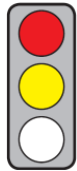


Status: 30.11.2009

MAIN ISSUES

Objective of the Communication: The Commission intends to develop new indicators, in addition to Gross Domestic Product (GDP), that rather than just measuring economic activities also take into account environmental and social aspects.

Parties affected: All sectors of the economy, statistical agencies, politicians and journalists.



Pros: The Commission is committed to GDP, and its aim is obviously not – as has on occasion been discussed – to “water it down” with social and environmental values.

Cons: (1) The application of the proposed social indicators could prompt policy-makers to intervene in the way citizens shape their life.

(2) The practical benefits to be derived from the proposed environmental indicators are not immediately apparent.

CONTENT

Title

Communication COM(2009) 433 of 20. August 2009: **GDP and beyond – Measuring progress in a changing world**

Brief Summary

► Object and aim of the Communication

- The Gross Domestic Product (GDP) is measured by official statistics and aggregates the monetary value of all goods and services produced in an economy, provided that they are not used as preliminary products for the production of other goods and services. The variation in GDP percentage reflects the annual economic growth.
- The Commission designates the GDP the “best single measure” of how economy is performing. However, it also states that there “is a clear case for complementing” GDP with indicators covering social and environmental issues “on which people’s well-being critically depends” but which are not taken account of in the current GDP calculation. (P. 10)
- In its Communication the Commission presents measures which, in cooperation with “stakeholders and partners”, would lead to the development of indicators that are “more inclusive” than the GDP. Thus the Commission wishes to establish a “more reliable knowledge base for better public debate and policy-making.” (P. 2)
- Future policies should be based on data “that is rigorous, timely, publicly accepted” and take into account “all essential” aspects (p. 10, emphasis by Commission).
- In concrete terms, the Commission is proposing the development of new social and environmental indicators. It points out that these indicators can be “essential communication tools” if they serve to “summarise important issues with a single figure” (p. 4).

► New social indicators

- The Commission points out that citizens’ “well-being” and quality of life are positively affected by income, public services, health, leisure, wealth and mobility (“input factors”). It further states that:
 - indicators for measuring these input factors can be important “for governments and the EU”;
 - indicators that try to measure directly citizen’s “well-being” and quality of life are already able to provide “increasingly robust values”, but the Commission nevertheless sees the need for further research on that matter (p. 6).
- According to the Commission, the EU’s aim is to “reduce disparities between regions and social groups” (p. 7). Currently, it is working on indicators that measure “equal access” to “quality” housing, transport and other services and infrastructure that are “essential” if one wishes to participate fully in society (p. 7).

► New environmental indicators

- The Commission wishes to create an “indicator on environmental pressure in the EU” and to present a “pilot version” in 2010. This is to comprise climate change and energy consumption, nature and biodiversity, air pollution and its impact on health, water use and water pollution as well as waste generation and the consumption of resources. It is to be published annually and later, if necessary, at the same time as GDP.
- Although the EU already uses indicators for sustainable development, the Commission is not satisfied with them due to the delayed and inadequate supply of data. For this reason, it intends to create a

“Sustainable Development Scoreboard” together with Member States and to present a “pilot version” in 2009. In particular, this is to:

- include the limits of natural resources, both in view of their occurrence and their capacity to absorb pollutants;
 - identify for politicians “tipping points”, which means environmental thresholds, the crossing of which one can expect to engender grave negative and irreversible consequences. Tipping points are to be regularly updated on the basis of research results.
- The Commission refers to the possibility of developing a comprehensive “indicator of environmental quality”. It could show the number of EU citizens living in a healthy environment.
 - The Commission announces that it will also continue to work on “indicators that capture the environmental impact outside the territory of the EU”, e.g. to monitor the sustainable use of natural resources outside Europe.
- **More timely indicators**
- Since policy-makers must react promptly to new developments, they need, according to the Commission, relevant and up-to-date information, “even if this goes at the cost of accuracy” (p. 6). The Commission complains that social and environmental data are often not published as quickly as GDP and labour market figures and wishes to change that situation:
- Regarding social indicators, the possibility should be assessed whether the data collected from social surveys, such as for instance the “European Labour Force Survey”, could be published in less than six months “whenever this is possible and cost-effective” (p. 7).
 - Regarding environmental indicators, the potential for real-time measuring, as is provided by satellites, automatic measurement stations and the internet, should be tapped.
 - In this context, the Commission cites the example of the Shared Environmental Information System (SEIS), that makes data available via the internet EU-wide and in real-time.
 - Moreover, the Commission mentions plans of the European Environment Agency (EEA) and the European Statistics Agency (Eurostat) to use short-term forecasts (“now-casting”) to produce more real-time data.
- **Including social and environmental issues in national accounts**
- The system of national accounts is a statistical calculation system serving to identify the allocation, distribution and expenditure of the GDP. At EU level the European System of Accounts exists (SNA) [Regulation (EC) No. 2223/96].
 - The Commission is of the opinion that “as a foundation for coherent policy-making”, not only economic but also social and environmental issues must be included “consistently” into national accounts (p. 8).
 - The Commission announces that in future it will make “increasing use” of “relevant” social indicators already existing at SNA (e.g. the disposable income of private households) (p. 9).
 - The Commission plans to propose a legal framework for integrated economic and environmental accounts by 2010. It is to make “environmental issues” “fully” available to policy-makers by 2013. Integrated economic and environmental accounts should include:
 - physical measures, for instance on air emissions, on energy use or waste generation, but also on changes in “natural capital” (e.g. forest and fisheries stocks);
 - monetary measures, such as on environment-related expenses, taxes and subsidies on caused or prevented damages and changes in the stock of natural capital.

Changes Compared to the Status Quo

- To date no harmonised EU social indicators exist. The Commission wishes to change that.
- To date no harmonised EU indicator exists in the EU, neither for environmental stress nor for environmental quality. The Commission wishes to change that.
- To date no scoreboard exists for sustainable development. The Commission intends to present one in 2009.
- To date no EU-wide legal framework exists for integrated economic and environmental accounts. The Commission intends to adopt one in 2010.

Statement on Subsidiarity

The Commission does not address the question of subsidiarity.

Political Context

The GDP was already developed in the 1930s. In the meantime it has become the best known indicator of macro-economic activity. Moreover, the GDP serves as a reference for economic agreements, such as the debt rules in the framework of the stability and growth pact (Resolution of the European Council of 17. June 1997). The idea to complement the GDP with further indicators is not new. In 1994, the EU Commission made proposals for a “Green National Account” [COM(1994) 670]. In 2001, the Council instigated a Sustainable Development Strategy (SDS) which was revised in 2006. Eurostat, now, is drawing up a biennial SDS Progress Report, most recently in 2007. It traces the development of various economic, environmental and social indicators in the EU.

The German Federal Statistical Office has been preparing comprehensive national accounts for Germany since 1996. Its report on "Sustainable Development in Germany" ("*Nachhaltige Entwicklung in Deutschland*"), which was published in 2008, lists 21 economic, environmental and social indicators. However, the Statistical Office deliberately waived the publication of a single figure summarising all indicators.

At global level there have been a number of attempts to cover environmental and social issues with single indicators. One of the best known is the United Nations' "Human Development Index" (HDI), which, in addition to the GDP, takes into account the education and health standard of populations.

As a starting basis for its work on the current Communication, the Commission organised a conference on alternative GDP indicators in November 2007 (Beyond GDP, Gross Domestic Product).

In September 2009, a group of prominent economists commissioned by the French government presented a report on the measurement of economic performance and societal progress ("Stiglitz-Report"). The authors argue that measurements should focus less on economic production and much more on the well-being of people, taking sustainability much more into account.

Options for Influencing the Political Process

Leading Directorate General: DG Environment

ASSESSMENT

Economic Impact Assessment

Ordoliberal Assessment

It is positive that the Commission accepts the GDP as the "best single measure" and obviously does not intend to 'water it down', instead merely intending to "complement" it with further indicators. In view of preceding debates – in which GDP has on occasion been seriously put into question, for example during the preparation conference of the Commission in November 2007 – this was not to be expected. In this context, it is worth mentioning that the English original title of the Communication reads "GDP and Beyond" and thus differs significantly from the conference title "Beyond GDP".

The broad acceptance of GDP as an indicator for prosperity is due to the fact that it is measured in one single measure. Moreover, statistical agencies have knowledge of all market transactions, with the exception of those resulting from illicit work. And finally, the monitored market prices reflect the market participants' monetary valuation of voluntary purchased goods and services. The GDP calculation in the form of a simple addition of this valuation is hence free of any value judgements by third parties.

By contrast, the social and environmental indicators proposed by the Commission have severe deficits. As they have to cover different issues (e.g. air pollution and biodiversity), the values of different measure units must be arbitrarily summarised in one single figure. Furthermore, single aspects such as citizens' "well-being" are – contrary to the Commission's opinion – not measurable in an objective manner and therefore cannot be aggregated. This is why the development and calculation of these indicators inevitably require value judgements by third parties. **Therefore, it is questionable whether the indicators proposed by the Commission would really provide a "more reliable knowledge base for better policy-making".**

Moreover, **it is dangerous that such indicators might be abused to serve certain interests.** For statistical figures shape public debate and hence policy-making. In this respect, it is questionable that the Commission, together with "interest groups", strives for the development of the respective indicators and announces their application.

Notably, **in view of the proposed social indicators** it is critical that the Commission refers to the (alleged) measurability of the citizens' well-being and thus creates the impression that policy-makers would be directly responsible for the citizens' well-being. Instead **it should be left to citizens themselves to shape their lives and to bear the consequences of their decisions in terms of individual satisfaction or personal happiness.** Politics can merely create the basic conditions for the pursuit of these goals, for example protecting citizens from assault by third parties. However, where it intends to increase social indicators it risks intervening or even having to intervene in the way in which citizens shape their own lives.

In principle, it is not – as assumed by the Commission – the EU's obligation, nor that of national policy-makers, to reduce cultural or preferential "disparities between social groups"; rather, diversity is a constituent element of open societies. Moreover, it is not clear what, for instance, "quality" housing or "indispensable" services mean, not to mention how "equal access" to these is to be measured through a social indicator.

It is beyond dispute that there is a broad public interest in useful information on environmental conditions. **The practical benefit of the Commission's environmental indicators, however, is not evident** due to the lack of theoretical substantiation and the problem of measuring them.

Apart from the itemisation of the aspects to be covered, the fact is that the Commission's remarks on the "indicator on environmental pressure in the EU" are extremely vague, so that a final assessment is therefore not possible for the time being. The question is, however, particularly in view of its aggregation problems, what additional benefit a consistent "indicator on environmental pressure in the EU" would bring compared to the individual monitoring of single aspects.

Neither are the benefits to be derived from a “Sustainable Development Scoreboard” evident. There is no scientific basis for the proposed “tipping points”, which, if crossed, will lead to “irreversible” consequences, e.g. which concentration of greenhouse gas emissions in the ozone layer entails irreversible negative consequences on the global temperature development.

Conversion problems are to be expected **if in comprehensive national accounts physical values, such as the (remainder of) stock of natural capital, are converted into monetary units.** This is currently not possible. Even if standardised evaluation rules were at hand, **the evaluation of such stocks would create very high costs for statistical offices.** A benefit that would justify such efforts, however, is not obvious.

Impact on Efficiency and Individual Freedom of Choice

Not evident.

Impact on Growth and Employment

Not evident.

Impact on Europe as a Business Location

Not evident.

Legal Assessment

Legislative Competence

As the integrated economic and environmental national accounts pursue various goals, its legal framework is to follow from the legal basis which addresses the main target of the project [established case law, e.g. ECJ C-338/01 (Directive 2001/44/EC – Choice of Legal Basis), No. 54 et seq.]. The measure is mainly designed to include environmental issues into national accounts. Hence, the EU can base the legal framework on Art. 175 TEC (environment protection).

Subsidiarity

In view of the current development status of indicators, the question of subsidiarity cannot be assessed.

Proportionality

Setting a legal framework for integrated economic and environmental national accounts has no direct impact on national policies. It merely complements the in-advance impact assessment with further aspects and therefore is compatible with the principle of proportionality. Provided any further measures complement political analysis only, the same applies to them.

Compatibility with EU Law

The GDP is defined in EU law in the Directive on the harmonisation of the compilation of gross national product at market prices (89/130/EEC, Art. 2). It is defined as representing the final result of productive activity by resident production units. The GDP has special relevance in monitoring the Member States' budgetary discipline by the Commission, since the budgetary discipline is oriented towards GDP (Art. 104 TEC.). It is not likely that the Commission will complement the GDP in this area with further indicators.

Compatibility with German Law

In German Basic Law (*Grundgesetz* – GG), the GDP serves to calculate the maximum amount of the total state credits (“debt brake”; Art. 115 GG). Even if the Commission opts for “complementing” the GDP with further indicators, there is no impact evident by that EU measure.

Alternative Policy Options

The Commission should fully waive its plans regarding social and environmental indicators which summarise various environmental issues that cannot be aggregated in an objective manner.

Possible Future EU Action

In 2010, the Commission will submit a legal framework for integrated environmental and economic national accounts. Moreover, it will publish pilot versions of a “Sustainable Development Scoreboard” and an “indicator on environmental pressure in the EU”.

Conclusion

It is to be welcomed that the Commission does not intend “to water down” the GDP by including social and environmental issues as has on occasion been debated. However, it is to be viewed critically that the proposed indicators might be used to pursue certain interests. In particular, the application of the proposed social indicators could cause policy-makers to intervene in the way citizens shape their lives. The practical benefits of environmental indicators are not evident, as here, too, questions arise concerning their measurability and theoretical substantiation.