

Opinion of the Committee of the Regions on 'Measuring progress — GDP and beyond'

(2011/C 15/04)

THE COMMITTEE OF THE REGIONS

- notes that GDP is not an accurate measure of the ability of a society to tackle issues such as climate change, resource efficiency, quality of life or social inclusion; therefore, proposes that the indicators selected to orient the framing and drafting of policies and public strategies comply with the priorities of the EU 2020 Strategy;
- considers that the five actions established by the communication to assess economic performance and social progress – a) complementing GDP with environmental and social indicators; b) near real-time information for decision-making; c) more accurate reporting on distribution and inequalities; d) developing a European Sustainable Development Scoreboard; and e) extending National Accounts to environmental and social issues – are sufficient and serve as a basis for the proposals made in the EU 2020 Strategy. These actions should not merely be tools for ex-post evaluation but should also be used in the decision-making process;
- believes that it is necessary to improve the methodology used to obtain more up-to-date comprehensive information that better matches reality, allowing for the use of indicators to facilitate the decision-making procedure; points out that the indices that could be used by local, regional, national and European authorities must be uniform and promote the creation and spread of societal innovations and consistency in the adoption of decisions;
- believes that Eurostat should take the communication's proposals into account, but should include regional statistics for broader aspects relating to quality of life, sustainability and distribution of income and capital;
- stresses that after 2013 the application of the Structural Funds, including the Cohesion Fund, cannot and should not be based solely on per capita GDP;
- supports the points made in the Commission communication, and agrees with the Commission to consider GDP an important indicator by which to measure the economic growth and well-being of Europe and its regions. To decide on Community policies and assess them, however, it is worth developing supplementary indicators that are a more precise measure of progress in sustainably achieving social, economic and environmental goals.

Rapporteur:	Vicente Álvarez Areces (ES/PES), President of the Autonomous Community of Asturias
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I. POLICY RECOMMENDATIONS

THE COMMITTEE OF THE REGIONS

A. General comments

1. welcomes this communication, which provides an opportunity for the Committee of the Regions to further the debate on the future of the EU in a changing world. It is essential to identify the indicators which truly reflect the reality upon which we can act effectively in order to create a new model of growth;

2. points out that the CoR has, on a number of occasions, addressed issues relating to the subject of this communication. Within the debate on the post-2010 Lisbon Strategy, the CoR recently (CdR 25/2009) called for the new upcoming strategy to have as an explicit overarching objective 'a high quality of life and well-being for all EU citizens' and reiterated that combating poverty and wealth inequalities requires a territorial approach across a broad range of policy areas. The CoR also noted a 'growing level of dissatisfaction at the use of GDP as the primary indicator to measure economic performance, and calls for new indicators to be developed that provide a more meaningful way of measuring prosperity, well-being and quality of life in Europe';

3. points out that it also advocated, in its outlook opinion on the future of the cohesion policy (CdR 210/2009 fin), 'a modulated approach to using carefully chosen and meaningful indicators to assess cohesion policy in order to secure the targeted deployment of resources and present a comprehensive picture of the impact of structural policy';

4. considers that the debate on indicators beyond GDP is political in nature, and should lead us to define what well-being means for current and future generations, and what the best policies are to achieve it;

5. highlights that the European Commission, together with Eurostat, the Commission on the Measurement of Economic Performance and Social Progress (known as the Stiglitz-Sen-Fitoussi Commission) and the OECD, are working towards the same goal;

6. considers that the five actions established by the communication to assess economic performance and social progress – a) complementing GDP with environmental and social indicators; b) near real-time information for decision-making; c) more accurate reporting on distribution and inequalities; d) developing a European Sustainable Development Scoreboard; and e) extending National Accounts to environmental and social issues – are sufficient and serve as a basis for the proposals made in the EU 2020 Strategy. These actions should not merely be tools for ex-post evaluation but should also be used in the decision-making process;

7. notes that this communication coincides with the launch of the EU 2020 Strategy and the political debate that will shape the medium- to long-term development of the EU, and also with the debate on the Financial Perspectives beyond 2013, and it will without doubt influence the direction taken by cohesion policy and, therefore, its financial support. Suitable indicators will make it easier to identify differences in income, educational attainment (including formal and non-formal), availability of public services, quality of healthcare and the provision of cultural resources, as observed at the regional and local level across the EU;

8. to this end, the Region Policy DG's *Regions 2020* study should be taken into consideration, as it uses regional indicators to sound out how each region is faring with regard to various challenges, and its position in relation to other neighbouring regions;

9. warns that, although the role of local and regional authorities has not been highlighted in the Commission communication, successful best practice projects suggest that local and regional authorities could play a key role in adopting and disseminating an approach to measure societal progress (economic, environmental and social) more broadly, provided that they have appropriate capacity and resources including, but not limited to, financial support from the EU or from national sources; in order for indicators designed to measure well-being in the broader sense to become established, it must be possible for them to be broken down at regional and local level, which will in turn require cooperation on the part of local and regional authorities;

10. highlights that the principle of equal opportunities must take inhabitants of rural and remote areas, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic handicaps such as the northernmost regions with very low population density and island, outermost, cross-border and mountain regions into account, in particular. The objective of reducing disparities between the regions of the EU must ensure that special attention is paid to these areas. The fragility of such territories is due to economic, social, demographic, geographical, historical, regional and environmental pressures. Particular attention must be paid to these areas when it comes to drawing up a set of indicators, which should highlight the provision and accessibility of infrastructures and services of general interest for inhabitants. The set of indicators should take account of the commitments made by the Territorial Agenda and the Leipzig Charter, in order to boost polycentrism and a new structural relationship between urban and rural areas. Clearly, the nature of this relationship will shape the environmental framework and will also help to improve the quality of local and regional policies;

11. believes that Eurostat should take the communication's proposals into account, but should include regional statistics for broader aspects relating to quality of life, sustainability and distribution of income and capital. Eurostat's regional statistical yearbook should be subject to yearly political debate, serving to re-orient Community policies;

B. The unsuitability of the GDP growth index to orient 21st century policies

12. notes that in the communication on *GDP and beyond. Measuring progress in a changing world*, the Commission expressly acknowledges the limitations of this indicator and proposes that possibilities for additional indicators be put forward for discussion. However, in the conclusions of the communication, it states that for all of its shortcomings, GDP is still the best single measure of how the market is performing. This remains debatable, for the communication deals with social progress and well-being – and in this field, GDP is not the most relevant indicator;

13. notes that international negotiations are under way to draw up a United Nations agreement to govern global action on climate change after 2012, when the first commitment period of the Kyoto Protocol expires, and that the EU has made a unilateral commitment to cut its emissions in 2020 to at least 20 % below 1990 levels and is offering to scale up this reduction to 30 % provided other major emitters in the developed and developing worlds take on their fair share of the mitigation effort under a global agreement. Scientific evidence shows that further cuts to at least 50 % of their 1990 levels will need to be achieved by 2050. These are ambitious targets and will require a transition to a low carbon economy in which methods of production and patterns of consumption are less energy intensive and more resource efficient. It is essential that the dominant economic indicators reflect this new direction;

14. stresses that, as asserted by the OECD, GDP is an indicator of production and not of the well-being that the population derives therefrom. Indeed, many activities covered by GDP imply a reduction in public well-being (for example, high transport costs due to congestion caused by long commutes), or the measures to correct the negative environmental impact of certain activities. Moreover, public well-being depends on disposable income or the availability and cost of public goods. In this regard, the Stiglitz-Sen-Fitoussi Commission's report points out that 'the fact that GDP may be a poor measure of well-being, or even of market activity, has, of course, long been recognized' ⁽¹⁾;

15. also highlights the fact that GDP does not cover the effects of factors with an impact on the environment, such as scarce resources, carbon emissions, the impact of pollutants, water quality, biodiversity, the impact of urban concentration or rural depopulation. Nor does it cover highly important social aspects such as the unequal personal and regional distribution of income, poverty or health. Furthermore, it does not evaluate activities that are not recognised within the market, such as undeclared work, work in the home, volunteering or free time;

16. points out, moreover, that key data are missing. A country can increase its GDP by intensively exploiting its natural resources but its assets would then be reduced, leaving less available for future generations; the Committee also warns against setting economic growth against other aspects of well-being; experience shows that sound economic growth is most often a precondition for considering other dimensions of well-being in policymaking;

17. expresses to the EU institutions the opinion that it is necessary to unify and clarify the messages that are to be conveyed to the public through the use of indicators linked to GDP and per capita GDP. A more transparent communication policy is needed;

18. points out that in official EU documents, including the Treaties and some regulations, other related indicators are used alongside GDP. For instance, to define and classify the regions to which the Convergence objective applies (2007-2013), per capita GDP is used. To determine which States could be eligible for co-financing from the Cohesion Fund, per capita gross national income (GNI) is used. The Financial Perspectives also employ GNI in order to establish the threshold for budgetary spending. Moreover, in Protocol No 28 on social, economic and territorial cohesion, it is neither GDP nor GNI but per capita GNP that is used as the reference to decide which Member States are eligible for contributions from the Cohesion Fund;

⁽¹⁾ Stiglitz Joseph, Sen Amartya and Fitoussi Jean Paul, Issues Paper, Commission on the Measurement of the Economic Performance and Social Progress. 25.7.2008.

19. stresses that after 2013 the application of the Structural Funds, including the Cohesion Fund, cannot and should not be based solely on per capita GDP;

C. Actions to better measure progress in a changing world: comments on related indicators in the communication

20. agrees with the idea expressed in the communication whereby the Commission would develop a comprehensive environmental indicator and improve quality of life indicators; therefore, firmly supports the preparation of a pilot project to draw up a **comprehensive environmental index** covering areas such as greenhouse gas emissions, loss of natural landscapes, air pollution, water use and waste generation; urges the Commission, given that the methodologies for determining this compound index already exist, to make the drafting work public and present it swiftly for debate in 2010, as set down by the communication; as the Commission notes in the communication, indicators must capture not just the negative or positive environmental changes but also environmental quality; However, it is important that any environmental indicators do not encourage the non-sustainable use of resources;

21. notes that the reason why GDP is not a comprehensive indicator is that prices for products and services do not at the moment fully reflect the social and environmental costs involved. The CoR therefore urges the Commission and the Member States to press ahead with their efforts to ensure that future legislation takes due account of the true economic costs of a product;

22. moreover, this index – which would evaluate the results of efforts to protect the EU and which, in quantitative terms, would indicate any progress or setbacks with regard to the environment – should cover not only the countries but also the regions of the EU. The Commission's methodology should include the aspects necessary to broaden the defining scope of the index. Furthermore, European instruments should be designed in order to provide incentives for those parts of the EU that achieve or beat the targets set;

23. emphasises that, during the EU conference dealing with the issue of indicators beyond GDP, the Portuguese EU Presidency called for a measurement of progress 'on several territorial levels in a totally comparable way,' noting that indicators which exclude the possibility of interregional comparison would only have limited value. The Lisbon Council therefore recommended a clearer linkage be made between macroeconomic indicators on one hand and the regional dimension on the other;

24. considers that it is important to develop an environmental quality indicator (which should not remain merely a possibility, as stated in the communication), which not only

gives statistics on European citizens living in healthy environments but also makes known the areas in which this quality is achieved, so that the policies making this possible can be identified. The CoR therefore proposes that the environmental quality analysis be based on the various regions of the EU in order to make it easier to compare them.

It is therefore important that the **maps and priority indicators drawn up by the European Environment Agency** play a key role in defining the nature of each of the European regions, so as to draw up a more accurate policy in each area and a strategy for solidarity with those regions which for historical reasons have greater difficulties improving environmental quality. Supporting the creation of regional environmental observatories would be an invaluable means of monitoring and drafting bottom-up policies, in which each region could show its specific characteristics and points in common with the other regions of Europe. This will help encourage existence of flexible, asymmetric policies at EU level, while boosting links to stimulate interregional cooperation;

25. with regard to quality of life and well-being, it is important to have indicators like public services, health, leisure, wealth, mobility and a clean environment are testament to and the cause of a good or bad environment. A society or region will display sound sustainable development if its economic fabric (production, distribution and consumption) is compatible with environmental and social factors. The OECD studies on public perception of well-being are important in this regard;

26. supports the idea of near real-time information for decision-making, with regard to both environmental and social indicators, and considers that last year's presentation of the shared environment information system (SEIS) was a real step forward. The time lag of two or three years separating environmental data from economic data should be overcome;

with regard to current social indicators, points out that Eurostat is developing a harmonised survey, as yet unpublished, for 2006, 2007, 2008 and 2009, with results on the living conditions of families in every EU country. Therefore, a basic structure already exists that could be adapted to the regional level;

proposes, therefore, that steps be taken to draw up a **harmonised social survey** at European level, on a regional basis, which would serve as a reference for cohesion policy and decision-making in local and regional spheres;

27. emphasises the key importance of information on the distribution of income and inequalities, and agrees with the communication's statement that '*Social and economic cohesion are overarching objectives of the Community. The aim is to reduce disparities between regions and social groups*';

nonetheless, points out that there is no express reference to territorial cohesion, a dimension which relates in particular to environmental aspects and the natural disadvantages suffered by some areas which hinder their development. These aspects should be taken into account when conducting the analyses that will serve as the basis for decisions; therefore, they should be quantified and subsequently subject to comparative analysis.

The distribution of wealth is an area of growing concern, for even if per capita GDP is increasing, the number of people at risk of poverty may also be on the rise. Therefore, there is a need for more accurate reporting on distribution and inequalities which will allow for better definition of policies on social, economic and territorial cohesion;

Furthermore, examining the levels of educational attainment of a region's labour force, both employed and unemployed, is a key indicator, whereby understanding disparities in education levels between social groups can help develop appropriate policy responses.

Furthermore, the direct and indirect impact of the recent recession and its consequences for the welfare of individual regions and social groups should be examined separately in order to obtain relevant information, make proposals and respond to future events through preventive measures;

28. considers however, with regard to social indicators, that it is not necessary to reach situations of poverty before problems of regional or personal inequality can be linked with environmental impact. One only needs to consider that greater inequality, particularly if it means a drop in tax revenue, will make it harder to carry out the restructuring that sustainable development requires. Moreover, lower income levels limit the ability of households to make the changes to their consumption habits that this sustainable growth requires. It is clear that a model of sustainable behaviour will, in the medium and long term, generate savings that offset the original investment.

Therefore, income inequality and regional divergence indices should be key considerations in the strategic decisions of the future;

29. supports the plan to draw up a **Sustainable Development Scoreboard** as set down in the communication. In all events, the utility of this scoreboard should be significant, moving away from the academic ex-post evaluation system. In other words, the scoreboard – which must cover all countries and regions, ensuring that the statistical systems for each level are compatible with one another – must be a tool that makes it possible to take action, to draft guidelines for the design of sector-specific and regional policies in the EU, thus ensuring

that societal innovativeness and consequently the sustainability factor in particular are included in any strategic process and that benchmarking of best practices is increased and attainment of development goals accelerated; urges the Commission to present the pilot version as pledged in the communication;

30. the new indicators must be robust, reliable and widely recognised in order to measure progress towards an ecologically efficient economy and should provide a foundation for building a framework of sustainable development indicators, i.e. in the social, economic and environmental spheres. Biodiversity should be a part of these new indicators;

31. with regard to integrated environmental-economic accounting, supports the efforts underway to set up a green accounting system. In some areas, significant progress has been made owing to the coordination of efforts by Eurostat, statistical institutes in the Member States, and the OECD, but this needs to be carried across to all the EU countries in order to obtain, by 2013, environmental accounts of energy consumption and waste treatment, along with monetary accounts for environment-related subsidies, within a common legal framework.

The European System of Accounts should also build on its scoreboard of social indicators (which include the disposable income of households and the adjusted disposable income figure), transposing it to all EU Member States and regions in order to encourage its use, as it determines spending and saving more effectively than the current per capita GDP indicator;

D. Subsidiarity, proportionality and better regulation

32. considers that the issues tackled in the communication can be considered to fall under Part Three, Titles XVIII and XX of the TFEU, which pertain to economic and social cohesion as well as to the environment;

33. believes that the policy domains covered by the communication are not exclusive competences of the European Union and therefore, the principle of subsidiarity applies; however, points out that there are transnational aspects that cannot be properly regulated by Member States and/or local and regional authorities acting alone. Therefore, the objectives would be reached more effectively through common policies or coordinated action;

34. is of the opinion that the actions set down in the communication appear to be in line with the proportionality principle since they do not go further than what is necessary to achieve the intended objectives. The Commission mainly plans to develop indicators and other monitoring tools such as the European Sustainability Scoreboard;

35. calls on the Commission, with regard to better lawmaking, to take the role of local and regional authorities into account more fully, especially the need to support local and regional authorities' involvement in the development of this novel approach to the measurement of societal and ecological progress. The Commission should provide support and resources for the creation of statistical databases at local and regional level, covering the entire European Union. These databases would make it easier to develop indicators at EU level;

36. points out that Member States as well as local and regional authorities have already defined a broad range of environmental, economic, social and technological indicators on an individual and differentiated basis, which could help to develop EU-wide indicators reflecting the situation in the Member States also at local and regional levels and thus allowing for inter-regional and local comparison across the EU.

In addition to the EU-wide indicators, it would be useful to have information from other countries, along with the information drawn up by international organisations;

E. Summary and final conclusions

37. there is a clear case for complementing GDP with statistics covering the other economic, social and environmental issues on which people's well-being critically depends.

GDP is not meant to be an accurate measure of longer term economic and social progress and notably the ability of a society to tackle issues such as climate change, resource efficiency, quality of life or social inclusion; therefore, proposes that the indicators selected to orient the framing and drafting of policies and public strategies comply with the priorities of the 2020 Strategy;

38. considers that the traditional GDP indicator should be improved and supplemented with criteria relating to the environment and social welfare; in this connection, believes that it would be useful to set up a comprehensive environmental index and a harmonised social survey at EU, national and regional level;

39. believes that it is necessary to improve the methodology used to obtain more up-to-date comprehensive information that better matches reality, allowing for the use of indicators to facilitate the decision-making procedure; points out that the indices that could be used by local, regional, national and

European authorities must be uniform and promote the creation and spread of societal innovations and consistency in the adoption of decisions; it is also necessary to have a better appreciation of the relationship between various indicators of well-being, especially since changes in indicators designed to complement GDP measurement often happen with a long time lag;

40. calls for the selection and content of indicators to be the result of a wide-scale, bottom-up procedure to involve local communities, regions, Member States and the EU in a process of debate. By aggregation, this should ensure efficient objectives and legitimate Community action as the public will be able to identify better with the efforts to recover from the crisis and protect the environment and quality of life;

41. notes that a population density indicator was introduced when the Union was enlarged in 1995. This indicator showed the obstacles to development of sparsely populated areas in northern Europe, which include long distances, high cost of providing services and infrastructure and an inadequate economic base for business start-ups. Simple indicators like this should continue to be used in the future, e.g. in steering cohesion policy;

42. calls upon the EU to continue working in coordination with other international institutions such as the OECD, the World Bank, the ILO and statistical institutes so that the efforts that must be made are in harmony with those being made at global level by other international bodies;

43. stresses that it is vital for indicators, to match up with the headline targets of the new strategy and the Financial Perspectives beyond 2013. Community strategies are reflected in the budgets, and these strategies must take future needs into account in order to improve a reality that can only be based on two sources of information – statistics and public opinion – together with effective leadership on the part of Europe's democratic institutions;

44. supports the points made in the communication, and agrees with the Commission to consider GDP an important indicator by which to measure the economic growth and well-being of Europe and its regions. To decide on Community policies and assess them, however, it is worth developing supplementary indicators that are a more precise measure of progress in sustainably achieving social, economic and environmental goals.

Brussels, 5 October 2010.

*The President
of the Committee of the Regions*
Mercedes BRESSO