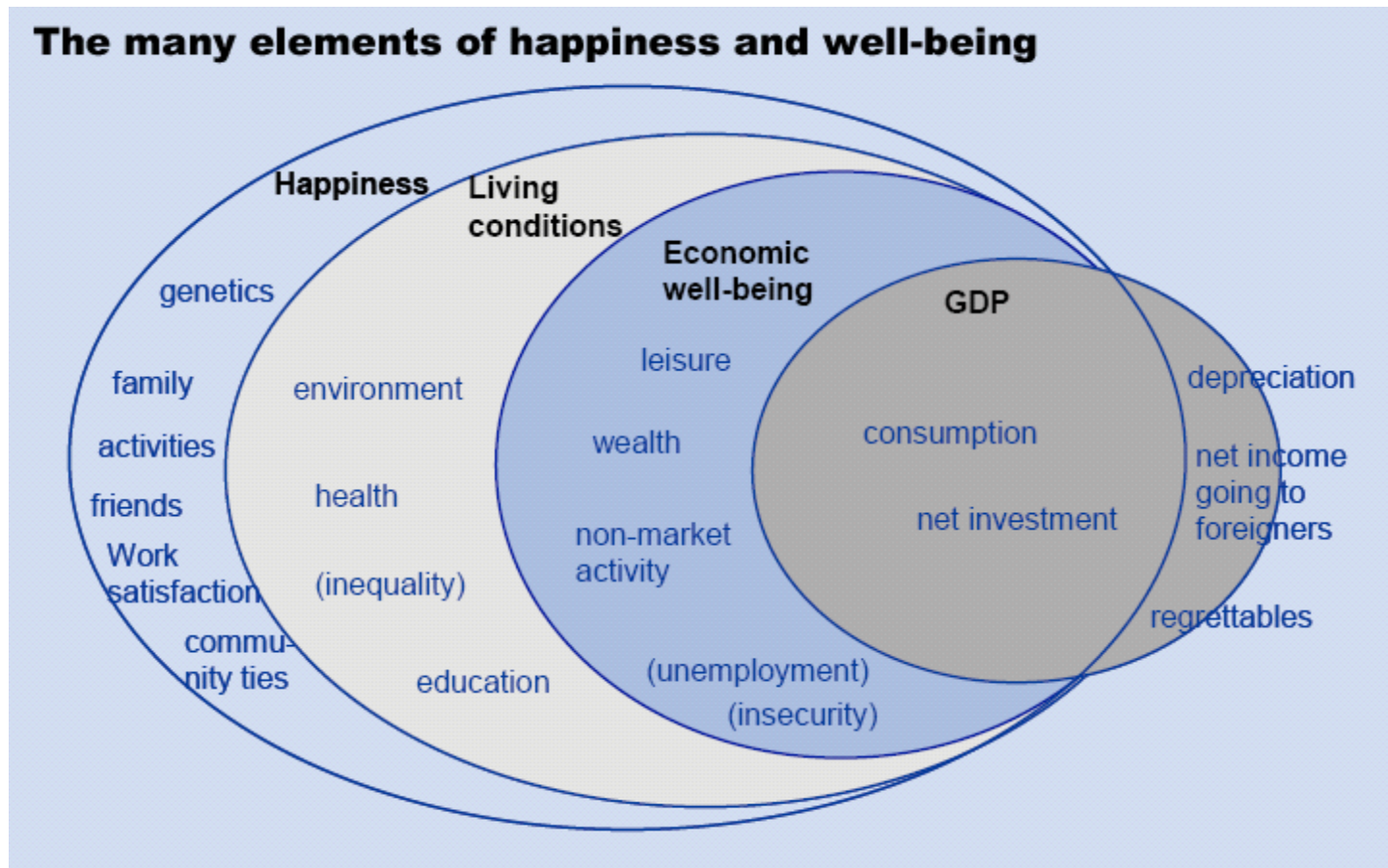
From GDP to... EWB...to Happiness -4-

- From EWB to **Living conditions, Quality of life** and to **Happiness**: continuous enlargement of the concepts
- **Objective measure**: Starting from GDP
- **Supplementary and alternative** measures:
 - ✓ National Income
 - ✓ Human Development Index (**HDI-UNDP**): school enrolment and life expectancy
 - ✓ Wealth distribution and disparities

From GDP to... EWB...to Happiness -5-

- ❖ **Continuous enlargement of the concepts: from GDP to Happiness (?)** ➡ see the following figure
- Quality of life and happiness (European Foundation for the Improvement of Living and Working Conditions, 2005)
- **Material** well-being (GDP; income, etc.) and **non-material** well-being (Happiness: Kahnemann and Krueger, 2006; Earlestin, 1995 e 1996)
- **Happiness**: a concept whose measurability is much debated. A paradox? (Kahnemann and Krueger, 2006; Veenhoven, 2007)
- **From Statistical point of view the measures become more and more difficult (from “hard” to “soft” measures)**
- **Challenges for Official Statistics**: knowledge essential to policy-making and actions and to social control

From GDP to... EWB...to Happiness -6-



Source: Goossens et al., 2007

Well-being - Stiglitz Commission -1-

- ❖ To measure the WEB, Living conditions and Quality of Life specific indicators have been proposed and computed since long time by the **Movement of Social Indicators** (from 1920 and in particular, in period 1970-75, Delors, 1971; Zapf, 2000))
- ❖ Particular focus has been devoted on the measure of Poverty with a lot of research
- ❖ Recently, to measure the **Progress of Society** (including EWB, Living conditions and Quality of life) OECD organized various World Forums and in 2008 French President Sarkozy established a “**Commission on the Measurement of Economic Performance and Social Progress**” chaired by Nobel Prize Joseph **Stiglitz** (Stiglitz, Sen and Fitoussi, 2009)

Well-being - Stiglitz Commission -2-

- ❖ Stiglitz Report gives some important key messages (not beyond GDP, but GDP and beyond) in three different domains:
 1. **Better measures for economic performance (better use of national accounts statistics)**
 - Need to emphasize the **distribution of income and wealth** and the **household perspective** (disposable income)
 2. **Better measures for well-being and quality of life**
 - **Living standard, Poverty**, Health, Education, Political choice, Social connections, environment, security
 3. Important to distinguish between an **assessment of current well-being** and **assessment of Sustainability and Environment**
 - Wealth of natural resources
 - Accounting in physical terms

Well-being - Stiglitz Commission -3-

- ❖ The suggestion is that the National Statistical Offices of each country, build up a **System of Indicators for measuring the progress of the society, that is** to measure the different dimensions of the Well-being and Quality of Life
- ❖ The knowledge of the indicators of Well-Being, etc. **is essential for policy-making and also for social control of the community**
- ❖ In **Italy**, a project to **measure Equitable and Sustainable Well-being (BES** in Italian Language) has been implemented considering 12 dimensions (Health, Education and training, Work and life balance, Economic well-being, Social relationships, Politics and institutions, Security, Subjective well-being Landshape and cultural Eritage, Environment, Research and innovation, Quality of services). For each dimension **adequate Indicators** have been choosen

Well-being - Stiglitz Commission -4-

- ❖ SNA and Well-being main conclusions
- ✓ National Income is not **the** measure of well-being
- ✓ Measuring all aspects of well-being requires a **set of indicators for each topic**
- ✓ **Satellite accounts may help** to enhance the scope of national accounts in the direction of welfare measurement
- ✓ Embedding indicators in **accounting frameworks** has some advantages:
 - Consistency and comparability
 - Clear points of reference: GDP, Consumption, investment etc.,
 - Opportunities of analysing underlying relationships
- ✓ **Objective** and **subjective approaches** for measuring the well-being and quality of life have been suggested and followed

Measuring the Quality of life and Poverty -1-

- ❖ For the aim of this Course, we focus now on the **Quality of life and Poverty measures**
- ❖ Concept of “**Quality of Life**”, at **Micro** level
 - **Objective** availability of goods and services
 - **Subjective** satisfaction
- It differs from other concepts in three elements
 - ✓ It refers to the **life of individuals**
 - ✓ It is **multidimensional**
 - ✓ It uses **objective** and **subjective** indicators

Measuring the Quality of life and Poverty -2-

❖ Measures on **economic well-being** classed as:

✓ **Objective** (income, consumptions, saving capacity, poverty, wealth, possession of goods, etc.)

✓ **Subjective** (assessment and **satisfaction for economic condition** and disposable resources)

❖ Need to go beyond **economic dimension**:

✓ **Non-material well-being** (perceptions, opinions, attitudes, satisfaction of citizens **also in other fields relevant to quality of life**: occupation, health conditions, use of health services, leisure activities, safety, family and friends relations, travels, holidays, time use, environment, etc.)

✓ Measure the size of **non-observed** (hidden) **phenomena** (domestics accidents, sexual harassments and violence, other criminal events, informal care networks, etc.)

Measuring the Quality of life and Poverty -3-

❖ Measures of Poverty and Living conditions

- **Various measures** of poverty and living conditions have been proposed for measuring the progress of society
- For example, **Italian BES the proposed indicators** on: income average per capita, income disparity, risk of poverty, absolute poverty, financial vulnerability, job-less families, material deprivation, subjective assessment of economic difficulties; satisfaction on free time, on its life, on future perspectives
- **Specific indicators (18)** for the measure of the poverty have been proposed **by European Council** in 2001 (the so-called “**Lacken Indicators**”) that will be presented in the lectures of professor Pratesi

Sources of data to compute the indicators

Indicators on poverty, quality of life and living conditions are computed by using data collected with **some sample surveys on households and individuals**

At the **European level** (conducted in all European countries):

- ✓ **Survey on income and living conditions (Eu-Silc)**
 - ✓ **Household budget surveys**
 - ✓ **Labor force Survey**
- 
- See
Appendix
B

At Italian level:

- ✓ The above mentioned surveys and
- ✓ a more deepened surveys on **different aspects of living conditions**, that is a **System of multipurpose surveys** on households (on subjective perception of well-being/unpleasantness and satisfaction/dissatisfaction on the different items)

Some issues on the use of the indicators -1-

- ❖ For the **use of** the different computed **indicators** there are many issues. Some of them are underlined here
- For the **interpretation**: need to know exactly the definitions of the indicators and the characteristics and quality of data
- Also in order to **avoid biases** due to political **use of indicators** it is necessary to:
 - ✓ Reduce complexity without losing fundamental information
 - ✓ Make data immediately understandable
 - ✓ Make easy the comprehension of significance and implication
- Subjective measures are difficult to interpret: a lot of discussions

Some issues on the use of the indicators -2-

- **Comparison between objective and subjective measures** of poverty and quality of life.
 - ✓ Sometimes the **differences** between the two measures of the same phenomenon are **very high** (see the **examples** in the following slides)
 - ✓ Need to do analysis, interpretation and explanation
 - ✓ Relationship between the two measures
- **Some examples** taken by Italian data
 - ✓ Comparisons between relative poverty and subjective indicator of poverty
 - ✓ Comparisons between changes in GDP and subjective evaluation of changes in economic situation
 - ✓ Comparison between subjective measure of economic situation and evaluation some aspects of the quality life (economic and non material conditions)

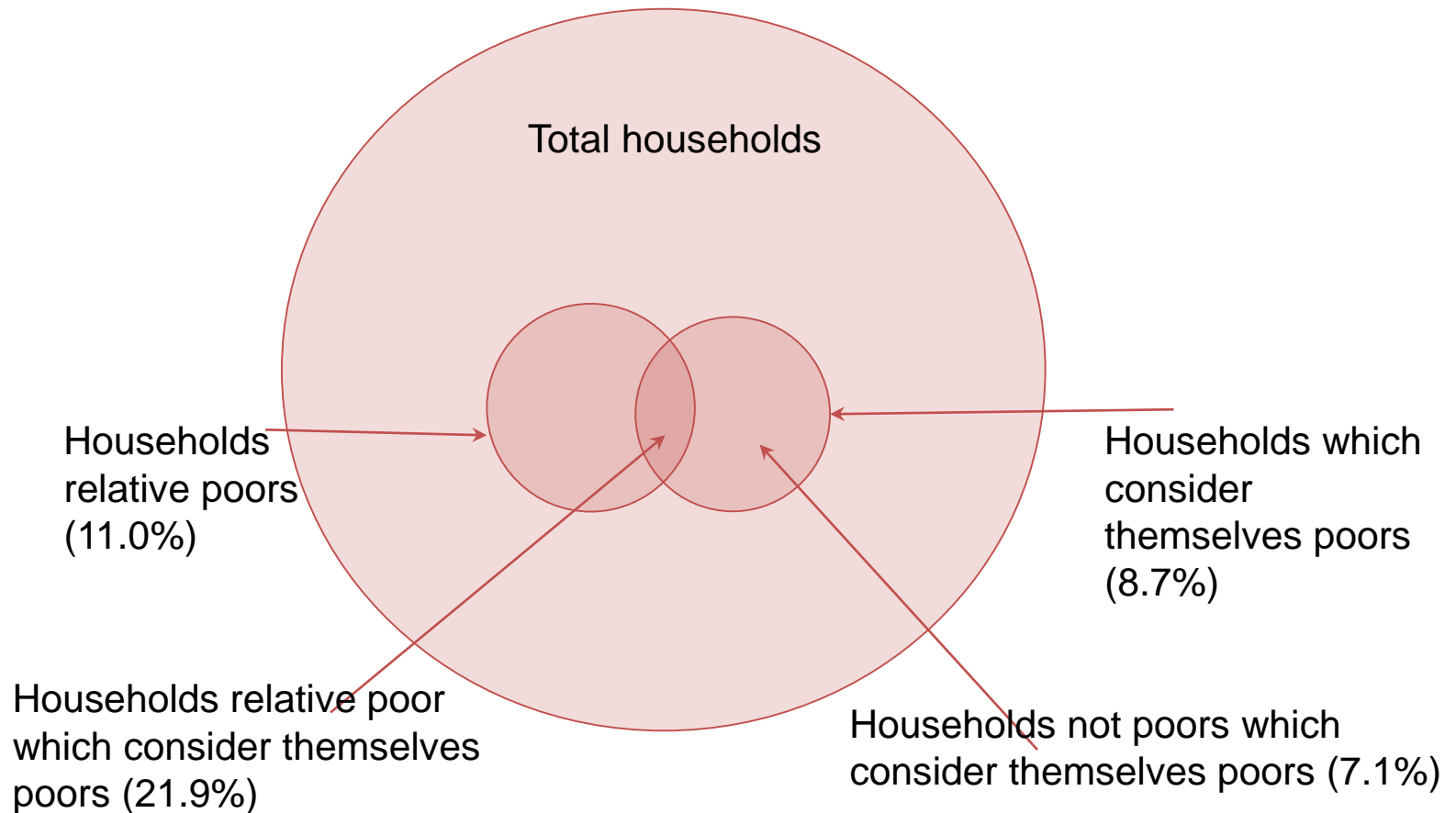
Example -1-

Comparison between **relative poverty** of the households and **subjective** evaluation of a situation of **poverty** -2011-

Characteristics	Indicators	
	Objective	Subjective
	% of households	
Northern regions	5.0	7.7
Central regions	6.7	5.6
Southern regions	22.4	12.1
One person < 65 years	3.1	13.1
One person >65 years	13.3	16.6
Couple with 3 or more children	24.4	9.6
H. with 2 or more holder pers.	17.4	9.2.
H. with 2 children <18 years	15.2	5.4
H. With 3 or more children	25.9	12.1
Total	11.0	8.7

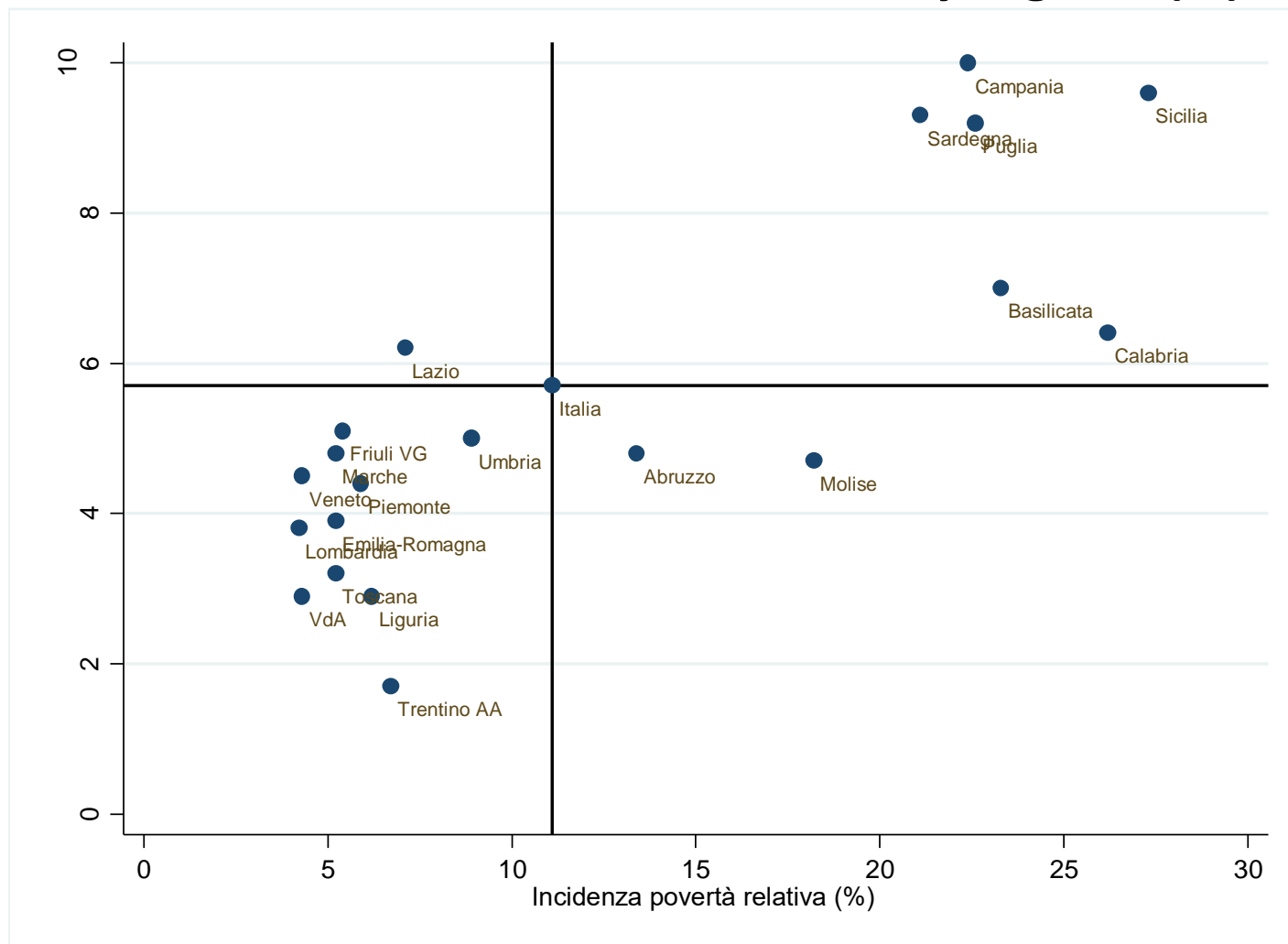
Example -2-

Percentage of households in relative poverty and households which consider themselves poors -2011-



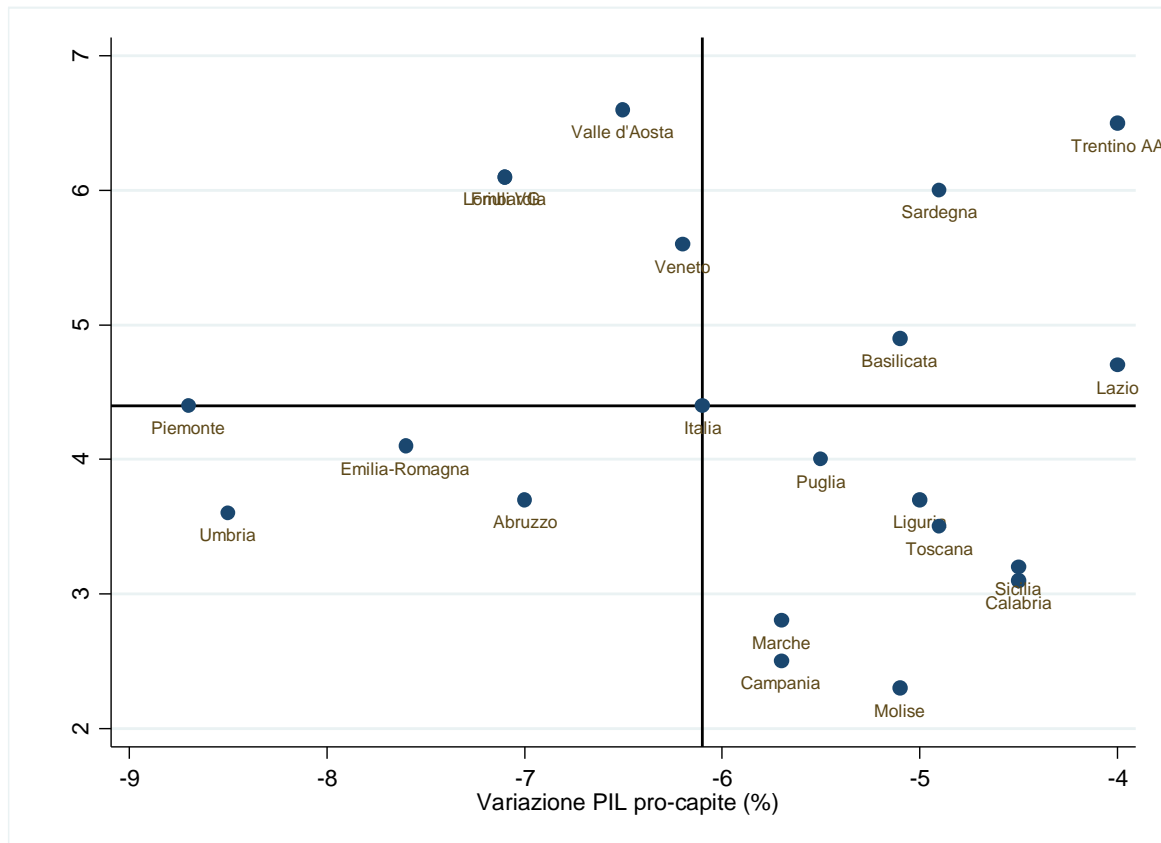
Example -3-

Households Relative poverty and households which declare their economic resources insufficient, by regions (%) -2011-



Example -4-

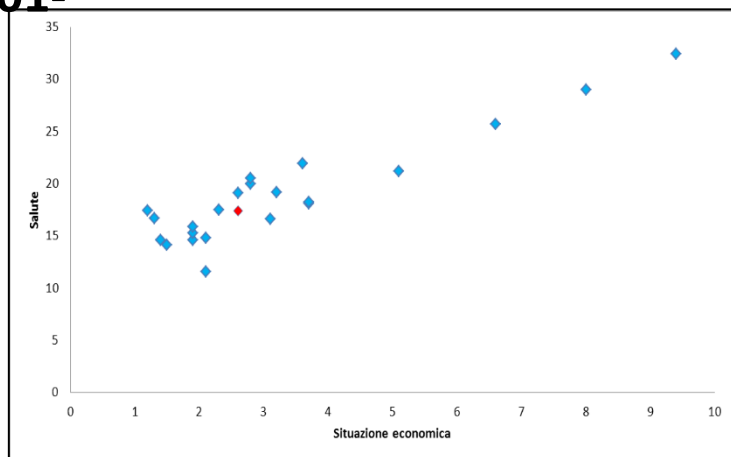
**GDP per capita changes and households which declare an improvement in their economic situation (%), by regions
-2008/2009-**



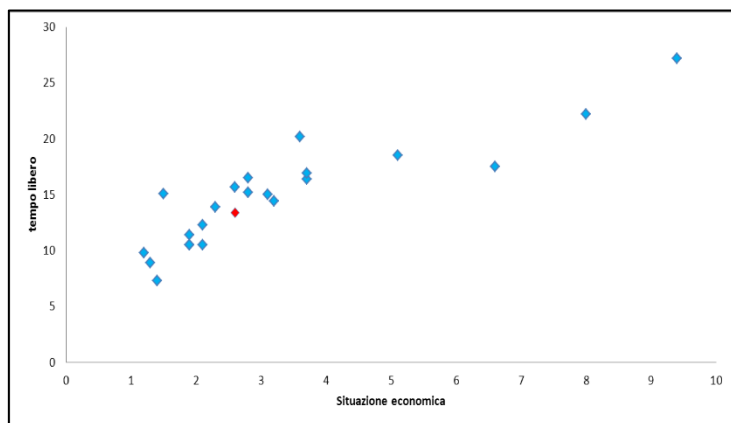
Example -5-

Individuals very satisfied of their economic situation and of various aspect of thei daily life (1 health, 2 free time, 3 air pollution, 4 noises, 5 criminality) - 2001-

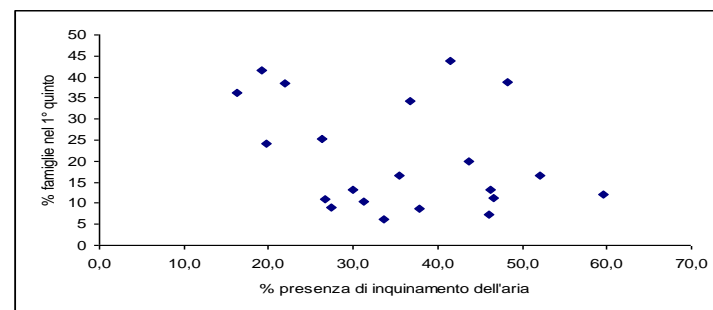
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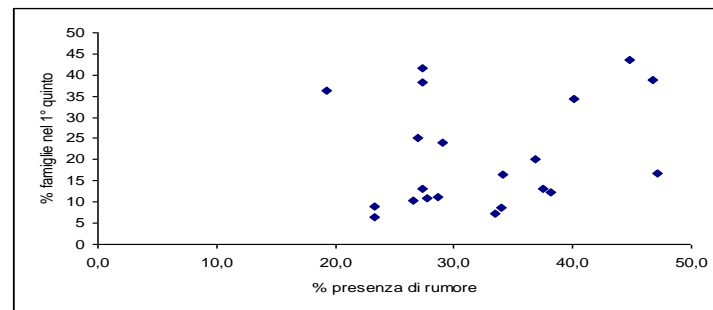
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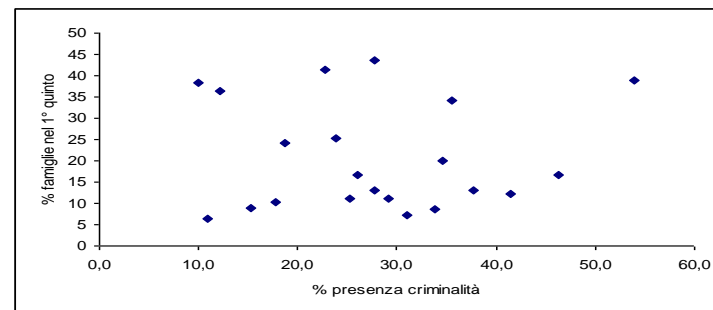
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Some issues on the use of the indicators -3-

Final remarks

There are many **Open Problems**, but with possible solutions; for example:

- ✓ Need to assess **inequalities in a comprehensive way**, and not only for income
- ✓ **Comparability of economic aggregates and indicators** in time and space;
- ✓ Take into account of the **different level of the governments** and need of data for **local (small) areas**
- ✓ **Additional information** (need for integration)
- ✓ Need to **pay attention to the level of development** of the countries and of the territorial areas and to the **social and cultural situation** (need for different indicators? May be: analogy with the indicators used by a Doctor)
And so on

References -1-

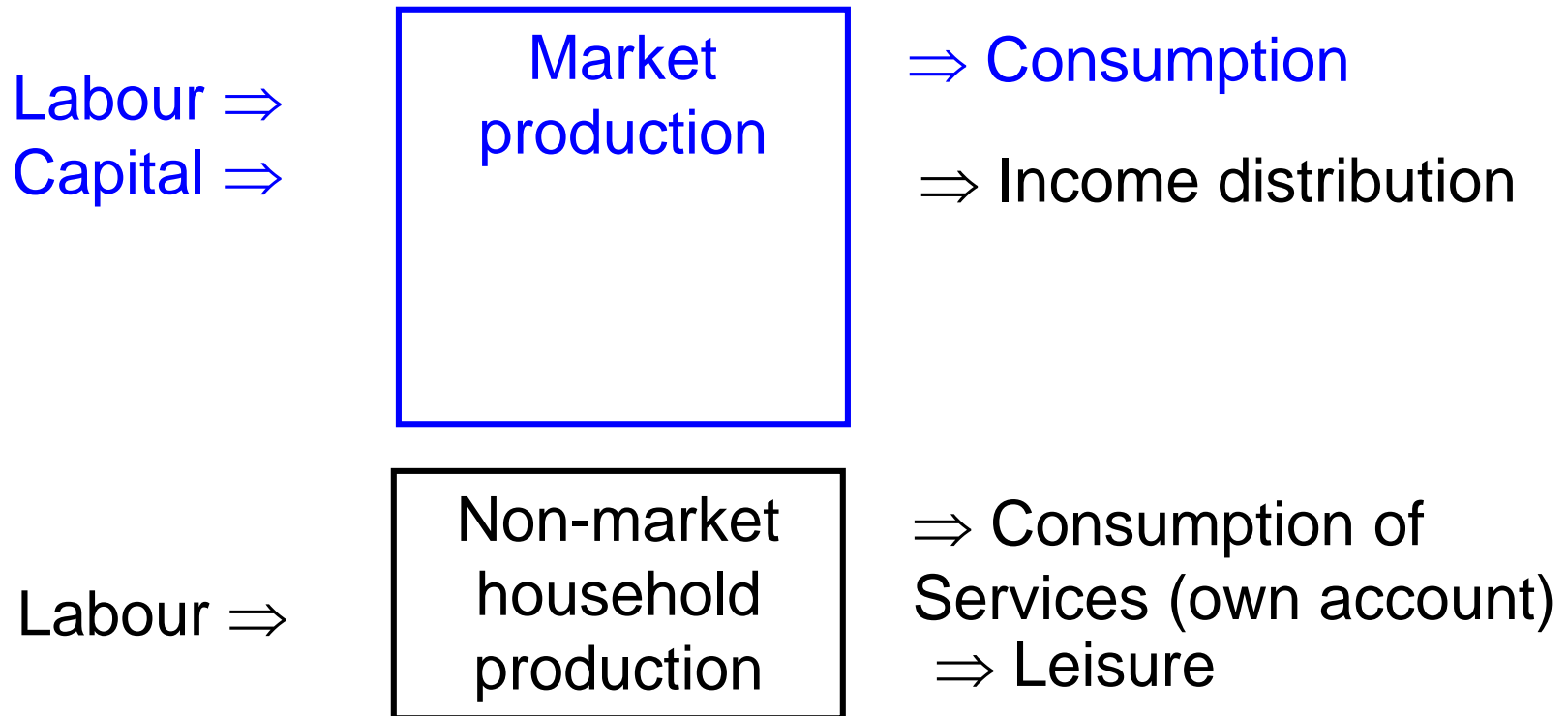
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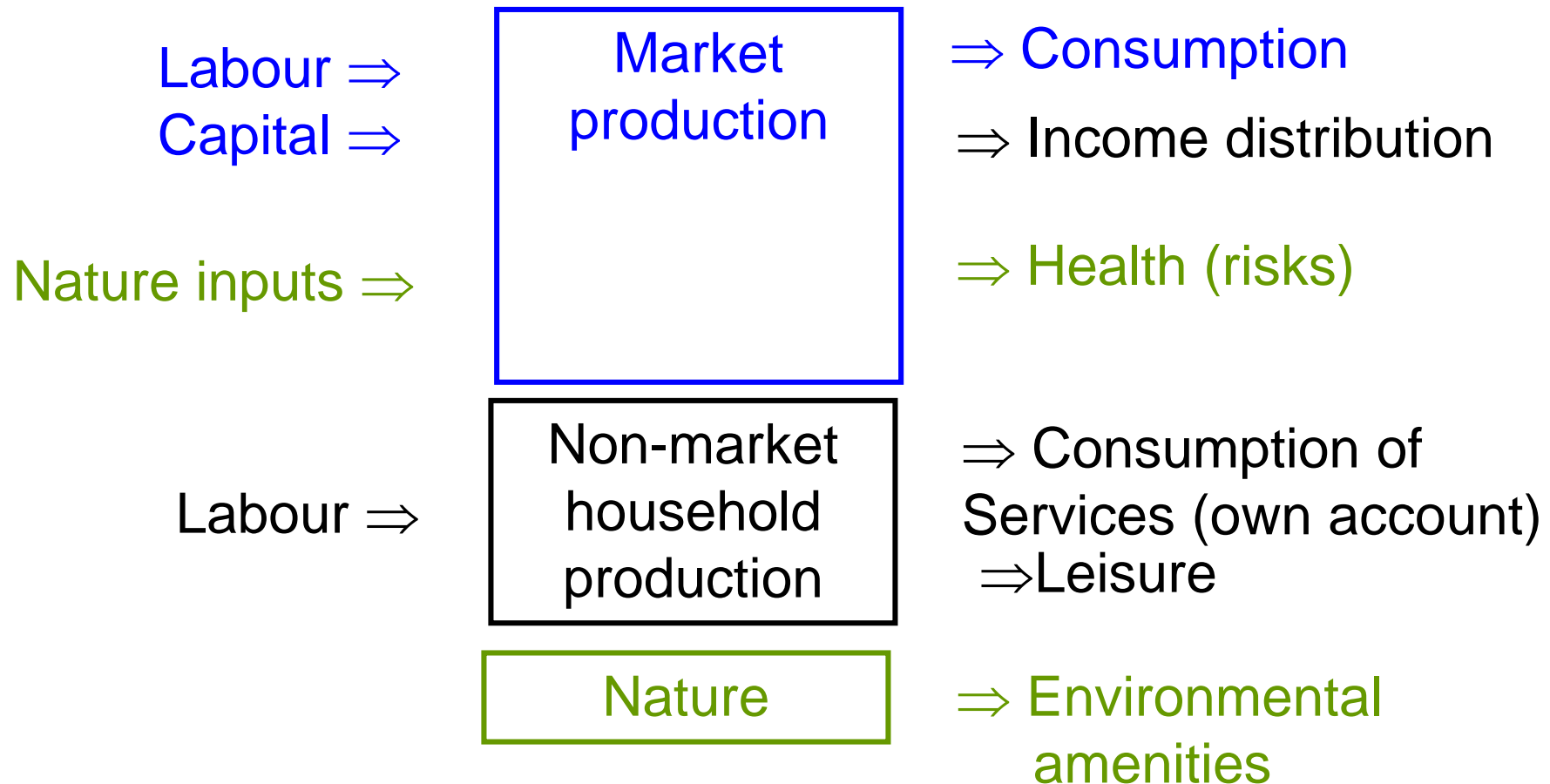
Appendix A: Different configuration of Economic Aggregates adding and subtracting components to GDP -1-

National Income and Welfare



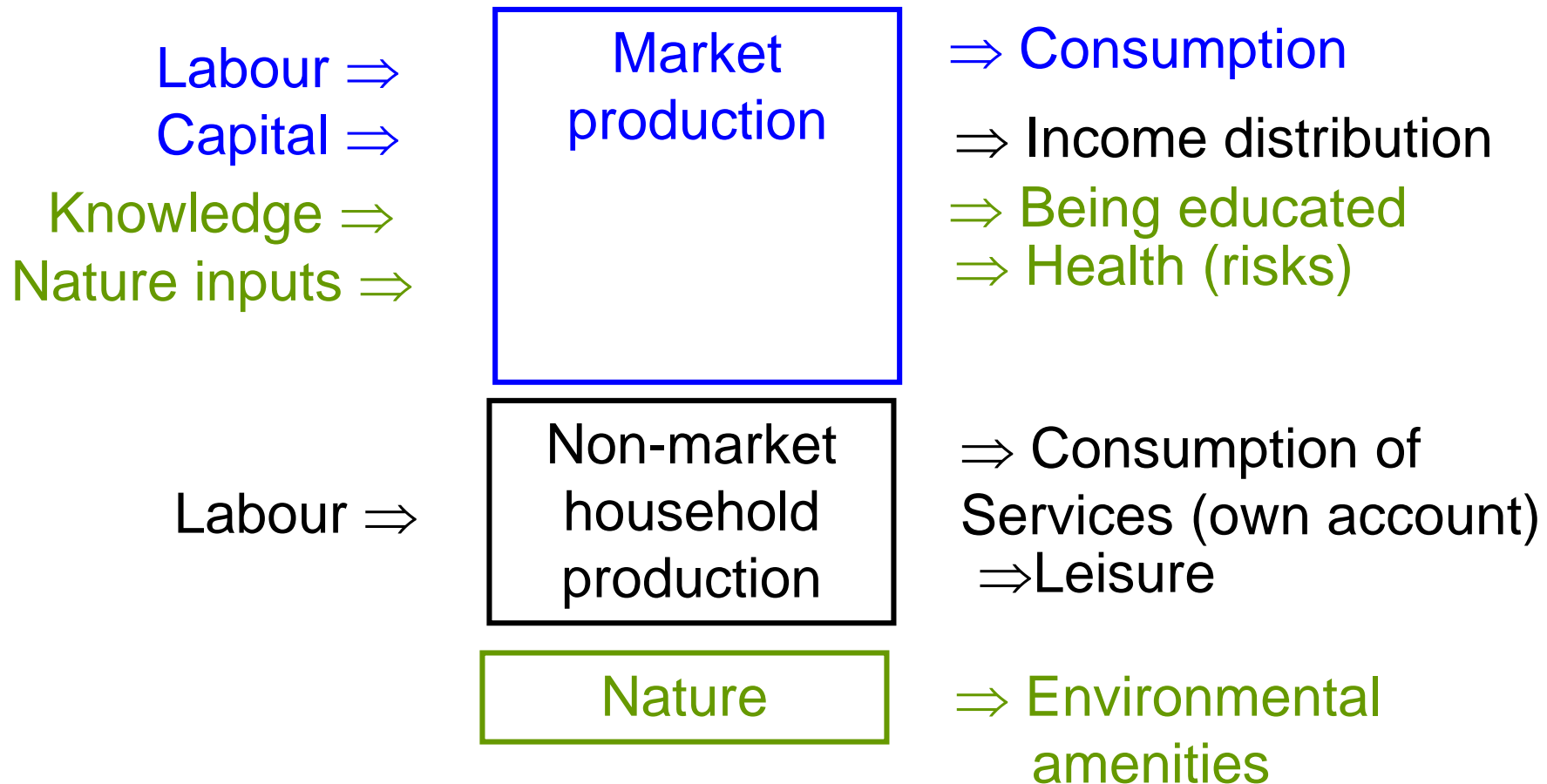
Appendix A: Different configuration of Economic Aggregates adding and subtracting components to GDP -2-

National Income and Welfare



Appendix A: Different configuration of Economic Aggregates adding and subtracting components to GDP -3-

National Income and Welfare



Appendix B : Some information on the main sample surveys

- **European (Eurostat) survey on Income and Living conditions (EU-SILC)**
- **European (Eurostat) Household Budget Surveys**
- **European (Eurostat) Labor Force Survey**

European Surveys on Income and Living conditions (EU-SILC) -1-

Description of dataset

The European Union Statistics on Income and Living Conditions (EU-SILC) is an instrument aiming at collecting timely and comparable cross-sectional and longitudinal multidimensional microdata on income, poverty, social exclusion and living conditions. This instrument is anchored in the European Statistical System (ESS).

The EU-SILC project was launched in 2003 on the basis of a "gentlemen's agreement" in six Member States (Belgium, Denmark, Greece, Ireland, Luxembourg and Austria) and Norway. The start of the EU-SILC instrument was in 2004 for the EU-15 (except Germany, the Netherlands, the United Kingdom) and Estonia, Norway and Iceland. For full description of the countries coverage in EU-SILC, please consult the implementation graph below.

[EU-SILC implementation by country;](#)

[EU-SILC microdata coverage](#)

The EU-SILC instrument provides two types of data:

Cross-sectional data pertaining to a given time or a certain time period with variables on income, poverty, social exclusion and other living conditions

European Surveys on Income and Living conditions (EU-SILC) -2-

Longitudinal data pertaining to individual-level changes over time, observed periodically over a four-year period.

Social exclusion and housing condition information is collected mainly at household level while labour, education and health information is obtained for persons aged 16 and over. The core of the instrument, income at very detailed component level, is mainly collected at personal level.

[List of primary variables](#)

EU-SILC based data

The EU-SILC has been used to provide data on the structural indicators of social cohesion (at-risk-of poverty rate, S80/S20) and in the context of the two Open Methods of Coordination in the field of social inclusion and pensions.

Since 2010, the outset of the Europe 2020 strategy, EU-SILC data is being used for monitoring the poverty and social inclusion in the EU. A headline poverty target on reducing by 20 million in 2020 the number of people under poverty and social exclusion has been defined based on the EU-SILC instrument. In the same political context a broader portfolio of indicators, including plenty of numerous EU-SILC based data, constitutes the Joint Assessment Framework (JAF) of the EU2020 strategy.

European Household Budget Surveys

The Household Budget Surveys at National level

- Aiming at collecting detailed household consumption expenditures on different kinds of goods and services (COICOP categories) over a specified period of time (generally two weeks)
- They are conducted on a regular basis in all the European countries (annual/every five years)
- Main purpose: provide the weights for the Consumer Price Index (CPI) and data to estimate the National Accounts aggregates of Households Consumption
- The sample sizes range from 1570 (NL) to 52217 households (DE)
- Substitutions have been allowed by certain countries (BG, GR, ES, HU and IT) in order to increase the sample size
- However, the sample sizes may happen to vary drastically from one country to another
- Problem of comparability across the countries

European Household Budget Surveys -1-

The Household Budget Surveys at National level

- ☐ A household survey aiming at collecting detailed household consumption expenditures on different kinds of goods and services (COICOP categories) over a specified period of time (generally two weeks)
- ☐ Conducted on a regular basis in all the European countries (annual/every five years)
- ☐ Main purpose: provide the weights for the Consumer Price Index (CPI)

The sample sizes range from 1570 (NL) to 52217 households (DE)

- ☐ Substitutions have been allowed by certain countries (BG, GR, ES, HU and IT) in order to increase the sample size
- ☐ However, the sample sizes may happen to vary drastically from one country to another
- ☐ Problem of comparability across the countries (see next)

European Labor Force Survey -1-

Description of the dataset

The European Union Labour Force Survey (EU LFS) is conducted in the 28 Member States of the European Union, 2 candidate countries and 3 countries of the European Free Trade Association (EFTA) in accordance with Council Regulation (EEC) No. 577/98 of 9 March 1998. At the moment, the LFS microdata for scientific purposes contain data for all Member States in addition to Iceland, Norway and Switzerland.

The EU LFS is a large household sample survey providing quarterly results on labour participation of people aged 15 and over as well as on persons outside the labour force. All definitions apply to persons aged 15 years and over living in private households. Persons carrying out obligatory military or community service are not included in the target group of the survey, as is also the case for persons in institutions/collective households.

The national statistical institutes are responsible for selecting the sample, preparing the questionnaires, conducting the direct interviews among households, and forwarding the results to Eurostat in accordance with the common coding scheme.

The data collection covers the years from 1983 onwards. In general, data for individual countries are available depending on their accession date. The Labour Force Surveys are conducted by the national statistical institutes across Europe and are centrally processed by Eurostat:

Eurostat Labor Force Survey -2-

Using the same concepts and definitions

Following International Labour Organisation guidelines

Using common classifications (NACE, ISCO, ISCED, NUTS)

Recording the same set of characteristics in each country

In 2012, the quarterly LFS sample size across the EU was about 1.5 millions of individuals. The EU-LFS covers all industries and occupations.

The LFS microdata including years 1983-2013 data were released end of December 2014. For full details on the anonymised LFS microdata, please consult documents below:

[Information note](#)

[Anonymisation criteria](#)

[User guide](#)

[European Union Labour Force Survey: Additional information](#)

LFS based data

A significant amount of data from the European Labour Force Survey (EU LFS) is also available in Eurostat's online dissemination database, which is regularly updated and available free of charge. The EU LFS is the main data source for the domain 'employment and unemployment' in the database.