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Beyond GDP. Exploring Models and Indicators of Well-Being

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INTRODUCTION.....	3
CHAPTER 1	7
1.1 Why do we need and Index for well-being and why GDP per capita is not adequate for this purpose.....	7
1.1.1 About GDP: its deficiencies and its misuses	9
1.1.2 Why there is the need to complement GDP	12
1.2 What is well-being? How to measure it?	16
1.2.1 What drives well-being?	18
1.2.2 Three different conceptual approaches to well-being.....	21
1.2.3 A composite indicator or a dashboard?	25
1.3 Short history of well-being debate and measuring tools.....	28
1.3.1 International, regional and national efforts: guide-lines, recommendations, and deliberative indices	30
<i>I THE STIGLITZ COMMISSION.....</i>	<i>30</i>
<i>II THE OECD INDEX.....</i>	<i>31</i>
<i>III THE EUROPEAN COMMISSION: ‘GDP AND BEYOND’.....</i>	<i>34</i>
<i>IV NATIONAL INITIATIVES ON MEASURING SOCIETAL PROGRESS.....</i>	<i>37</i>
CHAPTER 2	40
2.1 The onset of the economic crisis.....	40
2.1.1 What if... ..	43
2.2 Italy and the Crisis	44
2.3 Bes: phenomenology.....	49
2.3.2 The twelve domains identified by Bes.....	52
<i>I HEALTH</i>	<i>52</i>
<i>II EDUCATION AND TRAINING.....</i>	<i>53</i>
<i>III WORK AND LIFE BALANCE.....</i>	<i>53</i>
<i>IV ECONOMIC WELL-BEING.....</i>	<i>54</i>
<i>V SOCIAL RELATIONSHIPS</i>	<i>54</i>
<i>VI POLITICS AND INSTITUTIONS</i>	<i>55</i>
<i>VII SECURITY.....</i>	<i>55</i>

<i>VIII SUBJECTIVE WELL-BEING</i>	56
<i>VIII LANDSCAPE AND CULTURAL HERITAGE</i>	56
<i>IX ENVIRONMENT</i>	57
<i>X RESEARCH AND INNOVATION</i>	57
<i>XII QUALITY OF SERVICES</i>	58
2.3.2 Cross-cutting issues and possible criticism	59
2.4 Italy’s Economic and Financial document, and some considerations over the economic models leading the EU	61
2.4.1 Bad policies lead to bad outcomes	64
CONCLUSION	67
BIBLIOGRAPHY	72
Monographs	72
Periodical articles	73
Gray Literature, Technical Reports, Working Papers, Committee Reports	74
Institutions’ official documents	76
Web resources and documents	76

INTRODUCTION

The question underlying this analysis is why good statistical indicators are so important for modern democracies and why they should not be considered a reserved domain for experts and bureaucrats. Furthermore, I will analyse whether the most widely used indicator for economic performances, namely Gross Domestic Product, is adequately answering citizens' concerns regarding what people really need for better policies and better lives.

Indicators provide a particular kind of information, since they are tailored to answer a very specific question, and cannot be used for another objective. They refer to an “*indicandum*”¹, that is, they are linked to something that is believed important to measure. Thus, they do not have value in se, and they owe their entire legitimacy to the objective they are geared to. GDP is the most widely used indicator for measuring the market activity of a country; however, since it is relatively easy to calculate and of immediate understanding, economists and policy-makers have started to employ it as if it were a broader measure for evaluating overall economic performances and societal progress. Progressively, GDP per capita has assumed the role of *the* index for gauging everything of importance, well-being of citizens comprised. Now a myriad of people – political leaders, economists, investors, statisticians, financial operators, journalists, media and simple citizens- put their hopes and expectations for the future in that number, up to the extent that the destiny of a country and of its entire population can be literally bound to a positive or a negative percentage variance.

However, there is a basic, though very troubling, conceptual error behind the unquestioned domain of GDP: you cannot use a teapot to fry eggs, as you cannot use a statistical tool beyond its appropriate rationale. While there are good reasons behind its consideration², its purpose, that is, its license to exist, is to measure the level of *market economic activity* of a country. What we measure affects what we do; and if our measurements are flawed, or simply ill-designed for that objective, policy decisions may be irremediably wrong³.

¹ See the speech Mr Walter Radermacher, Director General of Eurostat and Chief Statistician of the EU addressed to the Austrian Federal Ministry of Finance, in Vienna. He states that the circumstance that one indicator is instrumental for decision-making “is both its strength and its weakness: its strength, because the decision justifies the usefulness of the indicator and thus its legitimacy, and its weakness because the objectives can vary over time, from one country to another and from one decision-maker to another. This makes the definition of common indicators for all countries more difficult”.

² In fact, GDP levels do show a positive correlation coefficient with several indicators of living standards and subjective evaluations.

³ . E. Stiglitz, A. Sen, and J.-P Fitoussi, *Report by the Commission on the Measurement of Economic Performance and Social Progress*, 2009, available online at <http://www.stiglitz-sen-fitoussi.fr/en/documents.htm>, page 8

In effect, being GDP an average measure, it cannot tell us how the economic output is distributed across individuals, and does not inform policy-makers whether everyone in the society is enjoying the benefits of modern economies. Furthermore, in recent decades, the world has undergone important structural changes. Globalisation, swift technological innovations, and an increasing share of non-market goods and services are challenging the metrics on which both international and national statistical systems relied on so far to measure economic performances. The economic strains many countries are currently experiencing because of the recession demonstrate the urgency for a new array of tools to monitor what truly contributes to well-being of citizens and to design policies geared to help the neediest. When the financial crisis exploded, governments were unprepared to face its effects and thus could not make amends for having failed to predict that such a disaster was coming. Being unable to tackle its consequences, they still find a reassuring shelter in veteran macroeconomic principles, which prescribe the old heal-all remedy of fiscal stability and no State's intervention. GDP ruinous fall was finally halted; nonetheless, the price in terms of sufferance and growing inequalities was enormous.⁴

However, even before the outburst of the crisis, people started to doubt the accountability of economic statistics and their ability to reflect their actual circumstances. In fact, traditional aggregate measures as GDP were growing distant from widespread perceptions, and citizens adverted their living standards were rapidly decreasing, and that inequalities were growing larger, and deeper. When official reports and national statistics are not adequately reflecting the actual welfare of the components of the population, there is the risk that their incongruence may threaten institutions' credibility and citizens' trust in their economic and political systems.

Against this background, the European Commission⁵ organised a conference entitled "Beyond GDP" in November 2007. In February 2008, the Commission on the Measurement of Economic Performances and Social Progress was formed with the endorsement of the President of the French Republic, Nicolas Sarkozy. Its mandate was to analyse the issues surrounding the use of Gross Domestic Product, to address its deficiencies and to explore whether more relevant indicators of social progress could be found. The so-called "Stiglitz Commission"⁶ provided economists, experts

⁴ J. E. Stiglitz, "Needed: a new economic paradigm", *Financial Times*, 9 August 2010, available online at <http://ineteconomics.org/stiglitz-new-paradigm>.

⁵ The EC held the conference jointly with the European Parliament, the Club of Rome, the World Wildlife Fund (WWF) and the OECD

⁶ The Commission is commonly referred to as "Stiglitz Commission" after its head (the Nobel Prize for Economics Joseph Stiglitz). However, in the present paper I will address the Commission employing the abbreviation SSFC, thus stressing the cooperation occurred among all its main members Joseph Stiglitz, Amartya Sen and Jean-Paul Fitoussi, all prominent professors and brilliant authors.

and policy makers with an impressive revision of the plentiful literature that accumulated so far on well-being and sustainability.

Moreover, the Report encountered a warm welcome amongst interested parts, and it contributed to shed light over complex –though essential- issues, through both wider public visibility and broader discussions among stakeholders. Following the Commissions’ recommendations, many initiatives were born at a national level, spurred by the crisis and the citizens’ demand for statistics that could closely reflect their priorities and their actual situations. Italy too engaged in the debate and elaborated a multi-dimensional project of sustainable well-being in 2013, called Equitable and Sustainable Well-Being (Bes). Of course, there are still some technical constraints to more ambitious outcomes⁷. However, significant progress has been achieved to the creation of better metrics.

All these initiatives recognised that measuring current economic performances requires addressing the quality of life⁸. However, when one is trying to measure well-being several difficulties arise, starting from the definition of well-being itself. Every theoretical conceptualisation of well-being can anyhow dodge to adopt a multi-dimensional approach to quality of life, which would combine into an integrated framework both objective and subjective measures, covering all aspects of importance. Furthermore, in order to assess progress adequately, one needs a dynamic model, which looks not only at the present, but also to the future. Any serious attempt to assess well-being cannot avoid forecasting whether the growth path we are following as a society would not leave much for future generations.

Finally, one should bear in mind that assuming to know exactly where well-being sits or what are its components is an impossible task⁹. Provided that “determining which elements should belong to this list of QoL features (...) inevitably depends on value judgements about which aspects are of greater importance at a given place and time”¹⁰, the community of experts that took part to the international academic debate strongly encouraged national offices to ask their citizens what really matters to them, so to look for better metrics.

⁷ Indeed, National Statistics Offices lack some important piece of information, especially when considering subjective assessments and the situation of the marginalised and the most deprived ones. These measures are required to complete objective metrics and data and to create a more comprehensive picture of quality of life.

⁸ J.E Stiglitz, A. Sen, and J.-P Fitoussi, *The Measurement of Economic Performance and Social Progress Revisited - Reflections and Overview*, 16 September 2009, <http://www.stiglitz-sen-fitoussi.fr/en/documents.htm>, page 63.

⁹ This could easily lead to a veiled paternalism; however, history teaches us that the degeneration into dangerous totalitarianism is an actual threat.

¹⁰ J.E Stiglitz, A. Sen, and J.-P Fitoussi, *Reflections and Overview*, *op.cit.*, page 156.

Sometimes, it seems that promoting societal welfare has become an obstacle to strengthening economies and enhancing their competitiveness and productivity. However, this contrast is only apparent, and demonstrates a widespread, though dangerous, confusion between ends and means. In fact, economic paradigms, are first of all a toolbox, whose main objective is to help governments to understand the phenomena that are currently taking place in society¹¹. These theories and principles are like street lamps¹² that have been turned on in the past to shed light on what it was believed it was relevant to illuminate. However, the ultimate purpose of economics, as well as statistical indicators that go along with it, is to promote the welfare of a nation. If our statistical systems are employing tools that have lost their *raison d'être* against the changes that occurred in those sixty years, we have to adjust them, so that the means we employ can better reflect the needs and conditions of real people.

¹¹ One should not have a plain opportunistic vision of Economics, though.

¹² J-P. Fitoussi, *Il teorema del lampione, o come mettere fine alla sofferenza sociale*, Einaudi, 2013.

The title of the book refers to the joke of a drunk man looking for his keys under a street lamp. Of course, he had not lost his keys under the street lamp, and thus it was irrational of him to stand in that place looking for them. However, that was the only place where he could look at, for the simple fact that it was illuminated, while the rest of the street remained dark. The joke is clearly a metaphor, which becomes the red thread of the book “It’s us who chose what we ought to illuminate, the phenomena we ought to analyse, the measuring system we ought to use, the objective we ought”. However, if something new or unexpected happens, then those street lamps are no more appropriated to understand what is going on.

CHAPTER 1

1.1 Why do we need and Index for well-being and why GDP per capita is not adequate for this purpose

Traditionally, the economic activity of a country is described by gross domestic product (GDP), that is, the aggregate estimate of the value of all services and goods produced by a nation state. On the other hand, relatively few people know that Simon Kuzner, who first developed the concept of Gross Domestic Product himself, had never intended it to be used as *the* proxy for well-being and prosperity of people. As he stated in front of the US Congress in 1934 “*the welfare of a nation can scarcely be inferred from a measurement of national income*”¹³, the reason of GDP growing employment as general indicator of well-being appears unclear to many of us.

Yet, many endorse the economic perspective as the most valid for assessing progress at a country level. They state that economy is the pillar of societies, the primary driver of well-being on which the other relevant factors, as health, education, working conditions and community relations, depend¹⁴. Conspicuous evidence appears to endorse this viewpoint, since findings suggest that gross domestic product per capita correlates with virtually all social indicators of well-being. Thus, given that command over economic resources provides people with the basic means for reaching all the things perceived to influence quality of life, it logically follows that a measure of a nation’s economic achievements is sufficient for evaluating if that nation is relatively well-off.

As President Barroso pointed out in his 2013 State of Union address¹⁵ “*It is only natural that, over the last few years, our efforts to overcome the economic crisis have overshadowed everything else.*” However, he recognises that economy is not the only domain to define the notion of societal progress, and that GDP alone fails to incorporate how well (or bad) families and environment are doing: “*But our idea of Europe needs to go far beyond the economy. We are much more than a*

¹³S. Kuzner, quoted in OECD, *Beyond GDP. International Conference*, 19&20 November 2007, Brussels, available online at <http://www.oecd.org/site/worldforum06/38433373.pdf>

¹⁴The classic economic theory is based on three fundamental tenets: rationality of economic actors, well-established preference set and perfect information. In other words, that is, people are perfectly rational and make perfectly informed decisions based on complete data and according to their established set of preferences among different outputs. Therefore, they are perfectly capable of maximising their own welfare, and their market choices mirror their preferred outcome, that is, their utility or well-being. You are what you gain and what buy, as every worker decides between a higher wage and more leisure time, whose pondered selection reflects his or her personal preferences between income and other non-paid activities. This traditional economic framework is topped with a theory of societal well-being (i.e. collective utility), although it may be said that, taking the assumption that economic actors’ egoistic behaviour do not harm others’ personal utility, it is no sooner said that done. Aggregate utility is the sheer sum of individual utilities, and this is as far as it goes.

¹⁵ J. M. D. Barroso, *State of the Union address 2013*, Plenary session of the European Parliament, Strasbourg, 11 September 2012.

market. *The European ideal touches the very foundations of European society. It is about values (...)* It is based on a firm belief in political, social and economic standards, grounded in our social market economy.” Advocating the presence of other fundamental features in shaping the notion of development does not imply discharging GDP as good-for-nothing, but it entails recognising there are different metrics for different purposes.

One of the main reasons why GDP is considered the primary index for assessing a country’s economic performances worldwide is the crucial need for valuable statistics. “A long history of application and clear methodology mean that GDP is a convenient benchmark for policy makers and is easily understandable in public debates.”¹⁶ As The European Commission has highlighted in its “GDP and beyond” roadmap “Indicators that summarise important issues with a single figure are essential communication tools. They trigger policy debate and give people a feel for whether or not progress is on track.”¹⁷ Summary metrics as GDP, unemployment and inflation rates are then particularly valuable since they facilitate the understanding of vast phenomena providing a single number that synthetically assesses economic achievements. In addition, gross metrics are simple to calculate, as the price of a single unit of good is taken the weight of that good, and allows a monetary measure of every good or services exchanged at a market price. If economic aggregates like GDP had never existed, policymakers would go astray and lose their way into a chaotic pile of data. In fact, too many, unorganised data are of no use as much as no data, and it may be understood why prices have come to assume such a fundamental role in measuring development.¹⁸

Thus, GDP and related data are necessary for society leaders in order to design policies, estimate their consequences and drive the economy toward their key economic objectives. Furthermore, GDP and GNP are relatively easy to calculate and national Office of Statistics already possess conspicuous databases with time series that allow a comparative evaluation over time. Lastly, national accounts on country’s growth rates are computed in decent harmonised ways, and this is

¹⁶ Organisation for Economic Co-operation and Development (OECD), *Beyond GDP. International Conference, 19&20 November 2007, Brussels*”, available online at <http://www.oecd.org/site/worldforum06/38433373.pdf>.

¹⁷ European Commission, *Commission Staff working document - Progress on 'GDP and beyond' actions*, SWD(2013) 303 final, Volume 1 of 2, Brussels, 2.8.2013, page 8.

¹⁸ Monetary value, that is price, plays a significant role in guiding economic policies, and more generally, it is considered by the wider public the only objective information that exists in the world. “When we know the prices of apple juice and DVD players, we can add up their values and make statements about production and consumption in a single figure. (...) Economic theory tells us that when markets are functioning properly, the ratio of one market price to another is reflective of the relative appreciation of the two products by those who purchase them. Moreover, GDP captures all final goods in the economy, whether they are consumed by households, firms or government. Valuing them with their prices would thus seem to be a good way of capturing, in a single number, how well-off society is at a particular moment. Furthermore, keeping prices unchanged while observing how quantities of goods and services that enter GDP move over time would seem like a reasonable way of making a statement about how society’s living standards are evolving in real terms.” J.E Stiglitz, A. Sen, and J.-P Fitoussi, *Report, op. cit.*, page 21.

particularly true for the European Union, making it easier to compare trends and tendencies across Member states.

However, the implications of using one tool instead of another to measure societal welfare are much more complicated than it may seem. “*The key question*”¹⁹ is what we want to measure. The ongoing debate on well-being indicators departs from the essential understanding of the fact that what we measure affects what we do²⁰. Statisticians shall choose the best metric complying with the object of measurement. The indicators used to promote well-being are not neutral themselves: if they are badly designed, then they will not fulfil their goal, conducing to potentially detrimental choices and eventually hold a harmful effect on citizens’ quality of life. Less extremely, some highly trusted indicators could be actually inadequate, or not sufficiently capable of describing all the relevant components at stake. For instance, the overall GDP growth rate may hide increasing inequalities of income or worsening of local environmental services quality.

1.1.1 About GDP: its deficiencies and its misuses

The Eurostat Statistics Explained Glossary defines GDP as “(...) *an aggregate measure of production, (...) equal to the sum of the gross value added of all resident institutional units (i.e. industries) engaged in production, plus any taxes, and minus any subsidies, on products not included in the value of their outputs.*”²¹ GDP is also equal to the sum of the final uses of goods and services, with the exception of intermediate consumption measured in purchasers' prices, minus the value of imports of goods and services; and to the sum of primary incomes distributed by resident producer units.

GDP is the best-known indicator for measuring the value of goods and services produced by a national economy. However, its mandate has frequently been crossed by its inappropriate use to address progress and development in a broader sense. Actually, GDP, GNP and related financial aggregate indices were never intended as measures of societal well-being, because they leave out a number of relevant dimensions that people perceive as very important for their lives indeed. As the Stiglitz Commission Report points out, it has long been clear that “*GDP is an inadequate metric to gauge well-being over time particularly in its economic, environmental, and social dimensions, some aspects of which are often referred to as sustainability*”²².

¹⁹ J.E Stiglitz, A. Sen, A. and J.-P Fitoussi, *Reflections and Overview*, op. cit., page 3.

²⁰ J.E Stiglitz, A. Sen, and J.-P Fitoussi, *Report by the Commission*, op. cit., page 7.

²¹ Eurostat, “Gross Domestic Product”, in *Statistics Explained*, accessed on April 2014, http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Thematic_glossaries

²² J.E Stiglitz, A. Sen, and J.-P Fitoussi, *op. cit.*, page 8

Nevertheless, before addressing GDP as a poor gauge of all non-monetary domains that shapes people' opportunities and expectancies, it is worth mentioning that these statistics are already showing flaws as a valid indicator to depict how well an economy is doing. In fact, the level of complexity and interrelation of global markets has reached a tremendous peak, and GDP does not seem to keep the pace with these impressive challenges.

Rapid quality improvements, products multi-dimensionality, the growing share of services against goods, and public services provided by the government has turned estimates of economic output into a titanic effort.²³ For instance, underestimating quality brings to an over-estimation of inflation rate, with a consequent under-estimation of individual disposable income and consumption. This is just one of the several examples of the possible flaws embedded in current measures of market production. Another issue with gross output measures is that they take no account of is the depreciation of capital goods, which lowers the value of capital assets and requires investing in technologies, as well as in R&D. It is clear that GDP, without further corrections, leads to systematic distortions and it does not adequately reflect the structural changes and the global challenges that modern economies are undergoing²⁴. Furthermore, if we consider the loss of natural capital that goes side-by side with industrial production, one realises that GDP does not take into account market failures such as negative externalities. The market does not give a negative value to the depletion of natural resources and the degradation in the quality of lands, water and ecosystemic services caused by industrial production, and thus the costs in term of worsened health, bad environment, and forever gone resources is nil in national accounts, however being enormous in practice.

Finally, GDP relies on average, and thus ignores the household perspective and distributional aspects of income, consumption and wealth. It is out of the question that GDP is not sufficiently informing us on the typical individual economic conditions, and does not record whether shares of the production are equally distributed²⁵.

²³ Those and the following considerations are based on the recommendations by the first Working Group of the Stiglitz Commission, namely "Classical GDP issues".

²⁴ See previous note.

²⁵ The so called "Action 3" by the European Commission "GDP and Beyond" Roadmap focuses on strengthening the analysis of social and regional distributions of the various dimensions that are placed under statistical observation. The Roadmap recognised the importance of GDP as a valid measure of productivity; however it endorsed a broader set of indicators monitoring environmental and social dimensions of progress. In particular, it aims to enhance the current measuring system along five lines of actions. See European Commission, *A roadmap for actions "GDP and beyond – measuring progress in a changing world"*, (COM(2009)433), 20 August 2009, <http://www.beyond-gdp.eu/EUroadmap.html>.

The Stiglitz Commission Report spends some time analysing the existing inequalities among different groups of individuals (age, gender, socio-economic status, ethnicity...). Furthermore, it insists that inequalities should be addressed simultaneously, as people who are disadvantage in one aspect tend to accumulate disparities across several

For a number of reasons, gross domestic product alone is not the best indicator for measuring the concept of economic well-being. GDP still provides powerful insights into the economic activity of a country, and in particular the marketed activity, and as such it should not be dismissed. A solution may be move the emphasis from GDP to other existing aggregate accounts, as net measures, that records depreciation of capital goods. Moreover, the Report by the Stiglitz Commissions and the European Commission “GDP and beyond” Roadmap both agree focus should be directed on income and consumption rather than on production.

Then, GDP needs to be adjusted to take into account a series of non-marketed goods that are increasingly important in our lives, as governmental services, and the depletion of natural stocks following productive activities²⁶. This to let completely apart a measurement of sustainability and social dimensions of progress²⁷. “*Many of these reforms are attainable with relatively little investments in the collection and analysis of statistical data*”²⁸, and it will not be much trouble to shift the focus from aggregates to households. For instance, trends in median disposable income do tell much more information on the typical agent well-being than per-capita GDP and in the recent years, many economists have repeatedly pinpointed that emphasis should be placed on individuals living standards through measures of household income and consumption, paying particular attention to median distribution instead of on average level data²⁹. Some existing indicators could be released alongside GDP, as aggregate measures of net disposable income and actual consumption level, together with indicators that tell something about the distribution across population sub-groups. “*Statisticians should further develop the analysis of inequalities to know what is happening at the bottom or at the top of the distribution scales*”³⁰. That is, in the future, it is to be hoped that data are provided both at micro and macro-level, thus complying with SSFC’s recommendation to disaggregate global households’ balance sheets by household type.

indicators. For instance, gender inequalities, though being rather pervasive among countries and population’s subgroup, appear to be generally larger for people from lower socio-economic background. This double disadvantage often prevents young girls from poor families to attend school, precluding them the possibility of a good education and, consequently, it impedes them from getting a well-paid job.

²⁶ See J.E Stiglitz, A. Sen, A. and J.-P Fitoussi, *op. cit.*, in particular, Chapter 1’s concluding remarks.

²⁷ It is clear indeed that goods’ market-value measure cannot be employed in order to estimate how satisfied a person is with its own life.

²⁸ J.E Stiglitz, A. Sen, A. and J.-P Fitoussi, *Reflections and Overview*, page 63.

²⁹ GDP does not provide accurate estimates even when it comes to the typical household economic situation, since it is geared to reflect exclusively the macro aggregate level of production, which is different from considering the micro data of the household situation. When talking about the standard of living and quality of life, it is individuals whose economic perspective should be assessed, provided that when inequalities within a country are worrisome, a single average does not reflect any typical situation. In this sense, disposable income or consumption level, though picking different dimension of individual wealth, may better reflect the true household economic perspective.

³⁰ C. Plateau, in Eurostat, *SIGMA The bulletin of European Statistics*, page 5

Furthermore, in order to comply with the issue of sustainability of household's current living conditions –whether a family will be able to live with the current lifestyle for many years from now, or at the contrary whether it outlives its financial possibilities running into excessive debts- a measure of present households' wealth and a separate measure of the trends in its erosion or increase would be required³¹. Economist may be interested to assess whether the level of families' financial indebtedness is threatening their future wealth –and stability of the whole economy. This should be done regardless of asset's current prices –who can be bad counsellors- and estimates of GDP. Statistics thus may try to incorporate (projections of) net disposable income or consumption level trends and indebtedness of families across time, since current resources or consumption levels are not indicative of maintaining wealth over time³². Referring this reasoning to a broader perspective, the SSFC endorses the efforts directed towards building typical households' balance sheets, in order to obtain a comprehensive assessment of assets and liabilities owned by the pillar of societies, namely families.³³

1.1.2 Why there is the need to complement GDP

Human well-being and monetary resources are two separate matters. National Office of Statistics and statisticians in particular are called upon to find better solutions for measuring progress of society alongside its pure economic growth, encompassing non-financial aspects of quality of life. Health, education, security, quality of the urban surroundings, leisure time and social relations networks are all fundamental aspects that contribute to standard of living – but are not represented at all by GDP which accounts only for conventional market activity.

³¹ To gain important insights to the concept of wealth and sustainability, please refer to J-P Fitoussi's work on financial sustainability, where he analysed how family's financial wealth was wiped away after the 2011 crisis, being that wealth the reflection of a speculative illusion: "The increased indebtedness of households was matched by overvalued assets. When assets prices returned to earth the sheer reality appeared: we were poorer. This episode remember us a fundamental, although intuitive, fact: a process is sustainable if it does not lead us to consume so to speak the capital out of which we obtain our income. It is why an indicator of sustainability is so important to evaluate the macroeconomic performance of an economy and the strategy of countries". For more on this aspect of sustainability, see J.-P Fitoussi and X. Timbeau, "Financial Sustainability of an economy. Exploratory remarks", Draft version 7/2011, N 2011-14, Document de travail de l'OFCE, Sciences Po.

³² This forward-looking perspective is currently endorsed by several economists and experts, and this is done even more frequently in view of the rising trends of national debts. In facts, since sovereign debts impose future costs that have be incurred to pay back expenses and commitments made by the current and past governments, their cost will be likely presented to the generations that are yet to come. Those will have to bear the cost of the "sins" and carelessness of their predecessors: in short, debts are threatening future generations' well-being. The long-term solution for amending this unfair outcome has been defined intergenerational sustainability, since it calls for an equal redistribution of the burden for mitigation and adaptation to climate changes. Please see L. Monti's definition of "integrated sustainability" for a comprehensive assessment of the ethical and economic reasons for implementing such a redistribution across generations.

³³ "Income and consumption are crucial for assessing living standards, but in the end they can only be gauged in conjunction with information on wealth. A household that spends its wealth on consumption goods increases its current well-being but at the expense of its future well-being. The consequences of such behavior would be captured in a household's balance sheet...", J.E Stiglitz, A. Sen, A. and J.-P Fitoussi, *op. cit.*, page 13.

However, well-being, life satisfaction and happiness are not exactly as easy to measure as the aggregate measure of market goods production. This is why experts and statisticians still make abundant use of GDP, even though they are well aware of its inherent limits. However, while “*it remains difficult to measure the quality of life [...] preliminary results show it is worth going beyond GDP figures. A multidimensional approach is necessary to get a more comprehensive view of quality of life and avoid any misleading conclusions*”³⁴ that are better capturing a broad array of key dimensions.

“*If we have the wrong metrics, we will strive for the wrong things*”³⁵, and the consequences of efforts aimed to increase GDP could be the vast majority bearing the burden of unfair resource distribution. In many countries, especially during the worst years of the economic crisis, household incomes growth showed a different trend from real GDP, thus providing a more significant picture of citizens’ well-being than the index of domestic production. This is easily explained since only few people benefit from an increase in the average GDP level, while most of the citizens gained no advantage in terms of wealth and better living standards.

Considering these issues, one may argue that GDP is an overall measure of economic activity, however imperfect, and as such fails to notice distributional unbalances amongst the population. However, is there something else that may work instead? There is a growing international consensus that abuses and misuses of GDP cannot be tolerated anymore for the very functioning of democracies, which must be accountable for public responses to their citizens’ perceived situation and worries³⁶. Those perceptions and worries have grown recently because of the financial and economic crisis and virtually all countries’ democratic institutions suffer from criticism and loss of trust. People’s perceptions have never marked such a distance from the narratives of their national accounts.³⁷

Nevertheless, even when there was no perception of the imminent onset of the global crisis, concerns were already evident as the strong economic performances were increasing existing

³⁴Eurostat, *Quality of life indicators*, in *Statistics Explained*, last modified 24 April 2014, accessed on April, http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Quality_of_life_indicators_-_measuring_quality_of_life#8.2

³⁵J. E. Stiglitz, “Towards a better measure of well-being”, *Financial Times*, on November 2009, accessed on March 2014, no more available online.

³⁶ Though a complete overlapping among experts and social scientists’ opinions on the issue will never be reached– and could not really be expected nor pretended –, the present economic, social and political crisis signed a no-return point. Thus, virtually everyone shares the concern that our societies need better metrics to better steer their policies towards the most pressing citizens’ demands.

³⁷ See for instance M. J. D. Barroso, *State of the Union 2012 Address*, European Commission, Plenary session of the European Parliament in Strasbourg, 12 September 2012: “it is a painful, difficult, effort. Citizens are frustrated. They are anxious. They feel their way of life is at risk. The sense of fairness and equity between Member States is being eroded. And without equity between Member States, how can there be equity between European citizens?”.

income and wealth inequalities among countries, and within countries, in the mists of segments of population. The Gini coefficient³⁸ is the traditional indicator used for measuring income distribution inequalities within countries, has been on the rise in many states in the last years.³⁹ The data collected report that the United States, Japan, UK, Greece and Europe Eastern countries have a very high level of inequalities⁴⁰. Italy too shows significant income discrepancies across its citizens (in 2010, the GINI for disposable household income was 0,316), though it has been so from the beginning the 90s⁴¹. The latest CENSIS⁴² press release on this issue reveals that the gap is growing, and that the 10 richest individuals in Italy own as much as the sum of 500,000 workers. It is easily understood how such an uneven wealth distributions may cause huge social conflict and distrust of democratic processes, especially when those workers are the one called upon to bear the burden of economic recovery and reconversion, social spending cuts and pension reforms.

A society can change only when its goals tend to change. Moreover, when goals are settled, policies and practises should be tailored using the best possible indicators to assess those goals. This is why the presence of sound preliminary evaluation, as well as swift corrective structures, is essential to steer economic policies towards desired results, especially in the present moment of financial, economic and social difficulties. Resources are scarce by definition, whilst individual needs are infinite, and this awareness becomes now particularly troubling since our societies are experiencing a decrease in people's well-being, which is not adequately captured by the standard measures we employ to monitor how well our economies are recovering⁴³. The crisis has made the urgency of better measurements even more pressing, since no democratic institution can claim to be legitimate

³⁸ The Gini Index (o Gini ratio), “measures the extent to which the distribution of income or consumption expenditure among individuals or households within an economy deviates from a perfectly equal distribution”; see World Bank, “GINI Index”, on the World Bank website <http://www.worldbank.org/>, last visited on 2 June 2014.

³⁹ A series of data on Gini Index are available at <http://www.gini-research.org>. The *GINI-Growing Inequalities's Impacts* is a research project funded by the European Union within the Seventh Framework Programme (FP7) and it relies on several sources for building its time-series tables. The GINI project involves around 200 researchers working as local teams in each country, and has gathered and analysed data on 30 countries so far (with Italy belonging to the list). More importantly, it has also redacted country reports addressing a wide set of inequalities. Income is of course the privileged dimension of analysis; however the project collected and analysed data from 1980 to 2010 on such measures as income, health and educational attainment, social cohesion and inclusion, upward mobility, crime, and political participation.

⁴⁰ GINI Project, “Integrated GINI poverty and inequality dataset: 30 countries over 30 years”, GINI-Growing inequalities' Impacts, available online at http://www.gini-research.org/articles/data_2

⁴¹ *Ibid.*

⁴² CENSIS, “Crescono le disuguaglianze sociali, il vero male che corrode l'Italia”, *Diario della Transizione*, Numero 2, 3 Maggio 2014, Roma. The report underlines that “in this situation, there is the high risk of going back to social conflicts, in place of a retrieval of an idea of development as the basis for a greater well-being” (my translation).

⁴³ A glooming, however accurate, reflection on the true state of Europe's present situation is that of the European Commission, when it notes “the financial and economic crisis of 2008 is unprecedented since the end of World War 2. Its consequences are still with us. It has further highlighted the long term slowdown in European growth (as measured by GDP) since the 1960s, as well as its more unequal distribution while the degradation of natural capital has continued. We have entered a long period of very slow growth, with a huge adjustment which entails an adverse social impact. It therefore puts to the fore the need to revitalise a concept of growth that goes beyond purely economic parameters”. European Commission, *Commission staff working document “Progress on 'GDP and beyond' actions”*, op. cit., page 9.

when the benefits of the economic system are bot equally shared among all the citizens: casting a vote is not meaningful, if that equality is lost as citizens step out from the pooling stations⁴⁴. Often, those improved statistics already exists⁴⁵, but they have not yet been incorporated in national arrays of measuring tools.

Eurostat, the statistical office for the European Union established in 1953, is particularly committed to disseminating information about European citizens' quality of life, which are essential for guiding decisions and answers given from the EU institutional bodies. Eurostat is not in charge of collecting Member States' data, but instead of processing and publishing harmonised and comparable statistics at the European level. The European Statistical System (ESS) Code of practise of 2005⁴⁶ prescribes certain quality standards to all Member States for their national accounts system in all relevant area, in order to produce superior European official Statistics. *“This is a key task. Democratic societies do not function properly without a solid basis of reliable and objective statistics. On one hand, decision-makers at EU level, in Member States, in local government and in business need statistics to make those decisions. On the other hand, the public and media need statistics for an accurate picture of contemporary society and to evaluate the performance of politicians and others.”*⁴⁷ From 2005 and every three years, a Sustainable Development in the European Union monitoring report is realised –the latest was in 2013-reflecting the growing consideration accorded to environmental issues by European Treaties and EU key objectives.⁴⁸ Furthermore, in 2003 the EU Statistics on Income and Life Conditions (EU-SILC) was launched, in

⁴⁴ See H.G. Werfhorst, I.G van de, Tóth, D. Horn, M. Medgyesi, N. Notten, C. Haas, and B. Burgoon, *Political and cultural impacts of growing inequalities*, AIAS, GINI Intermediate Work Package 5 Report, 2012, available at the GINI project webpage www.gini-research.org. “Most of the empirical results as well as the theoretical considerations contend that inequality negatively associates with participation ... The negative correlation of income inequality and participation emerges with respect to all forms of participation – political, civic, social and cultural – we have looked at”. The best explanation to this negative correlation uses trust as intermediating psychosocial variable. The argument is that higher inequality leads to lower trust and lower trust leads to lower participation. In effects, when income inequalities are high, people tend towards more pessimistic attitude about the future, which means the level of trust is lower. On a similar vein, if inequality levels are high, people tend not to share each others' fate, which also means the general level of trust is low.

⁴⁵ In respect of the state of art of statistical indicators, Claire Plateau, Deputy Head of the Statistical Coordination Department at the French Statistical Office Insee, states “much of the required information is already available: what the Report [by the Stiglitz Commission] recommends is essentially finding new ways to structure this information”. See Eurostat, *SIGMA - The bulletin of European Statistics*, 2010, page 5.

⁴⁶ Eurostat, *The European statistics code of practice*, Adopted by the European Statistical System Committee, 28 September 2011, available online at http://epp.eurostat.ec.europa.eu/portal/page/portal/quality/code_of_practice

⁴⁷ Eurostat, “Introduction”, last update 22 June 2014, http://epp.eurostat.ec.europa.eu/portal/page/portal/about_eurostat/introduction.

⁴⁸ The report makes use of more than 100 indicators to monitor the overall progress towards Europe 2020's common targets.

order to monitor trends in European households' quality of life, on issues such as risk of poverty, material deprivation, and social exclusion.⁴⁹

The message all these initiatives carry is that selecting better indicators is not a trivial issue nor an exclusive matter for scholars or statisticians, since it implicitly advocates a careful distinction between goals and means. Good economic performances are only means to improve material living conditions and life satisfaction, that is, the main purpose of political action is to improve citizens' current and future well-being. Average consumption and income, as measured by GDP, are only an intermediate target towards the fundamental human goal, which is enhancing the freedom to choose the life one desires. Then, what really matters is pursuing what makes people lives most valuable to them, and the extent to which individuals are able to select among a wide set of opportunities is worthy in itself. Both the paths we decided to follow and the number of alternative paths we could have chosen –but which we did not elect in the end- are important to say one is living a meaningful life, and not simply living.

1.2 What is well-being? How to measure it?

Defining once and for all the concept of well-being is an ultimate challenge. The question of what makes a life a good one has been at the core of philosophic reflections since the beginning of human history, but the last word has yet to be spoken. It is evident that time, place, culture and society are all factors heavily influencing the idea of what makes a life a good one for different populations and countries.⁵⁰ However, whereas there could be broad dissention over the inputs, or divers, that concur to compose well-being, there is some agreement over saying not only measurable resources and objective situations matters.⁵¹ On the contrary, when one refers to well-being, he or she is

⁴⁹ The EU-SILC is a survey on private household, and it is extremely helpful in providing information on the risk of poverty, material deprivation and social exclusion in European countries. See I. Steibunka's interview in Eurostat *SIGMA - The bulletin of European statistics*, *op. cit.*, pages 22-23.

⁵⁰ See Organisation for Economic Co-operation and Development (OECD)'s well-being framework as addressed in *How's Life? 2013- Measuring Well-being*: "People living in different countries and communities may attach varying importance to different dimensions, reflecting their own priorities. (...) More importantly, the selection of indicators used to monitor achievements in these dimensions may also differ to reflect specific countries conditions, history and challenges" pp-23-24.

⁵¹ Virtually all the studies and the proposed alternative indicators to GDP stand for a multidimensional approach to well-being and quality of life. The Stiglitz Commission recommends to make use of several dimension in order to measure quality of life (the authors individuate 8 key dimensions, which are reported to be based on academic research and a number of concrete initiatives developed around the world); the OECD global project on *Measuring the Progress of Societies* sets a framework where human well being is primarily influenced by economy, governance and culture and includes six human goals (see E.Giovannini, J. Hall , A. Morrone, and G. Rannuzi, 'A framework to measure the progress of societies', Statistic Directorate, OECD Working Paper, July 2010, available online at [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=std/doc\(2010\)5&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=std/doc(2010)5&docLanguage=En)); the European Commission follows directly the multidimensionality sponsored by the Stiglitz Commissions and is currently implement new European statistics in order to address all the relevant aspects of human well-being. Other national approaches that stress the multiplicity of the factors that shape well-being include the GNH Index by Bhutan,

addressing both objective factors (as command of material resources, health, work status, living conditions and many others) and the subjective perception one has of them. The latter dimension is generally ignored by conventional definitions of progress. However, non-material aspects of our life as values, goals, affections, feelings, sensations, and the given range of opportunity do count. Difficulties arise since the latter precise definition depends significantly on individuals' priorities and needs, and vary greatly among citizens and societies.⁵²

If subjective "issues" need to be part of this concept, then trying to measure the complex and multifaceted nature of human beings' needs, feelings, fears, and inner perceptions, becomes a mammoth task. These considerations make comparing well-being across countries, cultures, societies and individuals a challenging task: is it even possible to operationalise such a purely subjective substance as well-being? As Walter Radermacher, Director General of Eurostat puts it "*it is hard to imagine being able to say one day that one person's well-being is double that of his neighbour*"⁵³.

Provided that progress is a complex concept, one needs a sound foundation to better understand it, and to design policies aimed at promoting people's well-being. This is why, in order to measure progress, we need a conceptual framework, i.e. "a basic structure that can be used to present a preferred and reliable approach to an idea or thought"⁵⁴. Many of those logical structures have been developed in the past, and one should be aware that relying too much on one conceptualisation may lead to oversimplifying the model and to make it fixed, whereas it should address the linkages across the various dimensions and their mutual influence. In effect, although it is essential to build coherent theories around well-being, we must not forget it is an extremely rich concept, where dimensions interact with each other, and where casual relationships do not flow only one way.⁵⁵

Building models is fundamental, but modelling cannot ignore measuring, and to make effective use of well-being framework, a sound list of variables has to be individuated so to trace and quantify –

(<http://www.grossnationalhappiness.com/>), the UK National Account of Well-being (report available <http://www.nationalaccountsowellbeing.org/>), The Canadian Index of Wellbeing (see the Report How are Canadians really doing at <http://uwaterloo.ca/canadian-index-wellbeing/>), the most recent Equitable and Sustainable Well-being in Italy "BES" (<http://misuredelbenessere.it>) and many other initiatives worldwide.

⁵² See Recommendations number 2 by the Stiglitz Commission. J.E Stiglitz, A. Sen, and J.-P Fitoussi, *Report*, page 58.

⁵³ W. Radermacher, *Keynote Speech - Measuring prosperity and quality of life*, *op.cit.*, page 2

⁵⁴ E.Giovannini, J. Hall, A. Morrone, and G. Rannuzi, *op.cit.*, page 7

⁵⁵ Eurostat, *Feasibility Study*, *op. cit.* The authors are in favour of a "dynamic model of psychological well-being", that departs from people's experience of life (that is, their life satisfaction, their happiness and negative affections), which largely depends by their functioning in life and the needs they manage to satisfy. This in turn is determined by objective material conditions (where they live, the environment, the rights they hold, their material possessions...) and by the personal traits of each individual (personality, optimism, skills, education...). "This model does not make any strong claim on where well-being sits (...) the point that the model makes is that, to assess well-being and how it changes over time, one needs to measure at all the levels of the model", page 21.

when is possible- what we believe is important for quality of life. Variables and indicators (sets) ought to be object-driven, that is, they have to be the up-to-date best way to detect key-dimensions highlighted in the conceptual framework we adopted, and of the best quality allowed by our current state of knowledge.

For this purpose, I agree with Stiglitz et al.⁵⁶ when they say progress is multidimensional, and as such the best approach that statistics can use to keep records of well-being is a dashboard or a set of indicators. In effect, a multidimensional definition of well-being requires several key dimensions to be displayed simultaneously. However, reason of simplicity and public understanding may demand a single summary measure or a composite indices that aggregates average across quality of life' separate features. I will deal with this methodological problem later, trying to highlight the issue at stake in the trade-off between comprehensiveness and ease of use.

1.2.1 What drives well-being?

The Greek philosopher Aristotle stated that good life was the one that exploited to the full the inherent potential of human beings, namely reason. He separated moral life from material life: while the latter was undoubtedly necessary for meeting primary needs (eating, sleeping, being sheltered...), the former was necessary to reach happiness⁵⁷. He was one of the first philosophers who stated that human progress is multidimensional, and must be considered as embracing both material and spiritual dimensions. The amount of conceptual work that followed the first philosophical thoughts on human goals, well-being and good life is immense. However, there are reasons to believe that there are some recurring aspects.⁵⁸

Indeed, the literature⁵⁹ has generally identified two separate aspects of well-being, namely living conditions and quality of life, evoking the underlying dualism between body and mind, concreteness and sensations. The first broad aspect of well-being encompasses the command over material resources (i.e. "*the quantity and features of the commodities that they have at their disposal*"⁶⁰). However, command over resources is surely not a comprehensive indicator of wellbeing. The second feature refers instead to the diverse experiences of people and their evaluations of their objective status, which is ultimately a personal hedonic sensation. Each of those aspects can be further divided into separate dimensions, whose drivers may be objective (wealth,

⁵⁶ See Recommendation 6.

⁵⁷ Aristotele, *Etica nicomachea*, BUR Biblioteca Universale Rizzoli, 1986.

⁵⁸ See on the point the review realised by E. Giovannini, et al., *OECD Working Paper*, 2010.

⁵⁹ *Ibid.*

⁶⁰ J.E Stiglitz, A. Sen, and J.-P Fitoussi, *Report, op. cit.*, page 143

income, earnings, job) or subjective (mood, personality, quality of social relationships, health-status).

Traditionally, quality of life has been addressed through measurements of life satisfaction and happiness, even though there are many variables, not yet identified, that seem to have an influence both on material living conditions and on quality of life. Evidences tend to highlight a relevant correlation between GDP per capita, one of the main variables that determines living conditions, and quality of life. However, this relation is weak and it is not possible to determine the growth in quality of life from an increase of 1 point in income.

Richard A. Easterlin in 1974 was one of the first economists who pointed out the apparent inconsistency of wealth in determining wellbeing of a nation, especially the developed ones.⁶¹ One of the fundamental tenets of the neoclassical economic theory is that personal utility increases with increment in consumption, though at diminishing marginal rates. The richer you are, the happier you are. Thus, it came with no little wonder the finding that, at a country level, economic development does not seem to increase happiness: Easterlin analysed historical happiness data from the US covering a significant span of time, revealing the striking evidence of a flat trend in Americans' happiness level for the period 1946-1970⁶². At the very same time, however- and here classic economic theory can sigh in relief-, results of cross-national comparisons at a point in time show different countries exhibiting different levels of subjective well-being, and in the typical sense that richer countries do much better at scoring higher than poorer countries⁶³. To put it even more simply, if we get a snap-shot at a given point in time, we see countries largely differing in respective happiness levels, but over time happiness within a country doesn't significantly increase with the rising of income level. The happiness-income paradox, better known with the name of its finder, has signed a mark in the relation between happiness and economic conditions.

⁶¹R. A. Easterlin, "Does Economic Growth Improve the Human Lot?", in P. A. David, M. W. Reder (Eds.), *Nations and Households in Economic Growth: Essays in Honour of Moses Abramovitz*, Academic Press, Inc., New York, 1974. Easterlin actively followed the evolution of the rather heated debate its findings started. In its last paper, Easterlin arguments for the validity of his studies and the persistence of the paradox, bringing new supporting evidence on flat happiness trends for developing countries. A curiosity I find interesting to be pointed out: Professor Easterlin is now 88, he is still working on drivers of happiness across countries, and has not lost his with nor his powerful insight. I suggest you to look at his enlightened works at his personal page at the University of Southern California website <https://dornsifecms.usc.edu/richard-a-easterlin/>.

⁶² R. A. Easterlin, "Does Economic Growth Improve the Human Lot?", *op.cit.*

⁶³ Easterlin refers to Angus Deaton's study (2008), which is considered by far the most comprehensive cross section analysis of trends in life satisfaction. The latter used the 2006 Gallup World Poll data for 123 countries to plot GDP's growth and reported life satisfaction on the two axis. The result distinctly suggests that each doubling of GDP relates to a constant increase in life satisfaction, as richer countries have a higher level of life satisfaction compared to less developed ones.

Many possible answers to this long-lasting puzzle have been proposed in the following literature on economic development and its relation with happiness and life satisfaction. I think that the conspicuous evidence provided by Easterlin⁶⁴ and related studies demonstrate that, apart from monetary measures and material conditions, there are several other aspects that matter for shaping one's quality of life. What gives life its value abstracts from economic resources itself, and comprises the opportunities made available to individuals, their ability to meet their expectations and to adapt their standard of living according to their values and ideals, the meaning they attach to various activities they join and the effective ability to enjoy choosing among several possibilities⁶⁵.

The standard economic vision, which individuates a linear relationship between economic progress and well-being, fails to incorporate these essential dimensions of people's lives⁶⁶. Furthermore, it disregards the fact that people are immensely different in their characteristics and have different abilities to translate wealth and available resources into actual well-being⁶⁷. Finally, in-depth psychology studies on human reasoning and relative biases suggest people adapt incredibly rapidly to changes in present conditions, and end up raising their expectations and desires in tandem with their increased disposable income, showing no sign of permanent increased happiness. Thus, people consequently adjust their judgments of their satisfaction and happiness to match their present material conditions, as either dramatic or gladsome as they may be, because their reference point on which judgments of subjective well-being are based moves according to the changes that have occurred in their lives. This "hedonic treadmill"⁶⁸ could explain happiness flat trends at country level, given a rise in per capita income. Easterlin himself, however being an economist, points out the role played by material aspirations and social reference effects (one's economic status in

⁶⁴ See Easterlin latest work on comparison of happiness trends across developed, transition, and less developed countries: "Happiness and Economic Growth: The Evidence", *IZA*, Discussion Paper N 7187, January 2013.

⁶⁵ I am referring to the dynamic model of psychological well-being as presented in Eurostat, *Feasibility Study on Well-being indicators. Task 4: a critical review*, 2010.

⁶⁶ See R. Inglehart, R. Foa, C. Peterson, and C. Welzel, "Development, Freedom, and Rising Happiness- A Global Perspective (1981-2007)", *Perspectives on psychological science*, V 3, N 4, 2008, pp. 264-285. The authors challenge the idea of fixed happiness set points advanced by many behavioural scientists and psychologists, and attempt to confute Easterlin's finding claiming that SWB of nations can actually change over time, due to increased level of democracy, tolerance and feeling of having freedom to choose among different possibilities. Their approach is called "Human Development Index", and it is one of the major supporters of the analysis of institutional, cultural, and historical factors for determining the level of well-being of a country. "We hypothesized that economic development, democratization, and increasingly tolerant societies have contributed to a growing sense of freedom and control. (...) a rising sense of free choice is by far the most powerful factor driving rising SWB", page 11.

⁶⁷ I am referring to the psychological resources, that is, personal traits, often assumed to be fixed, which shapes life outcomes, regardless of external conditions. See Eurostat, *Feasibility Study, op. cit.*, page 21.

⁶⁸ E. Diener, R.E. Lucas, C.N., Scollon, "Beyond the hedonic treadmill - Revising the adaptation theory of well-being", in *American Psychologist*, Vol.61, Number 4, 2006, pp.305-314

comparison to others) in influencing a person's subjective judgments, and thus his or her well-being⁶⁹.

1.2.2 Three different conceptual approaches to well-being

I will follow the operative approach and the guiding lines highlighted by the SSFC Report, trying to gain insights into three different theoretical approaches to the determinants of well-being⁷⁰. Nevertheless, there is some possible overlapping among these three separate approaches, and they all share the goal to go beyond GDP and to capture the full scope of factors that make a human life worthy and valuable. “*While the choice between these approaches is ultimately a normative decision, they all point to the importance of a number of features that go beyond command over resources*”⁷¹. In fact, quality of life requires considering a broader range of indicators to address all the relevant aspects of well-being. This multidimensional view also reflects the conviction that “conventional, market-based measures of income wealth and consumption are insufficient to assess human well-being”⁷². However, this does not imply monetary-based measures should be ignored or suppressed, but instead that they should be pulled alongside with non-market factors and subjective status perceptions.

The first conceptual approach to quality of life that I deem necessary to consider is based on the concept of subjective well-being, referred to as SWB. The notion descends directly from the utilitarian tradition, which declares that individuals are the best judges of their own living and they do know better what makes them satisfied and happy with their life. This approach is based on subjective self-reporting that relies on people's own judgments while answering to some questions concerning their self-evaluation of different aspects of their existence. E. Diener and many other scientists agree upon a repartition of SWB into three separate dimensions⁷³: life satisfaction, presence of positive feeling or affect, and absence of negative feelings or affects. It is of primary importance to keep these three aspects as distinct, as they pick up separate dimensions of SWB. The former encompasses the cognitive dimension of self-evaluation. It represents the process by which each individual assesses his life as a whole retrospectively, with reference to specific personal standards as future expectations and desires, ideals and remembered past experiences. This conscious evaluation allows an individual to estimate his or her personal satisfaction depending on

⁶⁹ R.A. Easterlin, “Explaining happiness”, *Proceedings of the National Academy of Sciences*, 100, 11176–11183, USA, 2003.

⁷⁰ The following section draws extensively on second Chapter of the *Report by the Commission on the Measurement of Economic Performance and Social Progress* “Quality of Life”, pp. 143-232.

⁷¹ J.E Stiglitz, A. Sen, and J.-P Fitoussi, *op.cit*, page 42

⁷² *Ibid*, page 144

⁷³ E. Diener, “Subjective Well-Being”, *Psychological Bulletin*, V. 95, N. 3, 1984, pp. 542-575.

the achievement of his/her own objectives, the realization of his/her own aspirations, the comparison with his/her own ideals, his/her own past experiences or results achieved by other significant people in his own life. In other words, life satisfaction is the results of an individual cognitive process that evaluates personal position relatively to ideal standards. Secondly, positive and negative affect involve measuring momentary feeling in real time, or as soon as an experience has ended. It indicates emotions and momentary sensations that people experience during their daily life. Positive (pleasant affect as joy, pride) and negative (pain, worry, anger) emotions are to be analysed conceptually in a distinct way, because empirical evidence shows they are determined by different variables⁷⁴. The same goes for life satisfaction: in contrast with the affective components, which relate to the current situation, the cognitive component involves a pondered consideration on his/her own life up to a certain point in time and is influenced by other factors, even though it is correlated with positive affect (0,60: a statistically relevant, however weak relation).⁷⁵

Some important results have already been accomplished in better measuring these three aspects of subjective well-being, whereas progress is still to be made for assessing momentary and hedonic experiences. Improvements are already visible, as demonstrated by the studies of Nobel Prize for Economics winner Kahneman. He managed to implement a fairly accurate measuring tool for keeping track of subjective judgments on daily experiences, with the aid of the Daily Reconstruction Method (DRM),⁷⁶ which is much less costly than the alternative Experience Sampling Method. The interviewed has to fill out for some time a brief personal diary with emotions related to each of the episodes or experiences happened on the previous day.⁷⁷

The second conceptual perspective on quality of life refers to Amartya Sen's functioning and capabilities approach.⁷⁸ The 1998 Nobel Prize for economics believes that our freedom of choice and the extent to which we have the possibility of selecting among a number of alternative outcomes are the true determinants of well-being. This approach differs from classic utilitarian ones, as both what people concretely do and are (their being and doing, called functioning) and

⁷⁴ J.E Stiglitz, A. Sen, and J.-P Fitoussi, *op. cit.*, page 146

⁷⁵ Those findings were presented in A.B. Krueger, and D. Schkade, "The Reliability of Subjective Well-Being Measures", *Journal of Public Economics*, 92(808), 2008, pp. 1833-45.

⁷⁶ D. Kahneman, A. B. Krueger, "Development In The Measurement Of Subjective Well-being", in *Journal of Economic Perspectives*, Volume 20, Number 1, Winter 2006, pp. 3-24.

⁷⁷ Quite surprisingly, Kahneman, although been the winner of a Nobel for Economics, is not an economist himself, but rather a psychologist. This may witness a partial defeat of those economists who refuse to integrate the major development and cutting-edge achievements in some fields of social sciences into their discipline.

⁷⁸ Sen's thoughts are analysed as reported in *Report by the Commission on the Measurement of Economic Performance and Social Progress*, *op. cit.*

what the possibilities to choose (capabilities) are matter.⁷⁹ His vision bears a strong philosophical notion of equality, meaning that all human beings should have the very same ability and means to choose the life course they cherish the most and implicitly commands that individuals, through their choices, have to be the ultimate responsible for their happiness. While the list of relevant functionings is subject to place and time's influences, it is possible to distinguish between basic functionings (eating, being protected and sheltered) and more complex ones, such as being able to freely express oneself in public without feeling ashamed. This approach refers the concept of social justice and focuses on human ends, calling upon people's freedom and agency. Its primary concern consists in empowering the bigger amount of individuals across different societies; in addition, it seeks to establish a certain minimum thresholds of acceptance for each capabilities. No one should find themselves under the fixed tipping point, and governmental policies should attempt to foster human development by widening the minimum set of capabilities available to people, enlarging their choices and possibilities according to their personal goals and values. Implementing Sen's approach creates some practical difficulties: should we find a fixed list of the most central functioning, or should we avoid limitations in the selection of capabilities? Furthermore, how to collect information on capabilities, since most data available described individuals' state (functionings)? Lastly, what principles should the weighting of the different capabilities?⁸⁰

The third approach to well-being harks back to the welfare economics tradition and the theory of fair allocations⁸¹. As the SWB approach, it focuses on subjective evaluation for assigning weights to the various non-economic components of quality of life, thus according prominence to the irreducible differences among individual standpoints. In particular, people's preferences come into this framework through the "willingness-to-pay" mechanism, extended to all aspects of QoL, thus allowing individuals to make trade-offs among different dimensions. However, since this approach induces to favour the richer⁸², it must be complemented with a number of equity criteria. The best

⁷⁹ Sen advocates major governmental efforts so to help citizens to achieve equal chance at autonomy or empowerment, since in his view both objective conditions and concrete opportunity set available to people are the main drivers of well-being. Sen argues that expanding people's capabilities will substantially improve their quality of life, given that enlarging people's agency and making them able to live according to their values is significant in itself, even though individuals may not get back increased subjective well-being from that freedom. This means that there are absolute human values, as freedom of choice, which matter *per se*, and have to be considered worthy to pursue in every case. This is indeed a very strong affirmation, which underlies a theoretical framework of an absolute right to live a meaningful existence, no matter where you are and where you stand. For an in-depth analysis of Sen's thoughts,

⁸⁰ These unsolved problems are presented in the SSFC's Report as issues when attempting to measure what those thresholds should be.

⁸¹ According to the SSFC's Report, the latter studies the allocation of resources among people with different preferences and abilities, with the integration of certain fairness criteria, such as "no-envy", "solidarity" and "lower-bounds". See pp. 154 and following.

⁸² This depends on the fact that this framework relies exclusively on individual preferences, which are used to weight the various situations, and does not consider the ethical implication of the hedonic treadmill. This typically human phenomenon lead those who are worse-off (or better off) to adjust their expectations and to get used to lower (higher)

method is to choose a reference set of individual situations (let it be set A, B and C), where B is preferred to A and C is preferred to B (and to A), and where A, B, and C differ only in respect of income level. Then, if two individuals are both indifferent with respect to their current situations and one of the options listed, it will be possible to compare people in terms of their equivalent income⁸³, (provided that the situations presented in the reference set have all the same scores for the non-marketed aspects of QoL, and vary only in respect to income). This approach, though intellectually demanding, has the advantage to permit a monetary measuring of non-monetary aspects of the quality of life, and to allow people to choose the value to attach to each of those aspects.

Taken all together, these three different approaches pinpoint the need for further measuring in order to complement the conventional economic perspective on well-being. I believe there three main points where all the three conceptual frameworks could come together.

First of all, they all recognise the insufficient explanation proposed by present quantitative indices, and try to provide a more comprehensive snapshot of well-being in all the domains that matter most to people. The challenge of identifying all the different factors that drive one's quality of life is a substantial one. Even though there is no complete agreement on the list of those dimensions and on the best variable that could best represent them, it is widely accepted that people should be at the centre of any evaluation concerning better life, so that the sincere aspirations of citizens can be accounted for.

The second overlapping point calls for a more stringent focus on outcomes rather than on inputs. Concentrating on outcome instead on income may prove a crucial improvement for addressing both

levels of satisfaction. Thus, measures based on subjective assessment could not be considered fair enough, as people adapt their judgments to match their objective situations.

⁸³ In the Report, equivalent income is defined as “the income that would make each person indifferent between their current situation and a situation based on their current income and some reference level for non-monetary dimensions of QoL”, page 213. This method has the advantage to make possible comparison across individual that share the same preferences, relying on the ordinal rankings of situation according to one's preferences. There are some drawbacks, of course: human beings appear not to have a defined set of well-established preferences, and instead they are inconsistent and often contradictory with their choices. See G. Loewenstein, P. A. Ubel, “Hedonic adaptation and the role of decision and experience utility in public policy”, *Journal of Public Economics*, 92, 2008, Available online 7 January 2008. “Concepts of welfare based on ordinal utility assume, at a minimum, that an individual is better off if his or her preferences are satisfied. However, behavioral economists have identified myriad ways in which people take actions that are patently contrary to their own interests. For example, in the “heat of the moment”, people often take actions that they would not have intended to take and that they soon come to regret (...). Other research showed that people systematically mispredict what makes them happy, raising the question of whether choices might be based on misinformation and distorted by systematic biases (...). Indeed, by identifying phenomena such as framing effects, preference reversals, loss aversion and non-linear probability weighting, much if not most of the field of behavioral decision research could be viewed as identifying cognitive and emotional barriers to the pursuit of self interest. With a concept of ordinal utility that equates welfare with choice, actions that are taken in the heat of the moment based on mispredictions of hedonic consequences, or on any other kind of mistake, are interpreted, by definition, as welfare enhancing.”

the household and individuals' perspective, since what really contributes to quality of life is not always proportional to amount of resources that are employed. For instance, one nation could boost its expenses on healthcare services- and this would contribute positively to GDP-, however, whether the additional resources are wasted into non-performing research projects or in the pockets of pharmaceutical firms, people would not enjoy better health outcomes⁸⁴.

Thirdly, both subjective and objective measures of peoples' well-being should be accounted for. *"All approaches to QoL share an emphasis on a range of features in people's life that are important either intrinsically, as objective expression of a good life, either instrumentally, to achieve valuable subjective states or other objective goals"*.⁸⁵ While both the capability and the fair allocation approach focus primarily on people objective situations and the opportunity sets available to them- what they are and what they hold-, the subjective well-being approach emphasises the role of people' actual feelings and perceptions, which are then directly registered without any exogenous filter. Overall, evaluating quality of life should include peoples' self-reports and perceptions, together with objective measures of their "functionings" and freedoms.

1.2.3 A composite indicator or a dashboard?

Having selected the matter of the analysis –what we want to measure- that is, after one conceptual framework has been adopted, the time comes for the choice of the right variables and the creation of a statistical tool for assessing both objective drivers and subjective of well-being. When building a well-being indicator (set) and arranging surveys, one must be aware that the choice he is taking will influence the scientific and the objective quality of the data collected, and he has to decide how to present these data to the public⁸⁶. Questionnaires and surveys may be complex and their outcomes difficult to read, and from an external point of view (such as the one of politicians, policy-makers, public officers and citizens), making sense out of them could be excessively demanding. On the other end, oversimplified indices may leave behind relevant pieces of information, thus resulting

⁸⁴ J. E. Stiglitz, A. Sen, and J.-P Fitoussi, *Reflections and Overview*, *op. cit.*, page 14. The authors are well aware that construction output measures would require great efforts; however sticking to GDP may lead us to make faulty inferences about well-being.

⁸⁵ J. E. Stiglitz, A. Sen, and J.-P Fitoussi, *Report*, *op. cit.*, page 156

⁸⁶ See P. Annoni, D. Weziak-Bialowolska, and L. Dijkstra, *Quality of Life at the sub-national level: an operational example for the EU*, European Commission, Joint Research Centre – Institute for the Protection and Security of the Citizen, Luxembourg: Publications Office of the European Union, 2012.

"Once the framework and all its indicators are set-up the key question in QoL measures is: shall it be a dashboard or a composite indicator? The issue whether aggregating or not is not peculiar to well-being indices but to all the cases of measuring multi-dimensional, complex phenomena".

obscure. Reducing the list of variables for each of the multiple dimensions may lead to impoverished outcomes' quality for the dimension concerned⁸⁷.

From the operative point of view, a multidimensional framework requires addressing a relevant number of dimensions and sub dimensions, each of which should be analysed in details according to several indicators. Their display alongside each other will help governments, institutions and policy-makers to acquire an adequate picture of quality of life and assessing the different components of every dimensions. Even though dashboards are extremely precise and complete, their comprehensiveness goes against their usefulness. On the other hand, composite indicators add up all the indicators to form a single composite index⁸⁸. To arrive to a single index figure, however, you have to arbitrary assume the weights that apply to each different dimension of well-being and the way in which they combine, thus ignoring the linkages among different aspects. An example of such a composite index is the Human Development Index⁸⁹, which exposes with a single number the outcome of countries' achievements in the three dimension considered, thus resulting an important communication tool. Nevertheless, the HDI pays its simplicity with controversial results, which are particularly evident when we consider the rationale that supported the decision on the weights used to construct this index.⁹⁰

Aggregating measures may be prescribed in the quantification of economic quantities for reasons of parsimony; however, composite indexes are more controversial when measuring broader concepts as well-being and other non-quantitative human aspects. In fact, adopting a composite index would implicitly assume perfect comparability and substitution between very different dimensions - as those of quality of life are. For instance, when evaluating together health and social relationships, how much value should be placed to a 79-year life expectancy on a scale of 1 to 10? And how much should having very good social relationships on the workplace be worthy? What comparison is possible between those two standpoints? Then, one should address the advantages and the drawbacks of one solution against the other; however, the ultimate choice depends on what are our major concern is, namely is comprehensiveness the enemy of immediate understanding?

⁸⁷ I am reporting W. Radermacher concerns, *op. cit.*

⁸⁸ "A composite index of well-being implies the choice of a set of weights for the single well-being dimensions which might be easily criticised as being arbitrary or dependent on exogenous value judgements", P. Annoni, D. Weziak-Bialowolska, and L. Dijkstra, *op.cit.* page 17.

⁸⁹ The Human Development Index (HDI) is UNDP's single statistics for both social and economic development. The HDI assigns a minimum and a maximum score to each of the dimensions considered, namely health (measured through life expectancy at birth), education (educational attainment as mean years of schooling) and income (Gross Domestic Product per capita). Then, it shows the rank - the range is between 0 and 1- of each nation in respect to these "goalposts".

⁹⁰ The SSFC points out that, since the outcome of final HDI is computed by "adding the logarithm of per capita GDP to the level of life expectancy", it is implicitly favouring developed countries over developing ones (an additional year of life expectancy in the US is as worth 20 times an additional year of life in India). See J.E Stiglitz, A. Sen, and J.-P Fitoussi, *op. cit.*, page 56.

According to the Eurostat Sponsorship Group on Measuring Progress, Well-being and Sustainable Development, in order to reduce the complexity of a multidimensional framework in quality of life, one synthetic indicator should be carefully selected for each dimension of QoL. “*Synthetic indicators combine different variables that are strongly correlated and measure the same latent concept.*”⁹¹, and they are particularly indicated when

Principles for organising such a mass of statistics should be studied and tested, perhaps dividing the complete list of metrics into different classes of indicators, each tailored within a limited scope. One of those clusters could provide information at an aggregate level (regional and national), another could display micro-indicators to allow comparison among sub-groups of individuals across regions and countries with special regards towards vulnerable groups, and one third may exhibit synthetic indicators that aggregates a number of basic indicators, which are highly inter-correlated.

According to Eurostat’s *Feasibility Study*, statisticians need to find an appropriate balance between the complete array of information required by experts and policy makers and the set of indicators to be communicated at a community level. Moreover, it suggest to select, out of the larger set of indicators, some headline indicators that could be communicated to the wider public, in order to make them easier to understand and follow up on the results⁹². The study opted for a single, composite index called “satisfaction adjusted life expectancy”, that is SALY⁹³, that could be communicated easily as output measure, while for the drivers it suggests using an indicator set, as combining them would prevent them suggesting policy-makers a clear picture of society.

Another interesting solution is the one adopted by OECD with its Better Life Index, which allows web users to apply their own personalised weights to the 11 dimensions endorsed by the well-being

⁹¹ European Statistical System, “Measuring Progress, Well-being and Sustainable Development”, 2012, in European Statistical System website, http://epp.eurostat.ec.europa.eu/portal/page/portal/pgp_ess/about_ess/measuring_progress. For instance, a very good synthetic indicator that has been implemented by the E SS is “*People at risk of poverty or social exclusion*”, which addresses more specifically economic living conditions. It is particularly relevant since it extensively used by Eurostat to check improvements towards the Europe 2020 headline target of reducing the number of poor of 20 million people. It is synthetic in that it combines information on persons who are at risk of poverty, who are severely materially deprived, or who are living in households with very low work intensity. Individuals are only counted once even if they are present in more than one of the three variables.

⁹² Eurostat, *Feasibility Study on Well-being Indicators*, *op. cit.* Analysing the issue of “Communication to the wider public”, the report stresses the importance of wider data dissemination towards citizens and society at large. “One could for example restrict the indicator to communicate to a maximum of two variables per component”, page 46. Complex techniques and multi-level analysis remain important, but those should remain confined to the “internal public” of experts and policy makers.

⁹³ In this respect, see paragraph 5.1 “A composite outcome indicator”, page 33. The author specifies the two components of this index (“overall satisfaction” and “life expectancy at birth”) have received the same weight by combining their z-scores (i.e. the standard deviations above or below the mean of all the countries).

framework.⁹⁴ Through this device, the problem of arbitrary weighting is solved, since every individual applies his or her own references to the standard framework, thus reflecting the relative importance each aspect of well-being holds in his or her life. Personalised preferences that are submitted are then used to gauge countries and those are consequently ranked according to the extent to which reflect the priorities of the user. I will deal extensively with the specificity of OECD's index proposal in the following section 1.3.

1.3 Short history of well-being debate and measuring tools

“Indicators are tools to monitor and communicate economic, social and environmental progress, inform policy development and offer a basis for target-setting”⁹⁵. Valid indicators are even more necessary when economic, social and environmental issues impose severe tests on a country, or on the entire global community. There is an important political debate on how best to measure societal progress beyond economic and financial indicators as GDP is gaining visibility and gathering consensus (Commission Working staff documents). Economists nowadays generally agree that, though an economic aggregate measure as gross domestic product could never be dismissed completely, it certainly needs to be complemented with indices measuring environmental and social factors. Finally, the idea of GDP being inadequate to gauge development on a nation level has come out from the inner circle of experts and economists and it has eventually reached policy-makers.

Even though statisticians and national experts had long been convinced that GDP was no longer adequate and data from the existing sources were lacking relevant information for capturing the quality of life, their point is difficult to be adopted in practise⁹⁶. Translating cutting-edge research on well-being's most relevant domains into a meaningful scoreboard of indicators, assembling brand-new surveys to be submitted to a selected population of individuals, and deciding how to present data and whether to create a single or a composed set of indicators can be rather time-consuming. Certainly, it will be very costly. Moreover, if information is to be collected on a rolling basis, through standard yearly surveys, or even more frequent, expenses can rise significantly. Even an annual report presenting a limited list of synthetic indicators could be too much to afford. The challenge is to find the political willingness and financial resources to sustain over many years the

⁹⁴ To date, more than 60 000 users from 180 countries and territories have created their own Better Life Index since its launch on the OECD dedicated website in 2011. Visit <http://www.oecdbetterlifeindex.org/>. According to my personalised index, it appears as I should be better move to Australia.

⁹⁵ European Commission, *Commission Staff working document - Progress on “GDP and beyond” actions*, SWD (2013) 303 final, 2/08/2013, Brussels, page 8.

⁹⁶ This is especially the case when considering subjective evaluations. The *OECD Guidelines in Measuring Subjective well-being* argues that the main difficulties may arise in analysing descriptive answers on subjective issues (and the risk of “cultural biases” in cross countries comparison), in accounting for omitted variables and reverse and two-way causality, and in deciding how to use those information for policy options. See page 20.

completion of a database encompassing a list of meaningful indicators. This would provide important tools for designing and structuring specific intervention strategies with immediate impact on critical situations, when GDP cannot gauge adequately the true conditions of families, in particularly in a short-term perspective. Nevertheless, for the time being, it would still be a good point to make really use of the data that have already been gather by national accounts⁹⁷.

In fact, whereas some of the metrics proposed by researchers and experts are indeed exploring relatively new fields, -and generally, they have been tested only in laboratory experiments, on very small samples- “*as a first step, we need to make better use of the data that are already available*”⁹⁸. This could be done by combining data from different sources linking between existing economic, social and environmental statistics. “*When creating new official statistical requirements one always has to take into account the limited resources for collecting data. We need to prioritise – adding new statistical requirements means that some of the old, less-needed requirements may have to be cut down.*”⁹⁹

Nevertheless, the time is ripe for gathering the main points at the core of so much debating and searching, and policy makers should not abuse of procrastination. The crisis had a propulsive role and eventually prepare the path for the development of better estimates of stakeholders and civil societies’ true conditions beyond economic considerations. In fact, citizens on average experienced some decline in their previous consumption and wealth’ levels However, GDP per capita and well-established metrics were not pointing the deepen inequalities and severe social strains some groups of people and families were facing. The delay in providing effective tackling of these issues caused a severe drop in trust in home institutions. They say procrastination is the thief of time, and local authorities and administrations have almost run out of it for bridging the credibility gap. Disadvantaged households’ situation calls for immediate answers beyond the lens of economic tools as GDP per capita and average income.

⁹⁷ According to the EC, reuse and data linking could partially cover the momentary absence of other kind of data. Robin Miège, Acting Director of the Environment Directorate’s General Strategy Directorate, reports that “existing data sources need to be analysed and information linked and reused. Data from national accounts and social surveys could be combined to give new insights into social and economic inequalities”. See Eurostat, *SIGMA - The Bulletin Of European Statistics*, 2010, *op cit.*, page 11.

⁹⁸ Eurostat, *SIGMA*, *op cit.*, page 36

⁹⁹ *Ibid*, page 37

1.3.1 International, regional and national efforts: guide-lines, recommendations, and deliberative indices

I THE STIGLITZ COMMISSION

The so-far most influential¹⁰⁰ work on well-Being and sustainability –the notion of durability of wealth and fairness in its inter-temporal distributions across generations- is the Report by the Commission on the Measurement of Economic Performance and Social Progress, released in 2009 as a result of the collaboration between two Nobel Prizes for Economics and Fitoussi, a prominent professor, author.

One year after the Beyond GDP Conference held in 2007, the French Republic president Sarkozy instituted the Commission on the Measurement of Economic Performance and Social Progress, headed by Joseph Stiglitz -hence, its common reference as “Stiglitz Commission”. The mandate of the Commission was to “identify the limits of GDP as an indicator of economic performance and social progress, including the problems with its measurement; to consider what additional information might be required for the production of more relevant indicators of social progress; to assess the feasibility of alternative measurement tools, and to discuss how to present the statistical information in an appropriate way”¹⁰¹

The Report makes a very strong, preliminary distinction between current well-being and an estimation of sustainability –which must be examined separately¹⁰²-. Furthermore, it divides the work into three working groups: the first assessing GDP as a measure of economic prosperity and related criticism (“Classical GDP Issue”), the second enlarging the perspective on societal progress by a multidimensional framework on well-being (Quality of Life), and the latter addressing the inter-temporal dimension of wealth, i.e. “Sustainability”.

The amount of information collected and revised is impressive, and my analysis will only resume the 12 recommendations. Recommendation number one says that, when evaluating material well-being, attention should be on income and consumption rather than production. Recommendation number two and three command respectively, to emphasise the household perspective and to

¹⁰⁰This thick report de facto constitutes a fundamental cornerstone for all the following studies realised on societal progress, and provides an impressive amount of recommendations, which are a priority benchmark for every academic and expert joining the debate on well-being. It contains all the most notable references of the last 50 years on this field. The European Commission “Beyond GDP”, the UNDP, the OECD and many others national initiatives on measuring quality of life all makes abundant references to the Commission’s guidelines.

¹⁰¹J. E. Stiglitz, A. Sen, and J.-P Fitoussi, *op. cit.*, page 7.

¹⁰²The authors make a very pertinent example of the conceptual problems that could arise when using a single index encompassing both the information about current well-being and sustainability: “To take an analogy, when driving a car, a meter that weighed up in one single value the current speed of the vehicle and the remaining level of gasoline would not be of any help to the driver. Both pieces of information are critical and need to be displayed in distinct, clearly visible areas of the dashboard”, page 77. For this reason the criticise notions such as “green GDP”.

consider income and consumption jointly with wealth. Recommendation number four calls for privileging an analysis of the distribution of income, consumption and wealth, so to better address inequalities. Recommendation 5 asks for including non-market activities when measuring income. Recommendation number six and seven are focused on measuring quality of life; in particular, they say that quality of life depends on people's objective conditions and capabilities, and recommend to employ indicators capable of assessing inequalities in a comprehensive way, and in all the dimensions covered. Recommendation number eight demand surveys to 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 number nine is addressed to statistical and ask them to provide the information needed to aggregate across quality-of-life dimensions, allowing the construction of different indexes. Recommendation number ten highlights both objective and subjective well-being provide key information about people's quality of , and for this reason both types of measures should be used, possibly jointly. Finally, on the topic of sustainability, the last two recommendations command to assess sustainability through a well identified dashboard of indicators, where 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. As the environmental aspects of sustainability is concerned, it deserve a separate follow-up based on an established set of physical indicators of public interest¹⁰³.

However, the report intended to start a discussion, not to close the one just started. *“The Members of the Commission believe that our work has just begun.[] We hope that our Report will provide the impetus not only for this broader discussion, but also for on-going research into the development of better metrics that will contribute to a better assessment of economic performance and social progress”*¹⁰⁴.

II THE OECD INDEX

The Organisation for Economic Cooperation and Development launched in May 2011 its *Better Life Initiative*, which gathers different activities undertaken by OECD on measuring well-being and progress in OECD and selected non-OECD countries. More recently, the OECD released the publication *How's Life*. This initiative was born against more than ten years of efforts and

¹⁰³ J. E. Stiglitz, A. Sen, and J.-P. Fitoussi, *Report, op.cit.* In particular, see the recommendation at page 268, which states that “the environmental aspects of sustainability deserve a separate follow-up based on a well-chosen set of physical indicators”, and following consideration.

¹⁰⁴ J. E. Stiglitz, A. Sen, and J.-P. Fitoussi, *Reflections and Overview, op. cit.*, page 63

campaigning, which have brought together wide-ranging perspectives on progress on a global scale, as the OECD has organised 4 World Forums until now (Palermo 2004, Istanbul 2007, Busan 2009 and New Delhi 2012). It was within the Second World Forum held in Istanbul in 2007 on “Statistics, Knowledge and Policy” - topped off with the fundamental “Istanbul Declaration”¹⁰⁵- that the overarching initiative “Better Life” came to life.

One of the proclaimed objectives of OECD is to foster and encourage international debates on the meaning of progress, in order to reach valuable insights- and possibly, overlapping consensus- into societal development and well-being of populations. However, collecting information that concerns well-being requires looking not only at one’s economy performances and achievements, but also “at the diverse experiences and living conditions of people”¹⁰⁶. Thus, the conceptual framework adopted by OECD distinguishes between present and future well-being. The former encompasses two main dimensions: material conditions and quality of life, while the latter assesses sustainability and focuses on future resources stocks and their depletion- or growth-over time. The OECD’s current well-being framework builds on Sen’s capabilities approach¹⁰⁷ and stresses attention on people (individual and households) rather than on the economy. It concentrates on outcomes as opposed to inputs (i.e. people’ satisfaction with child-care services instead on money spent on providing child caring); it highlights the distributional aspect of well-being across age groups, gender, and individual socio-economic backgrounds; and finally it looks at both subjective and objective dimension of well-being. Following a multidimensional definition of well-being, the OECD approach states the equal relevance of functioning and capabilities, and individuates 11 dimensions in both the domains of well-being, namely material living conditions and quality of life. These can be seen as a list of both essential functionings and capabilities: “for instance being in good health is a functioning in itself but it is also a capability as it makes it possible to choose among a number of different functioning’s (e.g. the type of job, the type of leisure)”¹⁰⁸.

How’s Life Report is part of the OECD Better Life Initiative and every two years provides updates and statistical data on a wide range of aspects influencing people’s well-being in OECD countries and in selected emerging economies. The OECD produced also some *Guidelines* in order to provide advice in the collection of subjective data addressing SWB¹⁰⁹. Following the recommendation of

¹⁰⁵ OECD, *Istanbul World Forum - Measuring and Fostering the Progress of Societies, Istanbul declaration*, Istanbul, 30 June 2007, <http://www.oecd.org/newsroom/38883774.pdf>.

¹⁰⁶ OECD, “Measuring Well-being and Progress”, in *Statistics*, <http://www.oecd.org/statistics/betterlifeinitiativemeasuringwell-beingandprogress.htm>.

¹⁰⁷ OECD, *How’s Life 2013*, *op.cit*, page 22, and OECD, *Guidelines on measuring Subjective Well-Being*, *op. cit*.

¹⁰⁸ OECD, *How’s Life 2013*, page 22 Box 1.3

¹⁰⁹ OECD, *OECD Guidelines on Measuring Subjective Well-being*, OECD Publishing, 2013, available online at <http://dx.doi.org/10.1787/9789264191655-en>. The guidelines discuss the main methodological approach to collect

the OECD, the Index is engaged in monitoring the sustainability of well-being, that is making sure the present level of environmental, economic, human and social capitals will be maintained for the future¹¹⁰. Casting an eye to the future is a true challenge, and often only approximate estimates are possible. However, progress on measuring the present level of those four types of capital has been made in the last years, and further efforts are on track. Given the complexity of such an issue, a dashboard approach appears to be the best choice, even though the list of indicators should be kept as parsimonious as possible so that richness does not impede understanding and use of this statistics. They have to tell us in the clearest way if future generations can ever hope to afford the present production and consumption level or, whether present inhabitants of the Earth are badly managing the disposable resources.

How's life does not attempt to construct a composite or synthetic index, for all the conceptual criticisms moved against this choice and that were already addressed above. It prefers to display the information collected into 25 headline indicators, that is, “that are deemed to be of sufficiently good quality and can be used for monitoring well-being over time and across countries”¹¹¹. Those selected indicators report average outcomes in the referred-to 11 dimensions.

However, the OECD also made it possible to create a personalised snapshot of one's country achievements, compared to one's subjective conception of a good life. Through the Better Life Index web portal started in 2011, an interactive tool was designed to allow users to ponder each of the 11 key-dimensions of the OECD framework according to their priorities, so to get their personal composite index of well-being. This initiative is also of scientific interest, since it provides responses on which are the factors that, among the others, primarily drive well-being directly from users. The information gathered on the webpage suggests that visitors, on average, rate life satisfaction, health and education relatively more important than the rest of dimensions¹¹². This is an admirable example of bottom-up approach in creating well-being indices, that is whose structure and weights are decided by stakeholders and civil society

information on SWB; they promote the validity and the importance of collecting such measures; they present the best practice in the measurement of subjective well-being, and they finally provide guidance on the analysis and reporting of subjective well-being measures.

¹¹⁰ The Report's last Chapter (number 6) is dedicated to “Measuring the sustainability of well-being over time“. The analysis is geared to four types of resources (or "capital") that can be somehow measured today, and that matter for future well-being: economic, natural, human, and social capital.

¹¹¹ OECD, *How's Life*, *op. cit.*, box 1.4, page 25.

¹¹² The webpage <http://www.oecdbetterlifeindex.org/responses/> provides data on the average ranking given by web respondents to the different dimension of the Index. Although they may be not statistically relevant, users' answers point out interesting overlapping.

III THE EUROPEAN COMMISSION: 'GDP AND BEYOND'

The European Union has answered the concerns of its citizens about the need for social and environmental indicators –worries that have dangerously sharpened with the outburst of the crisis– with the Europe 2020 Strategy¹¹³, whose main goal is precisely to integrate the classic economic concept of growth with social and environmental dimensions of development, accounting for poverty and social marginalisation, education and innovation, climate, energy and efficiency issues.

However, the visible limitations of GDP were already addressed officially at the European Union level in 2007, when the European Commission issued an open debate on how to better measure societal progress. The “Beyond GDP Conference” was hosted by the Commission, the European Parliament, the Club of Rome and WWF¹¹⁴. It brought together institutional representatives as well as world experts and policy makers to discuss about completing and complementing GDP with new measures for assessing environmental and social aspects of progress. The EP has shared the Commission’s heartfelt concerns with a Resolution that recognised “GDP is an indicator of economic market activity that has become a standard benchmark used by policy-makers throughout the world; [however it]does not measure environmental sustainability, resource efficiency, social inclusion and social progress in general; (...) furthermore that it can be misleading in the sense that remedial measures following certain incidents such as accidents and natural disasters are treated as a benefit instead of a cost”¹¹⁵.

The debate did not stop with the Conference, and in 2009, the Commission adopted a Roadmap for action, “GDP and beyond — measuring progress in a changing world”¹¹⁶. The Communication highlighted 5 key actions that should be seen as priorities for developing more comprehensive indicators and to make their practical employment easier for policy makers and officers. The

¹¹³ Europe 2020 is the European Union’s new strategy for growth and jobs Following the Commission’s communication “Europe 2020: a strategy for smart, sustainable and inclusive growth” and the discussions held in the Council, the European Council formally adopted the strategy in June. See European Council, *Conclusions*, Brussels, 17 June 2010, DOC/10/2

¹¹⁴ The Beyond GDP Conference brought together over 650 experts from economic, social and environmental spheres, and policy makers to address these critical issues. Preceding the main political conference, an expert workshop was held, where leading practitioners considered progress in the development and policy application of indicators of progress, true wealth, and well-being. All the materials about the conference (proceedings, presentations, conference programme, workshop programme, speakers, indicator exhibition of factsheets, partners, press) can be seen and downloaded at the European Commission’s “Beyond GDP website” http://ec.europa.eu/environment/beyond_gdp/2007_conference_en.html.

¹¹⁵ European Parliament, *Resolution of 8 June 2011 on GDP and beyond - Measuring progress in a changing world*, (2010/2088(INI)), 8 June 2011, Strasbourg, available online at <http://www.europarl.europa.eu/sides/getDoc.do?type=TA&language=EN&reference=P7-TA-2011-0264>.

¹¹⁶ The Communication “GDP and beyond” was presented and discussed by the European Commission with key stakeholders at an event on 8 September 2009 in Brussels. The most significant result was the elaboration of an EU roadmap with five key actions to be undertaken now and in the near term. See the press-release preceding the works at http://europa.eu/rapid/press-release_IP-09-1286_en.htm?locale=en

indicators proposed by the Roadmap are crucial to measure progress towards the new, broader concept of growth the Europe 2020 Strategy entailed. I will follow the outline presented by the 2013 Commission Staff working Document¹¹⁷ in reviewing the five priority actions that have been underlined.

Action 1 consists of complementing GDP with indicators monitoring quality of life and environmental indices. The most significant results reached so far include: a new aggregate indicator, “people at risk of poverty or social exclusion”, designed to supervise the Europe 2020’s target of lifting at least 20 million people out of poverty; a detailed set of “quality of life and well-being” indicators¹¹⁸. On the environmental side, the work of the Commission explored the feasibility of two comprehensive indices: the first addresses environmental pressure put on EU territories by EU, while the second regards less specifically the overall impacts (i.e. the global footprint) and the eco-efficiency of resource employment. Of course, thorough measurements and calculation are difficult, and the goal of developing a future environmental quality indicator remains daring when considering current data availability.

Action 2 calls for improving timeliness of such indicators: for policy-makers to consider those statistics and use them effectively, they have to be available at the same time as GDP¹¹⁹. Gathering faster data is a priority when GDP and unemployment rates are announced quarterly and monthly respectively: in order to help authorities to get an accurate picture of social and economic situation, quality of life indicators should ideally accompany well-established releases. Early estimates of CO2 emission were released by the EEA¹²⁰ within four months since 2012, and the Agency created a web-portal in which hosts citizens’ report in real time via smart-phone -Information and Communication Technologies already provide near real-time data for air or bathing water quality, and citizens are becoming more and more engaged in providing on the spot information thanks to their mobile phones. This is a genuinely clear example of civic engagement being the best input ever.

¹¹⁷ European Commission, *Commission Staff working document -Progress on ‘GDP and beyond’ actions*, SWD (2013) 303 final, 2/08/2013, Brussels.

¹¹⁸ Developed by the European Statistical System (ESS), in collaboration with The European Statistic On Income and Living Conditions.

¹¹⁹ This in order to get a broader picture of the economic situation, complementing the voids GDP leaves in some crucial aspects of well-being.

¹²⁰ The EEA is a very active body whose main clients are the Institution of the EU themselves, and its reports are a primary source of sound and relevant data on several environmental aspects. In particular, the topics on which the agency focuses on are air pollution, biodiversity, climate change, land use, and water. According to the agency official webpage “Our vision is to become recognised as the world’s leading body for the provision of timely, relevant and accessible European environmental data, information, knowledge and assessments”

Action 3 faces the critical issue of regional and social groups' inequalities. Unemployment rate and GDP per capita tend to cover up existing disparities within countries by regions, income groups, education attainments or gender. For area-based policies, it is essential to get data at the local or regional level, which better mirror what people really experience living in that specific area. The OECD-Eurostat Expert group is working on breaking down national measurements according to household type, level of income and main source of income. Important are the efforts on collecting information on health inequality. The EU-SILC¹²¹ is implementing its micro-database as to allow a clear picture of the disparities in conditions among different socio-economic groups, and to speculate about possible causes of disadvantages in several dimensions of quality of life. A key concern is to identify particularly vulnerable segments of the population, that is, individuals that are scoring below the average in the majority of well-being's indicators, e.g. the elderly and children.¹²²

Action 4 deals with an imperative European Union's objective: developing a Sustainable Development Scoreboard¹²³ together with Member States. At the EU level, a set of sustainable development indicators already exists, and with the adoption of the European 2020 strategy in 2010, this dimension "became an integral part of the EU's socio-economic strategy"¹²⁴. Investigations and scientific attention are now directed towards the individuation of physical environmental threshold of natural resources: these tipping points should signal when our current political and economic decisions are endangering future human progress.

The fifth and last Action calls upon Member States to include in their national accounts social, economic and environmental indicators. Standard national accounts already host decent pieces of information to build relevant social indicators, especially addressing households' financial situation;

¹²¹ The European Union Statistics on Income and Living Condition's (EU-SILC) project was launched in 2003 and is anchored in the ESS (European Statistical System). Since the outset of the Europe 2020 strategy in 2010, and in view of the headline target of reducing by 20 million in 2020 the number of people under poverty and social exclusion, EU-SILC data is being used for monitoring the progress towards this key objective. Collected information is of two kind: cross-sectional data pertaining to a given time or a certain time period with variables on income, poverty, social exclusion and other living conditions, and longitudinal data pertaining to individual-level changes over time, observed periodically over a four-year period. The core of the instrument, income at very detailed component level, is mainly collected at personal level, allowing relevant consideration on distribution of income per social groups. For more information, please visit Eurostat website at http://epp.eurostat.ec.europa.eu/portal/page/portal/microdata/eu_silc

¹²² The key areas that call for further improvements are, according to the Commission Staff working document, to develop a private household balance sheet to account for their debt and financial assets (providing information on financial distress, leisure time, and the distribution of risk), and secondly to establish a benchmark for distributional data to be displayed against average measure. *Op. cit.*, pages 23-24.

¹²³ With the adoption in 2010 of the Europe 2020 strategy, sustainable development became an overarching goal of EU's strategy. Scientists are trying to identify threshold of Earth's natural resources: crossing those tipping points would lead to disastrous consequences. The aim of a sustainable development scoreboard is to complement the existing environmental indicators with information about planet limits, even though "more work is needed to make this operational for environmental management and target setting for resource efficiency", page 6, *Commission Staff working document - Progress on 'GDP and Beyond' actions, op. cit.*

¹²⁴ European Commission, *Commission Staff working document, op. cit.*, page 24.

however, accounting for environmental dimensions still needs further work. The EU Parliament and Council adopted a Regulation¹²⁵ on three sets of environmental economic accounts: air emission, environmental related taxes and economy-wide material flows account: those statistics have to be made available by Member States in late 2013 and 2014, and will then be updated annually. Another important directory where convey research is an estimate of monetary value of natural resources, so to integrate the loss of resources (calculated in market prices) and uses the information to inform decision-making processes.

The track of the ongoing work at the European level can be kept on the “GDP and beyond” webpage, whose aim is to promotes social awareness and to spread information about the state of art and possible development in every corner of the world.¹²⁶

IV NATIONAL INITIATIVES ON MEASURING SOCIETAL PROGRESS

In the last years, debates on well-being indicators has spilled from the inner circle of academics and experts to the wider international community. In fact, National Statistical Offices have started to analyse the feasibility of national initiatives to gauge well-being within their own societies. In particular, after the publication of the Stiglitz-Sen-Fitoussi Reports, countless national actors and governments demonstrated a growing interest in overcoming GDP as the most significant measure of their citizenships’ quality of life. Mr Enrico Giovannini¹²⁷, one of the member of the Stiglitz Commission, and formerly Chief Statisticians of the OECD, believe that “*This is primarily not a statistical problem. It is a political question and it is important for the government of a modern society*”. Without presuming to be exhaustive, I will briefly address some of the most interesting national efforts.

First, I will define what the literature means when referring to “deliberative indices”. This term is used when such indexes are structured around several rounds of public consultations, open dialogues with stakeholders, online citizenship surveys, conferences with civic organisations and trade unions, entrepreneurs and society at large. This bottom-up strategy is geared towards involving a higher number of people, who will indeed be the benchmark for defining what the real

¹²⁵ European Parliament and Council Regulation (EU) n 691/2011 of 6 July 2011, OJ L 192,22.7.2011, page 1.

¹²⁶ European Commission, Environment, last visited on 23 June at http://ec.europa.eu/environment/beyond_gdp/background_en.html

¹²⁷ Enrico Giovannini is currently the president of the Italian Statistical Institute (ISTAT). In the past years, he held the office of Chief Statisticians of the Organisation for the Economic Cooperation and Development (OECD), and his efforts to improve measuring of progress and development of societies are recognised worldwide. He seats in many important national and international committees: he is advisor to the European Commissioner for the Environment and member of the Board of the Canadian Index of Wellbeing and of the UK Measuring National Wellbeing Advisory Forum. Furthermore, he was actively engaged in the debate with French authorities that gave birth to the Stiglitz Commission, to which Mr Giovannini himself took part as a member. Mr Giovannini was also Minister in the Italian Government and he hold the office of labour and social policies from 28 April 2013 to 22 February 2014.

priorities of their community are. Indicators that are informed of the concerns of the vast majority of people are the best way to reconcile discouraged citizens with their institutions. In effect, the significance of such deliberative processes becomes evident if one considers the urgency of bridging the gap between what most people perceive their present situation is, and what the official statistics regularly report. This distance is growing larger with the crisis, and some may even become persuaded that data has been maliciously manipulated by the government, which tries to deceive its own citizens picturing the state of the economy as heaven on earth¹²⁸. Institutions thus lose credibility, and governments fall among public distrust. Actually, no manipulation is taking place; however, the problem exists, and is that of inadequacy of the traditional metrics to comply with a true measure of well-being.

When inequalities are spreading, no one recognises themselves in average measures, and the typical family cannot help but doubt the enthusiast announcements on the media¹²⁹. In the present situation, more emphasis should be placed on listening to the needs of the community, since public policies that are designed exclusively to promote GDP are often realising a trade-off between growth (measured through standard statistics) and well-being.

The small Reign of Bhutan was the first nation to build a deliberative index of this sort, under the benevolent approval of its King in 1972, called Gross National Happiness¹³⁰. The GNH is deeply rooted in the Bhutanese culture and believes, as it is reflected by the importance paid to spiritual well-being¹³¹. GNH accounts for 8 different dimensions (subjective happiness, mental health, emotional balance, spirituality, culture, human rights, trust, social support, education, health, living standards and ecology) that correspond to what Bhutanese think as driving to a true societal enhancement. GNH embodies measures that address both the physical and mental well-being of Bhutanese, employing both objective and subjective indicators. In effect, the tenet of this index is that no development can occur without material and spiritual development together.

Another important attainment was reached by Canada in 2009, through the issue of the first Canadian Index of Well-Being¹³², which asks Canadians directly how life is. The CIW was realised

¹²⁸ See J.E. Stiglitz et al, *Reflections and Overview*, *op. cit.*, page 9 “the benefits of an increase in GDP may be going to a relatively few individuals, with most individuals in society actually being worse-off. If that is the case (and it is, in many countries), then it suggests that greater attention be paid to metrics of societal performance other than average per-capita income, to metrics that are more congruent with widespread perceptions of well-being”.

¹²⁹ J.P. Fitoussi, *Il Teorema del Lampione*, *op. cit.*, pp 179-182.

¹³⁰ For more insights, see K. Ura, S. Alkire, T. Zangmo, and K. Wangdi, *An extensive analysis of GNH Index*, The Centre for Bhutan Studies, 2012.

¹³¹ People in Bhutan are deeply observant and their religion permeates many aspects of Buthanese society and habits.

¹³² The reports (one for each of the eight dimensions) are available online at www.ciw.ca/en/TheCanadianIndexOfWellbeing

by an independent CIW Network, based at the Faculty of Applied Health Sciences of the University of Waterloo, and it aggregates eight distinct components of well-being. It is an aggregate index, obtained as a simple arithmetic average of the 8 wellbeing indexes, where all the indicators are pondered equally¹³³; even though the authors recognised the possible downturns of such a composite index, they believed it holds the advantage of attractiveness and simplicity. The CIW published one report for each dimension, which have been released between June 2009 (dimension Living standards) and April 2011 (dimension Environment).

Following the request of the French President and the German Chancellor, France's Conseil d'Analyse économique and the German Council of Economic Experts, joined their efforts and their national offices in 2009 to work on a preliminary study on measuring well-being in the two countries involved. The result of this collaboration was the report on "Monitoring economic performance, quality of life and sustainability"¹³⁴, and it was practically implemented in the two mentioned countries.

The Franco-German report identifies three domains of wellbeing, in line with Stiglitz-Sen-Fitoussi Commission's recommendations and the approach developed within the OECD. The dimensions individuated are, respectively, economic performance and material wellbeing, quality of life (intended as entailing non-material aspects of well-being) and sustainability. The domains include 6, 7, and 12 indicators each. The most interesting aspect of the report is the framework used to assess sustainability. The report divides the concept into two domains: economic sustainability (growth sustainability, fiscal sustainability and financial sustainability), and environmental (emission level, fairness across generations and biodiversity). It is evident that this is a broader approach to sustainability, which goes beyond the usual analysis of natural assets, and embraces measuring the impact of general human activities on future generations' well-being and provides a framework for measuring the impact of present activities on the wellbeing of future generations.

¹³³ Authors admit that compensatory issues are likely to affect CIW, since all the indicators and then all dimensions are considered as having the same importance (the final number results from a simple average). However, they argue that the lack of a good reason for assigning a particular indicator a higher/lower importance with respect to the others justifies the choice of an equal treatment of all indicators. See also European Commission, Joint Research Centre – Institute for the Protection and Security of the Citizen, *Quality of Life at the sub-national level: an operational example for the EU*, *op. cit.*

¹³⁴ C. de Boissieu, J. Cotis, M. Didier, C. Saint-Etienne, P. Bofinger, W. Franz, C. Schmidt, B. di Mauro, and W. Wiegard, *Monitoring economic performance, quality of life and sustainability. Technical report*, German Council of Economic Experts and Conseil d'Analyse Économique, 2010.

CHAPTER 2

2.1 The onset of the economic crisis

How did the financial and economic crisis influence people's day-to-day life? Furthermore, if changes ever occurred, did those hit the world area as a whole, or, instead, did they deepen existing inequalities among countries and across the population? The answer to such critical questions have to rely on data gathered by present statistical tools, which as I argued are not able to describe the actual well-being a society is enjoying. This implies that accounts collected so far are mainly focused on traditional economic aggregates, and as such, they fail to capture the evolution of some crucial aspects of well-being.

Considering this obvious hindrance, I shall hold the premise that, sticking to the state-of-art of quality-of-life indicators, it is probably premature to expect that they provide policy-makers with reliable data on deteriorations of every well-being dimension. It is true that evolution trends of household income and wealth, unemployment rate and financial exposure show clear signs of severe downturn. The most evident sign of decreasing well-being across Europeans countries is an increasing share of people unable to obtain a job, and of good quality. Considering the latest findings of the social costs of losing a job¹³⁵, rising unemployment rates, in particular of younger workers, have to be treated with particular attention. According to the International Labour Organisation, "Youth unemployment increased by as much as 24.9 per cent in the Developed Economies and European Union between 2008 and 2012, and the youth unemployment rate was at a decades-long high of 18.1 per cent in 2012. On current projections, the youth unemployment rate in Developed Economies and the European Union will not drop below 17 per cent before 2016."¹³⁶ In general, the average duration of unemployment increased, while working conditions deteriorated and the share of people working part-time increased (i.e. involuntary part-timers, as they did not

¹³⁵ Evidence from all studies on subjective well-being highlights the high human costs associated with unemployment, which far exceed the temporary monetary loss due to absence of labour income. See in particular the overview by the SSFC's Report: "Unemployed people report lower life evaluations than do the employed even after controlling for their lower income, a pattern that holds both when looking at cross-sectional data (Clark and Oswald, 1994; Blanchflower, 2008) and when following the same person over time (Winkelman and Winkelman, 1998); this pattern suggests the existence of non-pecuniary costs of unemployment, such as loss of friendship, meaning and status. There is also evidence that high unemployment also negatively affects people who retain their jobs, and that the gap in life-satisfaction between the unemployed and the employed has increased slightly in European countries (Di Tella et al, 2003). Evidence for a large sample of Europeans and non-Europeans also shows that the unemployed report feeling more sadness, stress and pain than the employed (Krueger and Mueller, 2008)...", pp 149-150.

¹³⁶ International Labour Organisation (ILO), *Global Employment Trends for Youth 2013- A generation at risk*, ILO Publications, Geneva, page 2, downloaded at http://www.ilo.org/global/research/global-reports/global-employment-trends/youth/2013/WCMS_212899/lang--en/index.htm

find a full time job)¹³⁷. The higher unemployment rate is likely the main channel through which the crisis has affected life satisfaction: in the OECD areas as a whole, and in particular in the euro area, SWB deteriorated during the crisis; and there is also evidence of growing anger, stress and worry (i.e. negative affect¹³⁸). Over the four years 2008-2010, average life satisfaction decreased of 29% in Greece, 12% in Italy, and 10% in Spain, which, not so surprisingly, are also the countries where the crisis hit harder¹³⁹.

On the other hand, some effects of the crisis will be visible only after some time from now, and the accounts national offices have been addressing so far may be unable to cover all important information. For instance, cuts in road-maintenance expenditure by the government could not hold significant effects in short-term travel security; however, it is easily predictable that they will eventually increase the number of car accidents 5 years from now, when street conditions will dramatically drop. The same goes for cuts in health spending for prevention and campaigning, which in turn raises serious concerns about impacts on future health outcomes¹⁴⁰.

What can be said about the effects that the economic crisis has had on social cohesion and democratic legitimacy? Social connections, cohesions among groups, trust in people and in public institutions are conducive of higher levels of well-being, and “is it through participation, trust and solidarity that Europe can achieve ambitious goals of inclusive growth and social and territorial cohesion”.¹⁴¹ The economic strains experienced by many EU countries due to the economic downturn are likely to have caused higher levels of perceived social tensions among groups, and lower trust in others and in public institutions, at all levels (national and European). However, the global trend of growing income inequalities¹⁴² is likely to have played a role: according to the last EQLS¹⁴³, rising perception of inequality among society members has accompanied the lengthening of the economic crisis, even though this phenomenon has not occurred in all member states and in the same proportions¹⁴⁴. The increase in the proportion of people perceiving much tension between

¹³⁷ OECD, *How's Life? 2013 - Measuring Well-being*, *op.cit.*, pp. 80-82

¹³⁸ *Ibid.*, page 88

¹³⁹ *Ibid.*

¹⁴⁰ Cutting expenditures raise criticism especially when health and social care are concerned, since the result of missing prevention and may lead to severe future outcomes in terms of quality of life and, in particular, in life expectancy.

¹⁴¹ Eurofound, *Third European Quality of Life Survey – Quality of life in Europe: the impact of the crisis*, 2013, page 132

¹⁴² In recent decades, OECD, EQLSs, and the GINI project have highlighted this trend: even though in many Western societies income inequalities have risen since the 1980s, the pattern and trends vary between countries and specific time periods within countries.

¹⁴³ Eurofound, *Third EQLS*, *op. cit.*

¹⁴⁴ Between 2007 and 2010, the Gini index remained largely unchanged for the EU as a whole. However, trends vary significantly across countries: Nordic countries display the lowest income inequalities; while Eastern Europe countries are the that registered the greatest rise in the past 15 years (in the 90's however they were fair equal societies). For the majority of EU countries, inequalities started to expose a rising trend in the 90's, with a tendency particularly evident

rich and poor was considerable in Greece (by 17%), the UK (by 15), Malta (by 14) and Lithuania (by 13), while the largest decrease (by 18 percentage points) is in Germany. As many studies and works on inequalities demonstrates¹⁴⁵, there is a negative association between the quality of social capital (measured by mutual trust, perceive level of tensions, legitimacy of institutions) and perceived inequalities: for instance, findings by the GINI project underscore a significant relationship between “inequality (in)tolerance and (non)acceptance of the rules of the game”¹⁴⁶. The association between economic hardships and increasing poverty –which invested EU countries starting from 2008- and lower levels of social capital is mediated by “a weakening trust and raising perceptions of inequality”¹⁴⁷, which affect more directly the quality of social and institutional capital. This direct correlation seems to be supported by the finding that the decreased average levels of trust in the EU Member States occurred (in all but five states) since the First EQLS in 2003, in a period of relative prosperity. I think this may prove that the economic recession and the difficulties European citizens are facing right now in making ends meet are not the only factors influencing the level of trust in others and in the political system. While it is true that people in the lowest income quartile and the unemployed perceive social contrasts and tensions between rich and poor to a greater degree, it is an unfair income distribution that tells more about social cohesion, regardless of income.

According to OECDs “How’s Life?”¹⁴⁸ report, it is of utmost importance to improve current statistics in order to be able to tackle immediately a future crisis as soon as it occurs. The report is built on the basis of data collected in 2012. However, by admission of the OECD itself, these are not capable of considering trends in all well-being dimensions. In particular, trends in health outcomes and social connections remains ambiguous¹⁴⁹, and the latter would request “supplementary indicators, as well as indicators that are disaggregated by age and socio-economic status (...) to provide additional information on recent trends in people’s well-being”¹⁵⁰.

for the UK. See OECD, “Income distribution”, *OECD Social and Welfare Statistics Database*, 2013, available online at <http://dx.doi.org/10.1787/data-00654-en>.

¹⁴⁵See for example P. Annoni, et al., *op. cit.* “For instance, the idea that the social welfare depends on average income and inequality of incomes has a long tradition in welfare economics (Osberg and Sharpe, 2002). Just to quote one recent example from *The Economist*: ‘More unequal countries have worse indicators, a poorer human-development record, and higher degrees of economic insecurity and anxiety’ (*The Economist*, 2011). Wilkinson and Pickett (2009) argue that inequality ‘gets under the skin’ and makes everyone worse off, not just the poor“, page 5.

¹⁴⁶ See H.G. Werfhorst et al., *op. cit.*

¹⁴⁷ Eurofound, *Third EQLS*, page 145.

¹⁴⁸ OECD, *How’s Life? 2013: Measuring Well-being*, *op. cit.*

¹⁴⁹ OECD addresses only 5 out of the 11 dimensions in the OECD well-being framework, namely income and wealth, jobs and earnings, health status, civic engagement, subjective well-being and social connection. For the remaining aspects, research is making way; however, evidence on their evolution is insufficient.

¹⁵⁰ OECD, *How’s Life? 2013*, *op. cit.*, page 72

According to OECD experts, high-frequency surveys, timeliness of data releases, inequalities and specific group focus, and short span of time trends detection are the main areas in which bigger efforts are required.

2.1.1 What if...

When Queen Elisabeth II posed a very simple question during her 2008 visit at the London School of Economics¹⁵¹, everyone, academic staffs and professors, looked surprised. However, that feeling of uneasiness was not provoked by the ingenuity of her Majesty to ask such a plain question, but rather by the very impossibility of providing it with an answer different from “it should have not been so”. How is it that the vast majority –if not the totality- of experts statisticians and venerated economists did not forecast the second most severe depression after the Great Depression, which was ready to spread all over the globe?

One pertinent consideration is the analysis of L. Codogno¹⁵², former president of the Economic and Policy Committee, when he says the unpredicted outburst of the crisis demonstrated the need for “timely, accurate and reliable statistics, indicators and information in general”¹⁵³. He advocates major efforts to create a coordinated framework for monitoring and assessing the problems as they are arising, in order to deliver an early warning to competent bodies and agencies. According to Codogno, what was missing during the crisis was the lack of such a framework. Let us consider the European situation: while national governments and the Commission were excessively worried about sustainability of sovereign debts and fiscal deficits, they did not pay the due attentions to banks’ accounts (their balances and debts) and they did not consider the leverage of households.¹⁵⁴ Surveillance mechanism are of no use, if they are to monitor only a small piece of the broader picture, and statistics go only where you point them.

It is very difficult to provide an unbiased opinion about past events, as they would most likely be influenced by post-evaluations of the outcomes of those past events. Today, we can say that our measuring systems failed to anticipate the crash and the true value of financial assets back then in

¹⁵¹ At the inauguration of LSE’s New Academic Building on 5 November 2008, the Queen described the situation as 'awful', and asked why did nobody see it coming. Prof Garicano, director of research at the London School of Economics' management department, said: "She was asking me if these things were so large how come everyone missed it." He answered her majesty that: "At every stage, someone was relying on somebody else and everyone thought they were doing the right thing." See A. Pierce, “The queen asks why no one saw the credit crunch coming”, *The Telegraph*, 5 November 2008, available online at <http://www.telegraph.co.uk/news/uknews/theroyalfamily/3386353/The-Queen-asks-why-no-one-saw-the-credit-crunch-coming.html>

¹⁵² Lorenzo Codogno is Director-General of the Economic and Financial Analysis and Planning Department of the Italian Treasury. He has been President of the Economic and Policy Committee (EPC), which was established in 1974 by a Council decision to provide advice and to contribute to the work of the Council (Ecofin) and the Commission. For more information, visit the EPC’s website at http://europa.eu/epc/index_en.htm.

¹⁵³ Eurostat, *SIGMA The Bulletin Of European Statistics*, *op. cit.*, page 41

¹⁵⁴ *Ibid.*

2007, and we know that at the end their prices revealed to be inflated. Neither the public accounting system nor the private have been able to provide governments with an adequate early warning. Although it is impossible to predict what of the present hardships could have been avoided if we had had better metrics then, however it could be expected that some enthusiastic data would have been looked at more suspiciously¹⁵⁵.

Unfortunately, the recession struck heavily on unprepared financial institutions and countries, and governmental responses focused on macroeconomic indexes, such as dropping production levels, rising sovereign debts and government's fiscal deficits. "...perhaps had there been more awareness of the limitations of standard metrics, like GDP, there would have been less euphoria over economic performance in the years prior to the crisis; metrics which incorporated assessments of sustainability (e.g. increasing indebtedness) would have provided a more cautious view of economic performance"¹⁵⁶. Actually, some information about households' level of leverage was available, and it could have been possible to make a fair inference on the unsustainability of such a financial situation. Nevertheless, the excessive prominence of GDP over the rest of economic indicators, distracted from the sore spot, and while everybody was amazed by the outstanding performances of the financial sectors, whose profits overshadowed the rest of the metrics that were available. Something could have signalled that path could not last for long, but those voices were flexible echoes, and did not find a place in the predominant economic paradigm¹⁵⁷.

2.2 Italy and the Crisis

How well is Italy ensuring its citizens high standards of living? Moreover, is Italy guaranteeing its human, social and environmental stocks of resource will satisfy the intergenerational sustainability criterion?

In this respects, there are several national and international sources that may contributed to understand how Italians are doing. OECDs' "How's Life?" initiative provides country-profile analysis against the background of its multidimensional approach to living conditions and quality of life. Other important data are gathered at the European level, thanks to the Quality of Life Surveys realised by Eurofound¹⁵⁸, which provides meaningful trends of relevant societal dimensions of the lives of Europeans. Another interesting source of data, especially for measuring inequalities, is the

¹⁵⁵ J. E. Stiglitz, A. Sen, and J.-P. Fitoussi, *Reflection and Overview*, *op. cit.*

¹⁵⁶ *Ibid*, page 9.

¹⁵⁷ For a sharp critic towards the current economic models and the hypothesis on which they are based, see J. E. Stiglitz, "Needed: A new economic paradigm", *op. cit.*

¹⁵⁸ Eurofound, *Third EQLS*, *op. cit.*, 2013.

European Commission - DG for Regional Policies and Joint Research Centre Institute for the Protection and Security of the Citizen's report¹⁵⁹.

According to OECD's snapshot, Italy performs well in several domains of well-being; however, results suggest the country is not completely exploiting its potential in numerous dimensions. In fact, it is reported that "Italy ranks (...) below average [measured as the mean of OECD members' performances] in civic engagement, jobs and earnings, personal security, housing, environmental quality, social connections, education and skills and subjective well-being"¹⁶⁰. Finally, Italians are less satisfied with their life (5,8, lower than the OECD mean level of 6,6)¹⁶¹

The report shows, on average, a severe impact of the crisis on Italian households, especially in household income, jobs, life satisfaction and civic engagement. From the beginning of the economic crisis to 2011 real household disposable income decreased of 7%, "one of the largest declines among the OECD countries"¹⁶². Market income inequality, measured through the Gini coefficient, increased by 2% between 2007 and 2010, well above the OECD average of 1.2%.¹⁶³

However, the most severe burden imposed on Italians' well-being was due to a drop in employment and deteriorating labour market conditions. The employment rate decreased by more than 1 percentage point in Italy, while the long-term unemployment rate increased by almost 3 percentage points¹⁶⁴; however, figures reported by OECD date back to the 2008-2012 period, not picking up the critical dragging of its consequences. Latest data are in fact even gloomier, and they are collected by the National Institute of Statistics (ISTAT) latest estimates, which report 13.6% the global unemployment rate (first quarter of 2014)¹⁶⁵, pointing out an increase of more than 7

¹⁵⁹ P. Annoni, et al., *op. cit.*

¹⁶⁰ OECD, "Country Snapshot- Italy", in *How's Life? 2013 - Measuring Well-being*, available online at <http://www.oecd.org/statistics/HsL-Country-Note-Italy.pdf>. More resources on the Italian situation are available at <http://www.oecdbetterlifeindex.org/countries/italy/>.

¹⁶¹ We discussed how important is to rely on subjective assessment in comparing quality of life across countries. Even though several researches show that self-perceptions bear a strong linkage with cultural and personality traits, general life satisfaction is a very important indicator for understanding the impact of external circumstances and conditions that affect well-being.

¹⁶² I am referring to the data available on Italy's profile at *OECD Better Life Initiative*, <http://www.oecdbetterlifeindex.org/countries/italy/>.

¹⁶³ A series of data on Gini Index are available at <http://www.gini-research.org>. The *GINI-Growing Inequalities's Impacts* project is funded by the European Union within the Seventh Framework Programme (FP7) and it relies on several sources for building its time-series tables. The GINI project involves around 200 researchers working as local teams in each country, and has gathered and analysed data on 30 countries so far (Italy belongs to this list of countries), and moreover it has redacted country reports addressing a wide set of inequalities. Income is of course the privileged dimension of analysis; however the project collected and analysed data from 1980 to 2010 on such measures as income, health and educational attainment, social cohesion and inclusion, upward mobility, crime, and political participation. Income inequality in Italy shows the country has undergone a significant increase in income inequalities from the 90s, where those did not raise much in the last decade.

¹⁶⁴ *OECD Better Life Initiative*, <http://www.oecdbetterlifeindex.org/countries/italy/>.

¹⁶⁵ ISTAT, *Comunicato Stampa- Occupati e disoccupati (trimestrali)*, 3 June 2014, last visited 20 June 2014, available online at <http://www.istat.it/it/lavoro>. The global UR is reported to be on the rise on annual trend growth rate. Istat

percentage points from 2008. That is, in 5 years-time, the number of unemployed doubled. Youth and lower skilled workers were the most hardly hit¹⁶⁶, and youth employment rate experienced a dramatic drop, reaching in April 2014¹⁶⁷ a tremendous peak of 43,3%, as to say 685,000 individuals below 24 are currently looking for a job. Moreover, this daunting number does not keep into account the share of young people that are not in employment, education or training.¹⁶⁸ In fact, this phenomenon is undetected by the youth unemployment rate, since most of so-called NEET¹⁶⁹ are classified as “inactive” individuals, that is, they have not been looking for a job in the past 4 months, and thus are not figuring among the unemployed. What is appalling, though, is that young people represent a country’s future, being a potential source of economic, social and human capital. Long term unemployment¹⁷⁰ in these fractions of population means that progress of the entire society may be permanently compromised. Furthermore, being unemployed for a long time leaves

estimates that 22,2 million persons were employed in the 1st quarter 2014, down 0,9% (-211 thousands) from 1st quarter 2013. The employment rate decreased to 55.1%. In total, the number of unemployment rise to 3.5 million (+212 thousands persons).

¹⁶⁶ In times of crises, it is frequent that unemployment rates for young people are higher than those of other age groups are. This for several reasons: young people are traditionally employed in sectors, as construction and manufacturing, which are naturally more sensitive to business cycle, and they have entered only recently the labour market, thus enjoying less protection and usually being in temporary contracts. Furthermore, younger people are generally less qualified than elder workers are, and it is suppose the will easily find another job if they are set free, or that they could go back in education schemes to achieve the skills they lack at present.

¹⁶⁷ ISTAT, *Comunicato stampa- Occupati e disoccupati (dati provvisori)*, 3 June 2014, available online at <http://www.istat.it/it/archivio/123887>

¹⁶⁸ Young unemployment and NEET are two different concepts, though they are closely related. The difference sits in both the numerator and the denominator used to calculate the statistics for those two phenomena. For a complete investigation on the NEETs in Europe, see the fundamental report by Eurofound.

European Foundation for the improvement of Living and Working Conditions, Publications Office of the European Union, Luxembourg, 2012, downloaded at <http://www.eurofound.europa.eu/emcc/labourmarket/youth.htm>. “While the youth unemployment rate refers just to the economically active members of the population who were not able to find a job, the NEET rate can be understood as the share of the total population of young people who are currently not engaged in employment, education or training. This is why the number of young people who are NEET in Europe (7,469,100 15–24-year-olds in 2011) is higher than the number who are unemployed (5,264,800), but the NEET rate (12.9%) is lower than the youth unemployment rate (21.3%). The denominator of the two rates is different. (...) In the youth unemployment rate the denominator is constituted only by those who are economically active (24,711,200 15–24-year-olds), whereas the denominator of the NEET population is constituted by the total population of young people (57,862,300).” page 23

¹⁶⁹ For a comprehensive assessment on the number, the costs –which far exceeds a purely economic perspective- of the phenomenon, with a specific focus on the Italian situation, please refer to L. Monti, *Teoria e principi di politica economica intergenerazionale-Le basi per un Progetto Europeo*, Luiss University Press, Roma 2013

¹⁷⁰ See Eurofound, *op. cit.*, “High unemployment rates are likely to feed into long-term unemployment. This is of particular concern as it significantly increases the risk of long-term exclusion of young people from the labour market and society. In fact, (...) long-term exclusion from the labour market can have dramatic consequences. Young people are particularly vulnerable to the adverse consequences of long-term unemployment; it is recognised that the loss of work experience early on in life, with its implied loss of human capital, is likely to have scarring effects on future labour force participation and earnings. This leads some scholars to claim that youth unemployment poses a ‘wage penalty’ on future earnings” page 15, and again “spending protracted periods in NEET status comes with a wide range of grave and interconnected negative short- and long-term consequences for the individual and society as a whole. Persistent disengagement makes the transition of young people to adulthood difficult and can have long-term scarring effects on their labour market performance both in terms of labour force participation and future earnings. Moreover, it can induce a range of negative social conditions, such as isolation, involvement in risky behaviour, and unstable mental and physical health. Each of these negative consequences comes with a cost. Being NEET is not just a problem for the individual; it is also a problem for society and the economy”, page 149.

incalculable damages on individuals' future career perspectives and income, but also on self-esteem, self-respect and significantly increases the risks of permanent disengagement, social exclusion, disaffection towards democratic institutions, and deviation.

Life satisfaction was predictably affected by the plummeting in employment rates¹⁷¹. All research in this field demonstrates the impact of unemployment on both happiness and life satisfaction: the influence is both direct and indirect, as it affects both people that have lost their job and their families. From 2007 to 2012, the percentage of Italians declaring being very satisfied with their lives fell from 58% to 42%, one of the worst situation in the OECD area. Another factor that relates with subjective-well-being is lower trust in public institutions and in others. Finally, educational attainment plays a role: individuals who have completed tertiary education obtaining a degree show higher levels of satisfaction with life overall¹⁷².

Rising perceptions of inequality among society members have accompanied the lengthening of the economic crisis. Indeed, the recent economic strains Italians suffered because of the downturn may partly explain the widespread loss of trust in public institutions. Data collected by the OECD, the Eurofound, the GINI project and other sources all point out a significant decrease in citizens' trust in the political and institutional system. Even though there are many factors influencing people' confidence in public institutions – contingent ones as elections turnout, for instance, or level of corruption- the most recent wave of the European Social Survey underlines a relevant statistical relation between experiencing economic difficulties and declining satisfaction with the overall democratic process¹⁷³. The association between economic hardships that affected EU countries and lower levels of social capital is mediated by “a weakening trust and raising perceptions of inequality”¹⁷⁴.

¹⁷¹ Unemployment has an extremely negative effects on many aspects of well-being. For instance, see on the point SSFC, “People who become unemployed report lower life-evaluations, even after controlling for their lower income, and with little adaptation over time; unemployed people also report a higher prevalence of various negative affect (sadness, stress and pain) and lower levels of positive ones (joy). These subjective measures suggest that the costs of unemployment exceed the income-loss suffered by those who lose their jobs, reflecting the existence of non-pecuniary effects among the unemployed and of fears and anxieties generated by unemployment in the rest of society”, page 44.

¹⁷² This even after having controlled for employment status and income, see Eurofound, *Third EQLS*, op. cit. This may point having a degree is something that is considered important, irrespectively of the prospects of higher economic attainment, and makes me think of the typical Italian complex of “avere in mano un pezzo di carta” (“holding a piece of paper”).

¹⁷³ See in particular Chapter 8 “Quality of society”, in Eurofound, *Third EQLS*, op. cit., pp. 133-146.

¹⁷⁴ However, the decreased average levels of trust in the EU Member States have been evident since the First EQLS in 2003, as stated in the previous chapter 2.1. This suggest that the economic recession and the difficulties all European citizens are facing in making ends meet are not the only factors influencing trust: something was going on even before the crisis hit families ad households. The “missing” driver of lower trust in others and de-legitimation is probably the spread of inequalities in member states in the 80-90s, as suggested by *GINI – Growing Inequalities' Impacts* project.

This is even more evident for unemployed, as well as people who struggle for making ends meet. In Italy, trust in the government fell from 30% to 28% between 2007 and 2012. This figure is troubling, given that lower levels of political and institutional capitals cause a strengthening perception of social tensions and conflicts. It is true this trend does not involve Italy alone: in the EU27, it was confidence in governments that has plummeted most (from 4.6 in 2007 to 4.0 in 2011). However, also national parliament showed a similar decreasing trend, as all public institutions for which comparable data were available¹⁷⁵. Those data are in my opinion quite alarming, even though they underline critical issues, which have long been known by politicians and Italian society at large, and is likely to be influenced by the highly perceived sense of corruption¹⁷⁶ of politicians and officers. What then is even more worrying is the apparent absence of political and social willingness to solve this long-lasting situation.

To make the point clear, one can consider Italy' low rank in the educational domain, especially when its attainments are benchmarked against the European 2020 key targets¹⁷⁷. Given the EU objective to reduce the percentage of early leavers below 10%, Italy scores quite behind (17%) even though close to the national target of 16%. Italy does not manage to do better even in the second headline target for educations, i.e. to increase the share of the 30-34 years old having completed university (or a degree of equivalent level) to at least 40% in 2020. The same low rank shows up when comparing Italy to the rest of OECD countries, since only 55% of adults aged 25-64 have earned the equivalent of an-high school degree, which is much less than the OECD 74% average¹⁷⁸. Furthermore, it appears that Italian students are not performing so well in maths and science, which in turn are critical skills and predictors of future economic attainment¹⁷⁹.

This is not surprising, when seen in the light of the ridiculous investments in education and budgetary allocations in the educational field (ranging from schooling infrastructures, teachers

¹⁷⁵ Eurofound, *Third EQLS*, *op. cit.*, page 144

¹⁷⁶ CPI stands for "Corruption Perceptions Index", and it is calculated by Transparency International, based on how corrupt a public sector is perceived to be. A country/territory's score indicates the perceived level of corruption on a scale of 0–10, where 0 means that the country is perceived as highly corrupt and 10 means that it is perceived as very honest. Further information available at cpi.transparency.org.

¹⁷⁷ European Commission, "Europe 2020 in your Country. Italy", in *Europe 2020*, last updated on November 2013, accessed on March 2014, http://ec.europa.eu/europe2020/europe-2020-in-your-country/italia/progress-towards-2020-targets/index_it.htm

¹⁷⁸ OECD, "Country Snapshot - Italy", *op. cit.* The statistics available at *OECD Better Life Initiative*, <http://www.oecdbetterlifeindex.org/countries/italy/>, says Italians stay in education for a longer period than the rest of OECD countries (17,1 years between the ages of 5 and 39, against the average of 16,5); however, this is not to be considered a good performance per se, since quality of education matters, too. For this purpose, the OECD runs a program for assessing students' preparations (PISA, i.e. Program for International Student Assessment) based on students' reading abilities, maths skills and knowledge of sciences.

¹⁷⁹ "The average student in Italy score 486 in reading literacy, maths and science, lower that the OECD average of 497", *Ibid.* This consideration makes me further reflect on the different importance that should be deputed between inputs and outputs, and the SSFC's recommendation to stress outcomes more that resources that are employed.

wages, upgrading curricula, lifelong learning, employment of technologies, financial grants and aids to guarantee the universal right to education). And yet, a well-educated and skilled population is one critical prerequisite for maintaining an important role in the present market economy, as well as for ensuring a country's social cohesion and the overall level of well-being. Finally, Eurofound's surveys suggest that higher levels of educational attainments are conducive of trust in others and in the institutional frameworks. As to say, Italy is slowly, but constantly eroding its social, human, and institutional capital altogether, and bad performances in one domain of quality of life implies a downturn in the remaining ones.

2.3 Bes: phenomenology

Stimulated by OECD progress in measuring the well-being of societies and the considerable stir provoked by the Stiglitz Commission Report, the National Council of Economic Labour (CNEL) and the National Institute of Statistics (ISTAT), headed by Antonio Marzano and Enrico Giovannini respectively, joined forces in 2010 and engaged in an ambitious project whose aim was to “*develop a shared definition of progress in Italian Society*”¹⁸⁰. Their joint collaboration stemmed from the common perception that measures to gauge societal progress cannot rely only economic and financial features, but also social and environmental, with particular attention to identify inequalities and sustainability in the long-run.

In order to assess well-being dimensions that are most relevant for Italians, their commitment was to engage experts, civil society, entrepreneurs, social parties and individual citizens into “*open, online public consultations*”¹⁸¹, adopting a deliberative framework to leave the last word to Italians. The result of this inter-institutional initiative was finally issued in 2013, with the first Report of Italian equitable and sustainable well-being (BES).

In April 2011, a Steering Group on The Measurement of Progress in Italian Society was set up within CNEL¹⁸². The Steering Committee worked in close cooperation with a Scientific Committee, set up by ISTAT with the goals of studying better solutions for high-quality statistic indicators and to deliver proposals on key-dimensions of well-being that reproduce the standpoint of Italian citizens. The complete list of 134 indicators was released in June 2012, after 12 domains had been

¹⁸⁰ ISTAT, “CNEL and ISTAT measure well-being: set of indicators to be identified by 2011”, Press Release, 27 December 2010, http://en.istat.it/salastampa/comunicati/non_calendario/20101227_00/

¹⁸¹ *Ibid*

¹⁸² The Group was composed by representatives from CNEL, civil society, ISTAT, and one observer from OCSE; its role was to identify the selection criteria for the indicators that are to better depict the more relevant well-being dimensions in Italy

previously identify by the Steering Group¹⁸³, thanks to the important contributions of individual Italians who answered to the online survey held between October 2011 and February 2012.¹⁸⁴ The online open consultation followed a first a national consultation held in 2011 and carried out by Istat, which has involved a statistical representative sample of 45,000 Italians, who “(...) were asked to rate (0 to 10) the importance of different dimension of well-being.”¹⁸⁵

Such initiatives demonstrates the Italian population was free to express itself over the reasons for creating a tool measuring well-being and over the dimensions that shape it - even though the sample of 2500 individuals who willingly completed the online questionnaire should not be considered representative of the whole population¹⁸⁶. Nevertheless, the mentioned webpage offers the opportunity of directly participating in the discussion on the dedicated blog. The results of this wider consultation were employed to operate the final choice over the equitable and sustainable well-being domains. Then, it was the Scientific Committee from ISTAT's duty to accurately select a high-quality set of indicators, exploiting existing data and disposable national accounts.

This initiative places Italy in line with the most advanced international efforts that are being implemented to develop a comprehensive measure of progress, which would go further and deeper than quantitative metrics on macroeconomic activities, namely GDP¹⁸⁷.

The first Report of Equitable and Sustainable Well-being (BES) was presented on the 11 of March by Giovannini and Marzano in the Deputy Chamber, in presence of the President of the Italian Republic Mr Giorgio Napolitano. It was the first national measurement of economic, social and environmental progress realised thanks to discussions, exchange of views with thousands of citizens, meetings held with institutions, social partners and NGOs, and a never-ending open debate at every level of society, from expert statisticians, academics to every interested parties. In its creators' expectations, Bes indicators “aim at becoming a sort of “Statistical Constitution”, providing a constant and shared point of reference for the Italian society, capable of leading the

¹⁸³ ISTAT, CNEL, *Proposal for domains by the Cnel - Istat Steering Committee on the measurement of progress in Italy*, 26 September 2011, accessed on March 2014, <http://www.misuredelbenessere.it/index.php?id=48>.

¹⁸⁴ All citizens were invited to express their opinion on the 12 domains of well-being identified by the Steering Group through the dedicated web page www.misuredelbenessere.it. More than 2,500 individuals completed the questionnaire.

¹⁸⁵ Eurostat, INSEE, *Report of the Task force. Multidimensional measurement of quality of Life*, Sponsorship group on Measuring Progress, Well-being and Sustainable Development, November 2011, page 28.

¹⁸⁶ In facts, participation was limited, on average, to higher income individuals with significant educational attainment (tertiary education or equivalent) and with the ability to competently make use of technology. Furthermore, it is plausible they were concerned about implementing new measures of well-being from the very beginning, and irrespective of the BES project.

¹⁸⁷ This bold statement is contained in the *Presentation* of the Report by E. Giovannini and A. Marzano. See ISTAT, CNEL, *Bes 2013 - Il Benessere Equo e Sostenibile in Italia*, pp.7-8.

way to achieve the progress which the society itself is looking for.”¹⁸⁸ That is, reflecting upon the way to measure societal progress and which domains concur to define well-being means reflecting on how politics sets its targets and goals and how it evaluates the results of its own policies¹⁸⁹. The growing attention paid to this issue by both national and local authorities, the serious threat posed on Italy by the economic crisis, and the necessity of looking for innovative political perspectives based on equity, sustainability and innovation calls for a new approach on growth and progress. The hope is that, Bes would become an irreplaceable reference for public and political debate, and to be used to steer important democratic choices for the country’s future.¹⁹⁰

Following countless international and national initiatives and recommendations, CNEL and ISTAT Committee too adopted a multi-dimensional framework to capture the most significant aspects of well-being, directing their efforts to identify fundamental domains for the Italian society. Since the concept of well-being is subject to unlimited forms of historic, social and cultural interpretations, both the institutions recognised that every country should engage in a shared definition of its specific values and priorities. This implies abandoning the idea of a ready-to-use statistical indicator, capable of fully representing the goals of a society. Furthermore, it becomes evident that it is the community of people itself that has the right to select those aspects of well-being that should be placed in the light -and therefore put the street lamps consequentially¹⁹¹. The active engagement of Italian society at large guarantees a shared viewpoint on which factors contribute to well-being and improving people’s trust in the effectiveness of their institutions.

I believe the present growing sense of unresponsiveness of national authorities could be halted by a renewed accountability of politicians, measured against the results of their policies. If political choices were informed according to their impact on promoting a shared notion of progress, then democratic institutions may recover the legitimisation they have lost¹⁹². Abundant research show that high levels of inequalities in a society are conducive of lower levels of legitimacy of democratic institution¹⁹³; however, I believe that confidence in democracy can be retrieved, if

¹⁸⁸ ISTAT, CNEL, “Bes 2013. Report on Equitable and Sustainable Well-being. Summary”, in *Il progetto Bes*, 11 March 2013, accessed on February 2014, <http://www.misuredelbenessere.it/index.php?id=48>, page 3

¹⁸⁹ E. Giovannini, *Audizione alla Camera dei Deputati*, *op. cit.*

¹⁹⁰ See ISTAT, CNEL, “Bes 2013. Report on Equitable and Sustainable Well-being. Summary”, page 4

¹⁹¹ I am dragging on the metaphor of the drunk man and the lost keys quoted in J-P. Fitoussi’s book *Il teorema del Lampione*, *op. cit.*

¹⁹² In the Italian case, that loss occurred even before the crisis struck Europe.

¹⁹³ See evidence collected by researchers from GINI project: H.G. Werfhorst, et al., *Political and cultural impacts of growing inequalities*, *op.cit.* In this paper, the authors make the point that “the higher the level of inequality in a given society, the lower the level of political legitimacy and experiencing less inequality is associated with more support for democracy”, page 72. Furthermore, the researchers found confirmation that income inequality is related to people’s overall satisfaction and support of governmental interventions and funding. In countries where there are significant

citizens can feel their governments are truly tackling the issues they perceive as being eroding their future wealth, endangering their opportunities and shrinking their children's share of prosperity.

BES identifies 12 key domains: Environment, Health, Economic Wellbeing, Education and training, Work and life Balance, Social Relationships, Security, Subjective Well-Being, Landscape and cultural heritage, research and innovation, quality of services, and Policy and Institutions.

I will spend some time going through each of the dimensions and highlight the particular importance they held for Italians.

2.3.2 The twelve domains identified by Bes

I HEALTH

Given that health has a substantial impact on virtually every component of human life, it is critical in itself and as an essential pre-condition for individual well-being: without health, none of the other dimensions can be appreciated. With reference to the capabilities and functioning framework endorsed by OECD and the SSFC, bad health poses serious limitations to everyday life, jobs opportunities, behaviour, social relationships, future prospects of individuals and, often, of their families, thus reducing the opportunity set of individuals and their freedom to pursue desired goals.

While Italian –and overall- life expectancy increases, promoting healthy lifestyles becomes increasingly important as the population is constantly ageing. This may result in bigger risks of illnesses for the elders, in increased pressure on healthcare systems and higher cost of current pension system¹⁹⁴. This is the reason why Bes adopted an indicator for healthy life expectancy at birth, which is the number of years a person can expect to live at his or her best shape: of course, this indicator is partly influenced by life expectancy, but other important factors play a role – primarily, education and lifestyles. Moreover, dangerous habits like smoking and drinking abuses have a detrimental effect on future health¹⁹⁵.

Even though health and access to care is defined a “fundamental right of the individual and as a collective interest”¹⁹⁶ in our Constitution, people from the Southern regions and those of lower

levels of income inequality, people report less satisfaction with their life and living standards and there is less political legitimacy.

¹⁹⁴ An open-minding work on this respect is L. Monti latest paper “Reinforcing sustainability through the Generation Gap Tax”, 3 April 2014, Rome, where he advocates the adoption of redistributive fiscal policies in order to share the burden of mitigation and adaptation to climate changes across generations, issuing an “intergenerational loan” for the youngest hardly hit by unemployment and falling living conditions. The loan should be charged on retired people above a certain income, who had the most from growing economies and who left crumbs to the younger, who in turn have to pay the debts of previous generations and to contribute to sustain an unsustainable pension system.

¹⁹⁵ Bes includes indicators of obesity, smoking, alcohol consumption, and sedentary habits, believing these life-styles are conducive of worsening health conditions.

¹⁹⁶ Cost., art 39

social origins appear disadvantaged in virtually all the indicators concerning health¹⁹⁷, a clear sign of persistent inequalities even in the most basic domain of well-being.

II EDUCATION AND TRAINING

In traditional economic theory on growth, progress of societies is primarily driven by human capital, which in turn is determined by the amount of investments in a skilled and educated labour force. However, education, training and the level of competences are also fundamental premises for achieving well-being, a part from the influence they shall hold on production outcomes. Many researches correlate the level of education with getting well-paid and safest job opportunities; moreover, they suggest people with higher educational attainments live longer and better, and this may be due to the fact they have healthier habits and more opportunities to find jobs in a less risky environments. However, education does not only affect opportunities people enjoy in several life domains, but it is also deeply valued in its own right, since it contributes to individuals' inner sense of self-realisation and effectiveness. Further levels of education relate to higher levels of life satisfaction and engagement in civic, political and social activities. All those elements concur to shape future economic, cultural and societal outcomes of a society, making of this well-being dimension the critical element to gauge the future perspective of an entire country.

Unfortunately, even though *“the situation improved between 2004 and 2011 for nearly all the indicators considered, [...] Italy did not manage to close the gap with the rest of Europe and continues to display a series of critical issues”*¹⁹⁸ regarding education. For all the reasons considered, the country has to take immediate actions in order to address the unsolved criticalities in this policy-field.

III WORK AND LIFE BALANCE

*“A job well paid, reasonably secure and corresponding to competences, is a universal aspiration of people and contributes significantly to their wellbeing”*¹⁹⁹. Clear overlapping evidence shows lacking what is perceived as a “good job” –a decent job²⁰⁰- has a negative impact on the level of satisfaction and well-being; in addition, a bad distribution of work commitments hampers the balance between working time and social and family life and thus holds a similar negative impact.

¹⁹⁷ ISTAT, CNEL, *Bes 2013. Report summary*, page 6

¹⁹⁸ ISTAT, CNEL, page 7

¹⁹⁹ ISTAT, CNEL, “03. Work and life balance”, in *List of Bes indicators by domain*, accessed on March 2014 <http://www.misuredelbenessere.it/index.php?id=48>, page 1

²⁰⁰ The International Labour Organisation (ILO) has developed the most influential concept of “Decent Work”, which stemmed from the fundamental recognition that work constitutes the basis of “personal dignity, family stability, peace in the community, democracies that deliver for people, and economic growth that expands opportunities for productive jobs and enterprise development”, see *ILO Decent Work Agenda*, <http://www.ilo.org/global/about-the-ilo/decent-work-agenda/lang--de/index.htm>. ILO is currently working for setting Decent Work Country Programmes in coordination with the family of the UN's bodies and agencies and with national governments.

Beside classical economic indicators (such as employment rate, non-participation rate), Bes attempts to incorporate also subjective aspects as company life, perception of security, and reconciliation between job and family life. One issue of primary importance, given the existing gender inequalities in the Italian society, is the share of unpaid domestic work (doing the shopping, taking care of children and the elders, chores) carried out by women.

IV *ECONOMIC WELL-BEING*

According to the capabilities approach economic resources are not an end but rather a mean by which an individual is able to obtain and to support a specific standard of living. Variables which can help measuring the economic well-being include income, wealth, spending on consumer goods, housing conditions and ownership of durable goods. As for most of the other dimensions of well-being, it is important to go over the mere study of mean or median levels of the chosen indicators, evaluating also the distribution among population: the judgment on the level of material well-being of a society can change if the same overall mean income is equally divided among citizens or it is concentrated in the hands of a few wealthy people.

V *SOCIAL RELATIONSHIPS*

Relational networks to which individuals belong and in whose goals they identify themselves represent a fundamental asset named “social capital”, thus underlying it being a critical resource for quality of life of an entire country. Widely recognised studies demonstrated that a generalized climate of community involvement constitutes “*the soft fabric of societies*”²⁰¹. Social participation (in associations, or volunteering) is beneficial for subjective well-being, but it also affects virtually every individual, because it directly cements social cohesion and fosters civic culture. This dimension encompasses all kinds of interpersonal engagement, from family ties, friendships and neighbourhood solidarity, even to embrace broader scheme of public participation in community-life at large. In Italy, however, much of the interpersonal relations involve very close relatives and friends; beyond being very important affective bonds, in addition those ties play the role of safety nets in times of hardships of whatever nature. Turning to family members for financial aids, other in-kind services and moral support has always been very common in Italian society, where informal networks too often compensate for the lack of institutional grants and benefits. On the other hand, interpersonal trust is not widespread²⁰².

²⁰¹ Eurofound, *Third EQLS*, page 80

²⁰² ISTAT, CNEL, *Bes 2013 – Il Benessere Equo e Sostenibile in Italia*, *op.cit.*, pp. 116 and following. Italy is one of the countries showing the lowest levels of interpersonal trust among OECD’s members, and this determines a widespread sense of insecurity and vulnerability when people are not enjoying strong familiar and friendship ties.

VI *POLITICS AND INSTITUTIONS*

This dimension can be interpreted as a more specific aspect of social capital, to which some scholars refer as “social capital”²⁰³. Trust in the political and institutional framework, both at local and nation level, can be considered a public good per se, and constitutes the basis for social cohesion. The consolidation of the legitimacy of democratic institutions passes through civic and political engagement of citizenship, and it is strengthened by a perceived sense of efficiency of public policies. In addition, Bes considers equity and collective values irreplaceable markers of institutional capital. In spite of the importance of the latter, there is a recognised shortage in the statistical information currently available on equity and shared norms; while on the contrary it is relatively easy to obtain relevant estimates of civic and political participation (voters’ turnout at the elections has traditionally been considered the proxy of political involvement). In particular, it is adverted the need for an indicator measuring the level of perceived corruption, which is considered a well-known Italian sore spots from international observers²⁰⁴.

VII *SECURITY*

It is certain that physical integrity constitutes the basic worry of every individual, and that being the object of a crime or a violent act threatens our very existence. A crime can result in serious physical injuries, even endangering our lives, in economic loss, and in lasting psychological damages. The feeling of subjective insecurity that victims, either actual or potential, experience bring tremendous effects on their well-being: psychological consequences of trauma may hamper everyday relationships, personal freedom, and development of entire areas. Thus, it appears that the most important effect of criminality is on community well-being, since there is no need to be the victim of violence to experience a concrete loss in quality of life. Personal security is part of the foundation of individual wellbeing, while feeling unsafe generates a constant perception of vulnerability and fear, strongly reducing the range of opportunities people enjoy and their perception of objective conditions. For these reasons, Bes supply both objective, as the homicides rate, and subjective indicators to gauge the fear and the perceived risk of becoming a victim²⁰⁵.

²⁰³ The World Bank defines it as “the institutions, relationships, and norms that shape the quality and quantity of a society's social interactions. Increasing evidence shows that social cohesion is critical for societies to prosper economically and for development to be sustainable. Social capital is not just the sum of the institutions which underpin a society – it is the glue that holds them together”. See the World Bank website, “What is social capital”, <http://go.worldbank.org/K4LUMW43B0>, last visited on 1 June 2014.

²⁰⁴ See Transparency international, “Corruption perception Index 2013”, <http://www.transparency.org/cpi2013/results>, where Italy ranks 66 over 177 countries.

²⁰⁵ ISTAT, CNEL, “Bes 07-Security”, in *List of BES indicators by domain*, <http://www.misuredelbenessere.it/index.php?id=48>

VIII SUBJECTIVE WELL-BEING

Describing subjective well-being, that is, an individual's perception of the quality of his life, has high analytical value. A dimension referring to people's perceptions and evaluations in light of their personal circumstances assumes a particular importance in times of socio-economic crisis, since it informs politicians about the gap between people's feelings and what objective indicators are reporting. In the literature the concept of SWB has been generally divided into two aspects, life satisfaction and happiness, which are to be kept distinct as they are only weakly correlated²⁰⁶. The "subjective well-being" domain proposed in BES concerns indeed the former aspect, as to say the cognitive assessments on life in general. This retrospective assessment is the result of "*specific personal standards (expectations, desires, ideals, past experiences, etc) [... and] depends on the achievement of his own objectives, the realization of his own aspirations, the comparison with his own ideals, his own past experiences or results achieved by other significant people in his own life.*"²⁰⁷ Furthermore, Bes includes satisfaction related to more specific areas of life, namely overall satisfaction with leisure time. Nevertheless, in BES there is no indicator to gauge the latter affective dimension, that is, happiness, which registers a momentary state of mind.

VIII LANDSCAPE AND CULTURAL HERITAGE

The Report pays great importance to this dimension, which on the contrary is not present in other accounts on societal well-being²⁰⁸. This is because Italians have repeatedly demonstrated their particular attachment to their cultural and material patrimony, even though it appears we are not doing enough to preserve it, as it would be required given its immeasurable contribution to the enrichment of the entire community, both national and international. The landscape relates to the intimate perception of individuals' experience, quite far from the simple aesthetic contemplation, and deeply affects people's quality of life. On the other hand, cultural heritage is the specific identity that a certain physical area assumes for a given community, defined by a given time and place, and reinforced by the history and the relations of that community itself. Bes encompasses as many as 11 different indicators to evaluate this domain, thus implicitly recognising the unique Italian endowment of natural, historical artistic and cultural beauties – the country boast as far as 49

²⁰⁶ See E. Diener, 1984, *op. cit.*, and E. Diener et al., 2006, *op. cit.*, and the considerations endorsed in the OECD *Guidelines, op. cit.*

²⁰⁷ ISTAT, CNEL, "Bes 08- Subjective Well-being", in *List of BES indicators by domain*, <http://www.misuredelbenessere.it/index.php?id=48>

²⁰⁸ See Table 2.1, entitled "Different components of wellbeing recommended by some reviewed initiatives", page 10, in the European Commission, JRC, *op. cit.* The table compares the different dimensions of well-being sponsored by 5 prominent projects (The Stiglitz Commission, Eurostat Feasibility Study, Wellbeing 2030, the OECD framework and the Canadian Index); however none of these studies addresses landscape and cultural heritage as a major well-being's determinant.

out of the 981 UNESCO's World Heritage properties²⁰⁹. In facts, in the eyes of the Italian community, this dimension of well-being assume a peculiar role, officially enshrined in our Constitution²¹⁰, where in art. 9 the protection of the landscape and the "historical and artistic heritage of the Nation" is considered one supreme duty of the Republic.

The elements considered by the Report try to estimate the contribution of the landscape and cultural heritage to both personal and collective well-being, also assessing citizens' perceptions and worries for the present state of their surroundings: "*18.3% of citizens are dissatisfied by the landscape where they live and 20.4% are concerned by the impoverishment of natural resources*"²¹¹.

IX ENVIRONMENT

In order to improve current and future generations' well-being, it is fundamental to promote human activities that bear the slightest impact on natural conditions and ecosystems. Being able to foster economic development without draining natural resources and impoverishing biodiversity is sign of a wise and intelligent community of people. In addition, emphasizing the importance of the environmental resources allows the whole society to profit from the tangible and intangible goods produced and released by the Nature, thus contributing to reduce inequalities in our society. Environmental conditions hold both a direct and indirect effects on the well-being of all components of society: disposing of unpolluted water, clean air and uncontaminated food it is crucial for a healthy life. Furthermore, much concern in recent years regard indirect transformations of ecosystems because of the greenhouse effect. Climate changes and consequent natural disaster, as we have already seen with an increasing in floods and heavy rains, the so-called cloudburst, are increasingly affecting Italians life. Our society will have to learn how to deal with extreme natural phenomena never experienced. Some data are however encouraging: "*the use of energy from renewable sources is increasing, rising from 15.5% of total energy use in 2004 to 22.2% in 2010, above the EU average of 19.9%. Moreover, the use of national material resources fell, (...) anthropic emissions of climate-altering gases from industrial activities and family uses fell: from 10 tonnes of CO2 equivalent per capita in 2003-2004 to just over 8 in 2009...*"²¹².

X RESEARCH AND INNOVATION

Research and innovation hold an indirect influence on well-being, since they pave the way for further social and economic development. In terms of investments in R&D, propensity towards innovation, effective employment of technologies in the productive process. Regarding investment

²⁰⁹ UNESCO, "World Heritage List statistics", 2013, accessed on 10 May 2014, <http://whc.unesco.org/en/list/stat>

²¹⁰ Art 9, Cost.

²¹¹ ISTAT, CNEL, *Bes 2013. Report Summary*, op. cit., page 13.

²¹² *Ibid* page 15

in research, and the number of people studying or employed in the high-tech sectors, there is abundant evidence that shows how Italy is literally lagging behind other advanced countries²¹³. While in the short-term this may jeopardise its competitiveness in comparison with other countries, provided that innovation has significant returns on other well-being domains, in the long term Italy's poor performances in all these indicators may be conducive of lower levels of societal progress. The actual employment of research is not an objective in itself, but it contributes to the "cultural, civil and economic progress of a country to which is linked moral, civic and economic well-being"²¹⁴. The indicators selected by Bes refers to two sub-categories: the diffusion of technological knowledge, and the creative process that brings to innovation.²¹⁵

XII QUALITY OF SERVICES

High-quality public services improve citizens' well-being and facilitate everyday life, thus making it easier to dedicate one's time to more pleasant activities, as engaging with others. Furthermore, effective and prompt delivery is a fundamental tool to achieve social inclusion and to prevent pockets of deprivation among the most vulnerable sub-groups. In current times of hardships, it becomes crucial to consider both equity and distribution issues in accessing services, with focus on lower-income individuals, who cannot resort to alternative providers. Scarcity of services guaranteed by the State, or low degree of their effectiveness, are de facto the first step towards material deprivation and social marginalisation. In the context of public expenditure cuts, politicians have to bear in mind how important it is to reduce inefficiencies and unresponsiveness, and that "improving quantity and quality of services contributes directly to the reduction of social exclusion and poverty."²¹⁶

For reasons of data availability, the choice of the services to evaluate fell on three areas: social services (health and social care), public utilities (energy, water and waste) and transportation. What

²¹³ Italy is not doing well compared with other European countries in terms of GDP expenses dedicated to R&D, even though its key target for the Europe 2020 strategy has been set considerably lower than the rest of EU countries (1,6%, compared with the average target of 3%). The indicator used to gauge the impact of knowledge workers on employment is "the percentage of persons employed with university education (ISCED 5-6) in scientific-technological occupations (ISCO 2-3) on total persons employed". For the year 2011, only the 13.3% of the Italians are employed in scientific-technological jobs, against the European average 18.8%. The numbers that the Bes Report outlines place Italy in the lowest rank also for number of patent. See ISTAT, CNEL, *Bes 2013 - Il Benessere Equo e Sostenibile in Italia, op. cit.*

²¹⁴ ISTAT, CNEL, "Bes 11-Research and Innovation", in *List of BES indicators by domain*, <http://www.misuredelbenessere.it/index.php?id=48>

²¹⁵ There is one indicator reported to be currently under study, and which I consider of paramount significance as a proxy of the future of Italy in terms of human capital, namely "highly qualified human resources working abroad". This is calculated as the percentage of graduates and PhD graduates working abroad on total labour force with university education. This number reveals an illness of the country, rather than an enriching aspect, since it dramatically highlights how the brightest and most qualified Italian youth is de facto often forced to emigrate to find a job corresponding to its abilities and expectations. See ISTAT, CNEL, "Research and innovation", *List of BES indicators by domain (ENG)*, <http://www.misuredelbenessere.it/index.php?id=48>

²¹⁶ ISTAT, CNEL, "Bes 12-Quality of Services", *List of BES indicators by domain*, <http://www.misuredelbenessere.it/index.php?id=48>

constitute a “good” service is very difficult to define, and Bes makes use of the recent work of the Department of Public Administration (DFP, 2010) to define quality in terms of four key dimension: accessibility, timeliness, transparency and effectiveness. The extent to which citizens are satisfied with the present state of services may be a good proxy for the quality of the service itself.

2.3.2 Cross-cutting issues and possible criticism

Finally, the joint CNEL-ISTAT Committee delivered some crosscutting issues to consider when selecting the most appropriate indicators for each aspects, recalling a few previous OECD and SSFC’s methodological and theoretical caveats.

Firstly, all domains should contain references to differences in “gender, generation, origin, ad geographical difference”²¹⁷, that is, collecting data on relevant micro-dimension in order to better design targeted policies that aim overcome inequalities. In fact, as Bes itself says in its name, progress should be “equitable”, and a rich-set of micro data could allow considering groups that are disadvantaged in several domains²¹⁸. Huge regional differences, in particular, remain Italy first sore spot: the Southern regions appear incapable of bridging the gap with the North of the country, despite this problem has been widely recognised for some time by now. Gender inequalities in several life domains are a long-recurring issue; remarkably, the field where women appear to be especially under-represented is politics. Gender gap in the national and in regional parliaments is still marked: in the political elections of 2008, only 20.3% of the elected were women, and the number of seats they hold in in regional parliaments’ is even lower (12.9% in 2012). The glass ceiling awaits them in the employment domain too, and the access to top-positions –and consequently, to top-earnings- is almost precluded to the fair sex. Data from August 2012 say only 10.6% of components who step into boardrooms are females, even though some improvements are actually visible - that figure was 4,5% in 2004-, thanks to the so called “pink quota” law that requires a certain number of seats reserved for female members in the boards of state-owned companies²¹⁹. Indicators seem to point the first cause of this enduring situation is the uneven distribution of family work, and the figure that says it all on this issue is the ratio between the employment rate for women with pre-school age children and for women without children: 72%.²²⁰ Further investigations should be directed towards social discrepancies²²¹: while workers

²¹⁷ ISTAT-CNEL Coordination Committee of the Inter-Institutional Initiatives CNEL/ISTAT on the measurement of progress in Italy, *Proposal for domains*, 26 September 2011, <http://www.misuredelbenessere.it/index.php?id=48>

²¹⁸ See Eurostat, *Feasibility Study* for further reflection over micro-level data analysis and employment, page 36

²¹⁹ ISTAT, CNEL, *Bes 2013 – Il Benessere Equo e Sostenibile in Italia*, *op.cit.* page 139.

²²⁰ ISTAT, CNEL, *Bes 2013. Report Summary*, *op. cit.*, page 18.

²²¹ CENSIS, “Crescono le disuguaglianze sociali, il vero male che corrode l’Italia”, *op. cit.* “Today, in the midst of the crisis, the value of a manager’s assets is 5,5 times greater than a worker’s, while 20 years ago it was 3 times greater. (...) The wealth of an independent worker is 4.5 times greater than a worker’s.” (my translation).

experienced a diminishing wages in real terms (-17,9%), the top-earners gain purchase power (1,5%). It is evident the two ends of the social scale are growing distant.

Secondly, the Steering Commission suggests that objective and subjective indicators should both be included in each domain, if possible, in order to get an encompassing picture to well-being. Subjective indicators are indeed very useful tool to assess widespread dissatisfaction with present conditions against data reporting overall policy effectiveness. An essential characteristic for a democratic system is its ability to take prompt actions were those are most required, that is being responsive and accountable. This is the reason why a government ought to know when the distance between citizens' perceptions of their own situation and accounts from official agencies is growing, and a comparison between objective and subjective metrics can provide the right answer.

Lastly, the Commission stressed the importance of considering equity and accounting for distributional aspects. This point is strictly repeated to the first one, namely using micro-level data: a precise map of unfair distribution is crucial to assess whether averages deviate significantly when comparing sub-groups; for instance, whatever immigrants have on average lower life expectancy than the whole population.

Bearing the conviction that a single indicator would not be a wise choice to address individual well-being, Bes focuses on the most relevant dimension for the Italian society. Each of the 12 macro-dimension selected displays a dashboard of variables, for 134 indicators in total. This certainly a great deal of information, and the Commission is thinking of "the creation of composite indicators for domains"²²². Admittedly, this amount of indicators could impede a well-aware reading of the results by common people.

Bes displays a dashboard of indicators, divided into 12 dimensions, which altogether depict Italians' current well-being. Nevertheless, I believe something of utmost importance is missing in this scheme. I am referring to a forward-looking perspective, as a vision embracing the resources' endowments, or stocks, that the country currently possesses, the rhythm of their irreversible depletion and the presence of investments to maintain them above an acceptable threshold. In short, Italy is not appropriately monitoring whether it is endangering its future development running unsustainable policies²²³. At one point, the Bes Report mentions a "Note for the future"²²⁴ where

²²² ISTAT-CNEL Coordination Committee, *Proposal for domains*, *op. cit.*

²²³ A very comprehensive account on the issue of sustainable development is the one that can be found in K. J. Arrow, P. Dasgupta, Law H. Goulder, K. J. Mumford and K. Oleson, "Sustainability and the measurement of wealth", in *Environment and Development Economics*, volume 17, June 2012 pp 317-353, published online 08 May 2012. The authors review the state of art on the concept of intergenerational sustainability and they advance their own conceptual framework, defining sustainability of a country in respect in of its capacity to provide "comprehensive wealth" to future generations. A country's growth is thus "sustainable at a point in time if its wealth at constant shadow prices were non-

the authors recognise the absence of a measuring tool of such, and where commitments are then made towards in-depth analysis on intergenerational well-being, which would make sure Italians will enjoy a decent level of wealth in the future. The Report expresses a clear preference towards a “capital approach” that would encompass not only stocks of natural resources, but that would also account for sustainability in the use of economic, physical and human capital as well²²⁵. An approach of this kind would require a comprehensive account of the wealth of the country, establishing a balance sheet with assets and liabilities entailing financial, natural, social aspects, and the overarching democratic capital²²⁶. In addition, it is hoped that following studies will evaluate the presence of risk factors, that is, if current trends and phenomena are predicted to endanger future well-being, particularly the health dimension. Bes has already adopted this “risk approach” while considering how dangerous life-styles and behaviour could affect the most basic domain, precisely health, provided that smoking habits, alcohol abuses, obesity and bad nutrition are very likely to threaten quality of life in the near future.

2.4 Italy’s Economic and Financial document, and some considerations over the economic models leading the EU

When Enrico Giovannini declared BES could prove an effective tool for policy-makers and that its employment could impact significantly over citizens’ perceptions and evaluations²²⁷, he was probably expressing his hope more than his forecasts. Surprisingly enough, the Italian Government mentioned Bes as an important benchmark for Italian policies in the latest 2014 National Reform Program²²⁸, contained in the Economic and Financial Document (EFD). This mention did not go

decreasing at that time.” The indicator of this capacity is a comprehensive measure of wealth – one that includes both marketed and non-marketed assets.” The assets the paper takes into account are four: human capital, natural capital, reproducible capital and health capital, and attempts to measure changes in the value of those assets (their shadow process), as well as the consumption rate of the amount of capital.

²²⁴ ISTAT, CNEL, “Bes 2013. Il Benessere Equo e Sostenibile in Italia”, 11 March 2013, accessed on February 2014, <http://www.misuredelbenessere.it>, page 13

²²⁵ According to K. J. Arrow et al, “intergenerational wellbeing as the object of interest, their presumption is that at any given date social wellbeing is not only the wellbeing of the current generation, but also the potential welfare of the generations that are to follow. The point is to ask whether the society under study is functioning sufficiently well to ensure that some measure of intergenerational wellbeing does not decline.”

²²⁶ I am following here the suggestion of J-P Fitoussi, *Il Teorema del Lampione, o come mettere fine alla sofferenza sociale*, Einaudi, Torino, 2013. According to the author, such an integrated accounting system should encompass both intangible (degree of connection to democracy, social capital) and tangible assets (natural capital, private and public capital, human capital), and account for public and private debts on the liabilities side. Very interesting are also the following considerations about democracy being a “intangible”, page 206-207 (my translation) and the inherent contradiction rising in inequalities and the latter’s value.

²²⁷ E. Giovannini, *Audizione*, op. cit.

²²⁸ Ministero dell’Economia e delle Finanze, *Documento di Economia e Finanza 2014. Sezione III - Programma Nazionale di Riforma (Parte I) - La strategia nazionale e le principali iniziative*, Presented by the President of the Council of Ministers Matteo Renzi and the Minister of Economics and Finance Pier Carlo Padoan, approved by the Council of Ministers on April 8th 2014, accessed on 18 April 2014, available online at www.mef.gov.it

unnoticed for the very importance of the document itself, and for the role it has assumed in assessing Italy's attainments towards the European Union's objectives.

Indeed, the EFD constitutes the fundamental strategic plan for the Italian economy and finance in the short-medium term.²²⁹ Provided that the recent economic crisis made clear that Member States' destinies are bound together, and that budgetary and monetary policies of one State may affect all the others, European leaders have decided economic policies of each member should be considered as a common matter. This consideration brought to strengthen significantly the Stability and Growth Pact (SGP)²³⁰, and a framework was established that allows a multilateral financial policies coordinator and surveillance mechanism, especially for the Eurozone. First implemented in practice during 2011 the new economic governance ensured by the so-called European Semester²³¹ makes it possible to assess Member States' economic and budgetary situation, providing that they are suitably covered by preventive monitoring.²³²

Moreover, to comply with the new European calendar for the Member States' economic policies, Italy –as all member states- annually undergoes the strict control of its Stability Program and National Reform Program by the EU authorities in Brussels²³³.

Even though mentioning the BES as an important initiative for measuring well-being is not a small matter, the rest of the National Reform Program²³⁴ does not devote any attempt to promoting this

²²⁹ Established in 2011 with law that substituted the previous Programming Economic and Financial Document, this document seeks to respond to the new European regulations for the coordination of Member States' financial and budgetary policies. It is divided into three sections: the National Reform Program, The Stability Program and the Analysis and Tendencies of Public Finance . The official index of the financial documents is available at <http://www.mef.gov.it/en/doc-finanza-pubblica/def/index.html>

²³⁰ The Stability and Growth Pact (SGP) is a framework for the coordination of national fiscal policies in the European Union. It was established to safeguard sound public finances. The mechanism was reinforced with the 2011 reform (the so called six-pack).

²³¹ The 2011 reforms of the SGP unify the control of both budgetary and economic policies together under the European Semester, a framework for the surveillance of Member States' economic and fiscal policies, for sharing information and allowing the EC to intervene rapidly in case of excessive deficit or macroeconomic unbalances.

²³² It is worthy to say the SGP has also established a corrective arm, realised through the Excessive Deficit Procedure: had a euro area Member to fail to comply with the policies prescribed by the Pact, fiscal sanctions will be imposed

²³³ Those two documents (the first one on budgetary, the second on economic policies) are presented by all member states late in April at the European Commission, which examines the extent to which they adequately respond the Annual Growth Survey and the Alert Mechanism Report (documents presented by the EC in November and discussed by the Council). Then, it proposes country specific recommendations, if it deems it necessary, which may be approved by the European Council. Every step is further complicated by bilateral meetings, discussion at the European Council. Actually, it seems a paradox that the Institution that is least involved in those discussions is the democratic institution by definition, namely the European Parliament!

²³⁴ Bes was mentioned in the National Reform program. The latter was presented to the European Commission on the 22nd of April, in compliance with the timing of the new surveillance mechanism implemented by means of the Six Pack. On the 2nd June, the EC released the Recommendation for a Council Recommendation on Italy's 2014 national reform programme, and apparently a EDP will not be opened. See European Commission, *Recommendation for a Council Recommendation on Italy's 2014 national reform programme and delivering a Council opinion on Italy's 2014 stability programme*, SWD(2014) 413 final, Brussels, 2 June 2014, available online at http://ec.europa.eu/europe2020/pdf/csr2014/csr2014_italy_en.pdf

index as a benchmark for measuring Italians' conditions in the present recession. While highlighting that the economic crisis had a severe impact on Italy, the major concern of this document is to present "concrete plans to enhance potential growth over the medium term and the implementation of a number of bold structural reforms"²³⁵. In particular, the Italian Government announced its intention invoke the "exceptional circumstances" clause²³⁶, in order to pay back the debt the State owed to the enterprises, which will cause an increase of the debt/GDP ratio in 2014 and a deviation from the medium-term objectives of reducing the deficit ratio annually by 0,5%.²³⁷

Thus, the rationale of the National Reform Programme is to present a strong and credible reform calendar for the next years of office, that is, to impress European institutions and partners with an extremely ambitious and strict plan²³⁸ for promoting economic growth, curbing public debt, and an efficiently use European regional and cohesion funds. The framework in which to take concrete action are the priorities entailed in the Europe 2020 strategy (as expressed in the seven flagship's initiatives). However, the most stringent and declared obligation for Italy is not restoring the welfare that its citizens have lost during the crisis and promoting unconventional measures, but rather respecting the Stability and Growth Pact and its rules, expressed in GDP per capita growth. In effect, the National Reform's foundation is the principle of sound economic finances, and its fundamental premises are the respect of the 3 % deficit/GDP and the 60% debt/GDP ratios²³⁹. No growth is possible, according to the program, whether it is accompanied or not by the respect of these two pillars. Austerity measures are said to be necessary, though not forever. Consequently, cuts in public expenditures are considered critical "as investors are carefully watching us"²⁴⁰.

²³⁵ From the letter addressed to S. Kallas, Vice President of the European Commission, from P. C. Padoan, Italian Ministry of Economic and Finance, Rome, 16 April 2014.

²³⁶ This clause, contained in the Italian Balanced Budget Law, states that, in order to address 'exceptional circumstances', the Italian Government can temporarily deviate from its budget target as defined by the balance structural budget and the intermediate MTOs, if it deems it necessary. The Government has to inform the EC of its intentions, and then submit a report to the Parliament. The intentions of the government is to diverge from the previously set 2014 MTO, and to converge again in 2015, finally reaching the nil deficit in 2016 in compliance with the set deadline.

²³⁷ According to the so-called *Fiscal Compact*, contracting parties have to ensure convergence towards the specific medium-term objective (MTO) with lowering limit the structural deficit of 0.5% of GDP annually (1.0% of GDP for Member States with a debt ratio significantly below 60% of GDP). There is an escape clause though, that allows a country to depart provisionally from the MTO for exceptional circumstances.

²³⁸ There are three main sectors of intervention individuated in the 2014 NRP: institutions, economics and educational. For the first policy-sector, the reforms are aimed at amending in the Italian Constitution and thus revising the bicameralism it entails and the role of the Senate; re-thinking the federalism as conceived in Title V of the Constitution, and abolishing the intermediate territorial body of the province; finally a new elector law. As far as the economy is concerned, the main goal is boosting concurrence and modernising the country, through structural spending review, an integral reform of the public administration, simplifications of regulations, bureaucracy and fiscal regulation, and a decisive intervention in the labour legislations. Thirdly, a massive plan for investments in education in infrastructures.

²³⁹ These limits are enshrined in Art. 126 of the Treaty and in Protocol 12 accompanying the Treaty in order to ensure sound public finances necessary for the functioning of the Economic and Monetary Union (EMU).

²⁴⁰ Ministero dell'Economia e delle Finanze, *Documento di Economia e Finanza 2014. Sezione III - Programma Nazionale di Riforma (Parte I) - La strategia nazionale e le principali iniziative*, op. cit., page IV.

This latter concern and all the proceedings I have illustrated above show how at the European level, the inescapable policy-framework is still based on a country's budget and economic performances, determined by inflation rate, spread²⁴¹ and of course, GDP- the denominator of all the metrics that matter. This central focus became European authorities' only concern in trying to steer the Eurozone out of the financial and economic crisis, and Member states with week-perceived economic fundamentals were "invited" to adopt strict austerity measures in order to reduce sovereign debts and financial deficits. The financial crisis came from overseas and it mutated in Europe as sovereign debt crisis and bank crisis²⁴². International investors started to doubt the actual capacity of some states, as Greece, to finance their public debts; consequentially, creditors demanded an enormous risk price to reacquire it²⁴³. Portugal, Ireland, Spain and Italy closely followed, and they were all forced to ask herculean sacrifices to their population in order to restore financial markets' confidence, and make the cost of sovereign funding less prohibitive.

2.4.1 Bad policies lead to bad outcomes

Most economists would agree in principle that the stability of a country strongly depends on the soundness of public finance, its overall macroeconomic situation, and the prospective of economic growth. Now, almost all experts would agree that the actions adopted for managing the crisis had disastrous effects on the welfare of Europeans. To tackle a demand stagnation, European Member states –willingly or not- resorted to severe austerity measures, and those growth-enhancing policies proved to be a failure when taxpayers had to face Governments cutting public spending and banks that did not lend to families and enterprises²⁴⁴. What really happened is that the macroeconomic principles that guided European authorities amidst the crisis showed their cluelessness regarding the reality of the situation. European leaders and central bankers found themselves facing what was a major flaw in the models they believed in as Gospel. "Bad models lead to bad policy: central banks, for instance, focused on the small economic inefficiencies arising from inflation, to the exclusion of

²⁴¹ This concept became quite familiar to Italian during the "terrible summer 2011", when the solvability of our public debt was seriously questioned. Suddenly, the entire country's fell under the spell of the spread, and any individual's first thought, once awake, was "how much is the spread going to be today?".

²⁴² It would be impossible for me to provide an in-depth analysis of the cause and the effects the than the crisis had on Europe and one the Eurozone. For the purpose of this paper, I will limit the issue to a simple sketch of the main actors and phenomena that took place in Europe. The clear analysis of J-P Fitoussi will be the guiding line when addressing the events that occurred then. See J-P Fitoussi, *Il teorema del lampione, op. cit.*, and in particular, the central chapters of the book.

²⁴³ This is a perfect example of the role of expectations in economics and the self-fulfilling prophecy in causing, *de facto*, countries' insolvencies. In fact, every country, even the most virtuous one, would rapidly turn insolvent if the creditors become persuaded it will not be able to repay its debt, no matter how sound its finances are.

²⁴⁴ The economic crisis frustrates every effort spent in strengthening public financing and reducing imbalances: restrictive policies brought to a recession, thus reducing fiscal contribution, increasing unemployment and poverty rates and requiring social cost from the State. Enterprises bankruptcies aggravated banks' accounts, which in turn reduced lending to the real economy, causing other enterprises facing credit difficulties to go bankrupt.

the far, far greater inefficiencies arising from dysfunctional financial markets and asset price bubbles. After all, their models said that financial markets were always efficient”²⁴⁵. Few feared that the most dynamic market sector ever, the financial one, could have gone too far and overpassed every limit that should have been imposed by rationality, whether not by governmental regulation. Banks went bankrupt, or were bailed out thanks to governmental aids, which in turn had a very high cost for citizens, the ultimate payers of the moral hazard. “To date 1.6 trillion Euro, which is almost 13% of Europe's GDP, has already been used to support the banking sector. And I'm not including all the guarantees, so can anyone really believe that it will be easy to get out of the crisis when around 13% of our GDP global in Europe has been used for the financial crisis?”²⁴⁶ These words have not been pronounced by a provoking Eurosceptic, but from the EC President Barroso himself.

In particular, in the wave of the crisis and in a context of austerity, many head of governments resorted to cut public expenditure and social services while attempting to relieve the pressure on public deficit. At the same time, however “demand for these services can be expected to have increased as a consequence of the impact of the crisis on people’s health and social and financial needs”.²⁴⁷ While the present recession cannot be entirely attributed to fiscal rigour and budgetary controls, however virtually everyone has now recognised restoring public finances and reducing debts does not have to jeopardise growth, and that austerity measures should not be implemented at all costs. Even before it became evident, many economists²⁴⁸ had suggested that austerity measures, applied in a situation of an already severely depressed economy, were very likely to worsen the situations. Facts proved they were quite right: those policies made the debt even more worrisome by way of the denominator effect, (i.e. reducing growth) and resulted in a sluggish demand, as Europeans citizens have no money to spend, no money to borrow, no money to save²⁴⁹.

²⁴⁵ J.E. Stiglitz, “Needed: a new economic paradigm”, *op. cit.* In this article, the Nobel Prize for economics is rather hostile towards the dominant economic paradigm, especially for its assumption of full employment. “Right now a lot of people are just enjoying an extra dose of leisure; why they are unhappy is a matter for psychiatry, not economics”.

²⁴⁶ J. M. D. Barroso, *Speech by President Barroso - Europe 2020: A blueprint for the Post-Crisis World*, Europe 2020 Summit of the Lisbon Council/Brussels, 7 March 2013, SPEECH/13/684. The principle that, when bankers and investors make mistakes, the taxpayers have not to pay the bill seem to have been definitely accepted and enshrined in the forecast of the Banking Union, according to the latest proposal by the EC.

²⁴⁷ Eurofound, “Third EQLS”, page 114

²⁴⁸ See for instance Paul Krugman’s opinion about measures adopted in Europe. In his view, policy-makers in Europe trusted the “fairy of confidence”, that is, a magic force that would have restore economies by cutting the interests on governmental debts. See P.Krugman, “The Death of a Fairy Tail”, *The New York Times*, 29 April 2012, available online at http://www.nytimes.com/2012/04/27/opinion/krugman-death-of-a-fairy-tale.html?_r=0

²⁴⁹ “All around Europe’s periphery, from Spain to Latvia, austerity policies have produced Depression-level slumps and Depression-level unemployment; the confidence fairy is nowhere to be seen, not even in Britain, whose turn to austerity two years ago was greeted with loud hosannas by policy elites on both sides of the Atlantic ... we’re now living in a world of zombie economic policies — policies that should have been killed by the evidence that all of their premises are wrong, but which keep shambling along nonetheless. And it’s anyone’s guess when this reign of error will end”. *Ibid*

The recent European elections²⁵⁰ gave final proof that citizens' concerns have been long ignored by political authorities. The former are asking for a new Europe, less obsessed with fiscal stability and with sovereign debt, and more actively engaged in promoting equality, rights and welfare. "Citizens are frustrated. They are anxious. They feel their way of life is at risk. The sense of fairness and equity between Member States is being eroded. And without equity between Member States, how can there be equity between European citizens?"²⁵¹

²⁵⁰ Europeans citizens voted for electing the EPs between 22 and 25 of May. For further information about the turnout and the compositions of the new EU (the opening session will be the 1st July), please visit the dedicated webpage <http://www.results-elections2014.eu/en/election-results-2014.html>

²⁵¹ Again, very hard words pronounced by EC President Barroso himself. J. M. D. Barroso, *State of the Union address 2012*, Plenary session of the European Parliament, Strasbourg, 12 September 2012.

CONCLUSION

GDP is rightly considered an important indicator of how well a country's economy is doing. "*Due to the link between economic growth and aspects of quality of life such as employment and consumption, GDP is partly regarded as a proxy indicator of progress and well-being*"²⁵². Nevertheless, GDP was never intended to measure well-being, since it was not design to encompass measures regarding the typical family living conditions, future generation well-being, sustainability, environmental quality, social cohesion, or how satisfied people are with their life either as a whole or with specific aspects of it. It is an aggregate measure of a country's market activity, and as such it does not tell anything about how wealth is distributed amongst people and if inequalities are threatening social cohesion. More importantly, GDP leaves out all the fundamental domains of our lives that are not traded and sold, but to which we attach the greatest value²⁵³.

Of course, it is extremely difficult even to conceive such a complex notion as progress or development. Philosophers, scientists, and those leaders that are in charge of a community of people have proposed many definitions of well-being; however, what makes a life truly worthy is ultimately a normative decision, which only the individuals can make.²⁵⁴ A single figure cannot reflect a multi-faced phenomenon such as progress of societies, and no economic figure could ever embody what a single individual feels and experiences across his or her lifetime. However, the impossibility of a thorough understanding of well-being and the consequent vain attempt to capture it into some sort of once-and-for-all recipe should not hamper the quest for improving people's conditions.

The fact that there is not a magic mathematical formula that could asses quality of life in all its relevant domains implies that is up to the collective body of representatives to define which are their priorities, as a community of people living in a given place and time. Then, they could decide

²⁵² Eurostat, *SIGMA - The Bulletin Of European Statistics*, page 14

²⁵³ It was President J. F. Kennedy who said these inspiring words in 1968, that one ought not to forget: "Our Gross National Product, now, is over \$800 billion dollars a year, but that Gross National Product - if we judge the United States of America by that - that Gross National Product counts air pollution and cigarette advertising, and ambulances to clear our highways of carnage. It counts special locks for our doors and the jails for the people who break them. It counts the destruction of the redwood and the loss of our natural wonder in chaotic sprawl. It counts napalm and counts nuclear warheads and armored cars for the police to fight the riots in our cities[...] Yet the gross national product does not allow for the health of our children, the quality of their education or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages, the intelligence of our public debate or the integrity of our public officials. It measures neither our wit nor our courage, neither our wisdom nor our learning, neither our compassion nor our devotion to our country, it measures everything in short, except that which makes life worthwhile". See more at *John Fitzgerald Kennedy Presidential Library and Museum*, <http://www.jfklibrary.org/Research/Research-Aids/Ready-Reference/RFK-Speeches/Remarks-of-Robert-F-Kennedy-at-the-University-of-Kansas-March-18-1968.aspx>, last visited on 30 May 2014.

²⁵⁴ History taught us that, when "illuminated" political leaders and religious guides have tried to identify the highest collective well-being with a value or a project of living, many people have paid with their own life their heresy.

how to better address those priorities and which statistics are more relevant to assess societal progress, according to the standards they have agreed upon. Indicators are only second-comers: they exist to point at something, and that *thing* they point to should be the overriding concern.

The European Commission “GDP and Beyond” initiative and its following development, the Stiglitz Commission Report, the OECD How’s Life and Italian Bes, were all aimed at better understanding and better measuring progress. Their recommendation for valuable metrics that go beyond monetary aspects of people lives were partially met at the institutional level with the launch of the Europe 2020 strategy, whose aim is focused on smart, sustainable and inclusive growth.²⁵⁵

What I personally auspicate for the immediate future is a comprehensive evaluation of Europeans’ well-being on a regular basis, accounting for both material living conditions from a household perspective, and an inner perception of the current situation and confidence in the institutional capabilities and responsiveness of authorities²⁵⁶. Furthermore, Europe should concentrate its efforts in establishing a threshold for each capital asset that is necessary for future development, trying to cope with the issue of sustainable growth and maintaining an acceptable level of future generation’s well-being. These two aspects of well-being, namely present and future, call for a separate dissertation²⁵⁷.

Unfortunately, I could not analyse well-being from an inter-temporal perspective in this reserach, that is, to check whether societies are currently meeting the sustainability criterion. While there is an incredibly large body of studies and theories on sustainability, the obstacles to the creation of

²⁵⁵ This innovative strategy, however lacking in subjective assessments of very important items, it is undeniably focused on dimensions such education, reducing poverty, enhancing social inclusion, enlarging opportunities for the younger, that have been widely ignored by classical economic theories. However, an overarching political strategy is not enough, if European leaders do still trust the very same macroeconomic models that proved unable to prevent the crisis –and maybe that have led to the crisis. If the growth they aim to is measured by an increase in Gross Domestic Product, but however GDP is not the right measure for progress of the society, then we have to re-consider our metrics.

²⁵⁶ Progresses have been made for evaluating the former with a very important role played by the European Quality of Life Survey and the EU-SILC, while the latter misses a more stable assessment and compels surveys and interviewers to be very precise and perfectly harmonised in each of the Member States. On the issue of data comparability and the need for harmonisation, see “Annex 1: Survey Methodology” of the *Third European Quality of Life Survey*, where a big deal of attention is dedicated to realise the best possible translation of surveys’ questions regarding subjective evaluations such us happiness, satisfaction and perception of uncertainty for future. Even the *OECD Guidelines* highlights the fact that question wording may partially influence respondents and thus invalidate the survey (*OECD, OECD Guidelines, op. cit.*, pp. 71 and following). In facts, each language reflects the differences and peculiarities embodied in the culture of its speakers, and thus some pre-tests on question understanding and adjustment were necessary whether we expect comparable results across European countries. Thorough quality checking was conducted in each stage of Eurofound survey, from the questionnaire’s design process to the completion of the fieldwork.

²⁵⁷ Recommendations’ by the SSFC repeatedly stressed the impossibility of gauging together well-being and sustainability: “To take an analogy, when driving a car, a meter that weighed up in one single value the current speed of the vehicle and the remaining level of gasoline would not be of any help to the driver. Both pieces of information are critical and need to be displayed in distinct, clearly visible areas of the dashboard”, *Report*, page 77

some sort of account of the stocks of capital asset are critical²⁵⁸, stemming from the fundamental considerations we are dealing with future projections, that is, with unavoidable uncertainty. Which are the resources that should be maintained for future well-being? In effect, sustainability cannot refer exclusively to environmental assets, as it also concerns economic, human and social elements. Is it possible that some capital could substitute the ones that are likely to be gone quite soon? Moreover, how should we measure the levels and estimate changes in the stocks of all types of capital? Can some sort of pecuniary value be attached to these stocks?²⁵⁹ Notwithstanding these uncertainties, I believe indicators of sustainability, imperfect as they may be, may still provide valuable information to policymakers, and attempts in this sense should be encouraged²⁶⁰. “Sustainability is not or should not be a matter of financial pressure, i.e. of short term considerations, but rather a concern of intergenerational fairness: we do not want to let future generations pay our share”²⁶¹.

Finally, there is abundant evidence that shows that it is not true that people are perfectly rational and they know what is the right choice for them²⁶². However, they do perceive what their needs and aspirations are, though they may not be able to find the best solutions in order to achieve them. More importantly, they feel the increasing hiatus that originated between their conditions and the narratives made by national offices.²⁶³ Statistics should be there to shed light on the objective that

²⁵⁸ There are the major issues facing the task of building some indicator of a sustainable growth-path: “the quantification of sustainability cannot proceed without explicit predictions of future economic and environmental trajectories, and without some explicit normative choices about values to be attached to such or such kind of trajectories, i.e. what is to be sustained, and for whom. There can be very different views about all of these points.” page 234.

²⁵⁹ Again, see the compelling work of K. J. Arrow et al. One of the biggest problem is to estimate shadow prices of various capital assets. The author adopts market prices as proxy for shadow prices, though they explicitly admit this is only a second best solutions, as they assume shadow prices are equal to market prices for some forms of capitals, but they extensively inform us market mechanism can be deficient in pricing –and some assets, mostly environmental ones, do not have markets at all. There is also the problem whether to use a dashboard or a single headline indicator, i.e. GDP, for measuring whether future generations will enjoy at least the same quality of life that current generations experience. The Stiglitz Commission spends time analysing the two possible options, and finally opts for an extensive set instead of composite indicators: “a general criticism that is frequently addressed at composite indicators, [...] the arbitrary character of the procedure used to weight their various component”, *Report*, page 65.

²⁶⁰ In this perspective, I believe that Eurostat’s early estimates of key environmental variables, and the first EU Regulation on European environmental economic accounting (2011) are indeed a good initiative and I hope there will be further advancements in data gathering and in their timeliness.

²⁶¹ J-P Fitoussi and X. Timbeau, “Financial Sustainability of an economy. Exploratory remarks”, Draft version 7/2011, N° 2011-14, page 2, downloaded at <http://spire.sciencespo.fr/hdl:/2441/516uh8ogmqldh09h561k0hj4/resources/wp2011-14.pdf>

²⁶² I am referring to D. Kahneman and other behavioural scientists works’, where conspicuous evidence is collected against the trustworthiness of memory retrieval mechanisms and outcomes weighting processes. In particular, I am building on these last considerations on the heuristics and biases approach as treated in R. Hastie and R. M. Dawes, *Rational Choice in an Uncertain World: The Psychology of Judgment and Decision Making*, second edition, SAGE Publications, Inc, 2010

²⁶³ “Citizens rightly consider that the main purpose of political action is to improve present and future well-being. Increased production of goods and services, as measured by the GDP growth rate, is only an intermediate target. Economic growth may well be necessary, but it is not sufficient for society’s progress”. Eurostat, INSEE, *Report of the Task force- Multidimensional measurement of quality of Life*, op. cit.

are so uneasy to picture and define, and the economic system should provide people with the material means to match their expectations. When people find their perceptions reflected by governmental accounts, they are able to trust their governments and institutions, and when democracy is functioning properly, the feeling of effectiveness and accountability accompanies the collection of data and their dissemination. Economic evaluations are considered trustworthy when economies provide all people –or at least a wide share among them- with the means to live a meaningful existence.

Nevertheless, in present times it seems to me that quite the opposite is true, and that current policies are becoming more and more unbound to every possible criterion of justice and equity among citizens. What is worse, this distorted perception of means and ends is embedded in the economic policies of most nation states and crystallised in the pursuit of growing GDP²⁶⁴, as if it were a biblical tenet. This is a truly upside down world²⁶⁵, where rules are obliged for the sake of rules themselves, and where outdated and disproved models are still expecting stringent adherence to their venerable principles²⁶⁶. In the meanwhile, citizens are suffering for the hardships caused by the crisis and the dragging on of the worst recessions after the Great Depression that, according to the neo-liberalist models, should not have been there in the first place²⁶⁷. However, no possible alternative to those macroeconomic models is considered, and the present depression cannot be anyhow solved if stability of prices is the mantra repeated by political and bank authorities.

I agree with J.P. Fitoussi when he says theories are like street lamps: they illuminate only the surroundings and allow us to see a small portion of the world, while the rest remains obscure, and chaotic. However, it is up to us to decide what is important to illuminate, and consequently where to place those lights. “Models should be graded on their predictive ability – and especially their ability

²⁶⁴ However, in a contest of widespread inequalities, an average measure such as GDP per capita does not provide any valuable information about the typical individual in the society. See J.P Fitoussi considerations in “

²⁶⁵ An interesting, though rather caustic, way to look at it is that “In order to repay and to carry on debt, it is necessary to borrow continuously, that is to borrow again what has been reimbursed. The ability to borrow is thus essential to the management of public debt. The so called perpetual debt is in fact a succession of “borrow and reimburse” operations, contrary to the ancient practice of perpetual rent (or debt). It is thus conditional of the finding of someone willing to lend in the future.” See J-P Fitoussi and X. Timbeau, *op. cit.*

²⁶⁶ This and the following consideration are based on the work of J.P. Fitoussi, *Il teorema del lampione, o come mettere fine alla sofferenza sociale, op.cit.* The author explains how the blind believe in the “invisible hand” has not been abandoned by European leaders even after the evident inefficiency of financial markets and their structural incapacity of estimating actual prices of assets (Fitoussi tells about a “beauty contest” of financial assets). Even though the crisis demonstrated the inconsistency of macroeconomic models born after World War II, nevertheless those paradigms still inform European policies, leading to an increase of inequalities that is not captured –and cannot be captured- by current measuring system, for the reason that GDP is an average measure, ignoring what happens to the typical individuals. The result is that the vast majority of people does not recognised itself in the portrait that statistics as GDP paint of society.

²⁶⁷ The economic model who has been guiding our policies since the end of the World War II rest on a very strong preposition, namely the efficient markets hypothesis. When this statement is made, then no crisis are theoretically possible in such a model.

to predict in circumstances that matter.”²⁶⁸ The economic models policy-makers have been resting on so far were not able to forecast the 2008 crisis, and did a poor job managing its consequences. However, this is only a small culpability if we consider that those models were not able to prevent the crisis. Actually, no crisis should have ever taken place, in a world of self-regulating markets and rational individual.

Luckily, many economists and researchers out of the economics mainstream are trying to elaborate valid alternatives to the standard economic approach. They criticize the use of GDP as the only measure to be maximised, whilst at the same time they stress the importance of promoting welfare in all its aspects, ensuring a more fair distribution of the economic system’ benefits, and assuring the next generation will be able to enjoy at least the same quality of life we are²⁶⁹. Their findings ought not to remain unheard, for inequalities are wearing out the cement of democratic societies, and citizens are asking for structural changes. “We must make our choice. We may have democracy, or we may have wealth concentrated in the hands of a few, but we can’t have both”²⁷⁰.

²⁶⁸ J.E. Stiglitz, “Needed: a new economic paradigm”, *op. cit.*

²⁶⁹ L. Monti proposes an immediate solution for tackling the critical situation of young unemployed, i.e .a redistributive intervention based on the equity principle, namely GGT, generation gap tax. This intergenerational redistributive action should take resources from those people that enjoyed the greatest share of the past economic boom, and who ignored the cost of adaptation and mitigation, and should “invest” those resources on the younger generations, which will repay it with an increased consumption and fiscal contribution. For a longer perspective, he endorsed a shift from the present developmental economic paradigm towards a more sustainable –intended as an integral concept, and nor restricted to the environmental perspective- path of growth. See L. Monti, *Teoria e principi*, *op. cit.*

²⁷⁰ Louis Brandeis, Judge of the Supreme Court of the United States of America, quoted in H.S. Friedman, *The Measure of a Nation*, Amherst N.Y.: Prometheus Books, , 2012.

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