



Dipartimento
del Tesoro

Incorporating wellbeing indicators in the policy-making process

The Italian case

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Equitable and Sustainable Wellbeing: conceptual framework

- Quality of life: from *economic welfare* to the wider concept of *well-being*
- Multidimensionality: economic, social, environmental
- Monetary vs. non-monetary dimensions: trade-offs or win-win situations
- Going beyond GDP: complementing traditional economic measures

The theoretical debate on well-being

- Capabilities approach
 - ✓ objective perspective
 - ✓ well-being as a process: dimensions, factors, contexts
 - ✓ capabilities and functionings
- Happiness economics
 - ✓ subjective perspective
 - ✓ cognitive and affective components
 - ✓ self-assessment: satisfaction, comparison, aspirations, emotions

Institutional framework at international level

- OECD's pioneering work (early 2000s)
- Report by Commission Stiglitz-Sen-Fitoussi (2009)
- European Commission's Communication *On GDP and beyond – Measuring progress in a changing world* (2009)
- Eurostat *Quality of life - Facts and views* (2015)
- United Nations *Sustainable Development Goals* (2015) – Agenda 2030
- OECD *How's Life? Measuring well-being* (2011; 2013; 2015; 2017)

Countries' experiences: some examples

Wellbeing measurement

- **Finland** (2009): online compendium of over 100 indicators on social progress by Statistics Finland and the Prime Minister's Office
- **United Kingdom** (2010): Bi-annual progress report (objective & subjective wellbeing) by UK Office for National Statistics
- **Italy** (2013): annual report on equitable and sustainable wellbeing by the Italian National Institute of Statistics (Istat)
- **Belgium** (2016): annual report on Complementary Indicators to GDP by National Accounts Institute

Wellbeing into policy-making

- **Australia** (2004): wellbeing framework into policy formulation/evaluation by the Treasury
- **France** (2015): annual report to Parliament on the progress of 10 indicators by France Stratégie and the Economic, Social and Environmental Council
- **Italy** (2016): two reports in the context of budgetary discussions by the Ministry of Economics and Finance
- **Sweden** (2017): new measures of wellbeing as a complement to GDP integrated into the Budget Bill 2017 by the Ministry of Finance

Wellbeing measurement in Italy

- Equitable and Sustainable Wellbeing by Istat-CNEL (Istat-ESW)
- Framework defined by a committee of experts and civil society (2010): 12 domains and 129 indicators
- Annual report on Istat-EWS in Italy published by Istat since 2013

The 12 domains of Istat-ESW (2017)

1. Health	7. Security
2. Education and training	8. Subjective wellbeing
3. Work and life balance	9. Landscape and cultural heritage
4. Economic wellbeing	10. Environment
5. Social relations	11. Innovation, research and creativity
6. Politics and institutions	12. Quality of services

Source: Istat, Rapporto BES 2017

Wellbeing into policy-making in Italy (1)

- For the first time Equitable and Sustainable Wellbeing indicators (ESW) systematically embedded in the budgetary process
- Monitoring of ESW indicators throughout the year (reform of the budget law - L. 163/2016):
 - ✓ April: ESW Annex to the Economic and Financial Document (EFD)
 - evolution of ESW indicators over the previous 3 years
 - forecasts for the current year and over the budgetary process horizon (no policy/policy change scenarios)
 - ✓ February: Report on ESW indicators
 - evolution of ESW indicators in light of the budget law (up to year t+2)

Wellbeing into policy-making in Italy (2)

- Committee for the selection of ESW indicators: MEF, Istat, Bank of Italy + 2 academic experts (L. 163/2016)
 - ✓ inspired by Istat-ESW methodological framework
 - ✓ indicators' selection criteria: parsimony, availability, feasibility, sensitivity to policy changes
 - ✓ 12 ESW indicators chosen (adopted by means of MEF Ministerial Decree - Oct 2017) covering 8 Istat-ESW domains
 - ✓ possible future revision of the set of indicators
- Gradual development of methodologies to provide indicators forecasts
 - ✓ at present forecasts available for 4 ESW indicators
 - ✓ exchange with Istat and other institutions

Wellbeing into policy-making in Italy (3)

The 12 ESW indicators by domain	
ESW domain	ESW indicator
Economic wellbeing	<ol style="list-style-type: none"> 1. Per capita adjusted disposable income* 2. Disposable income inequality 3. People living in absolute poverty
Health	<ol style="list-style-type: none"> 4. Healthy life expectancy at birth 5. Excess (overweight & obese) weight
Education and training	<ol style="list-style-type: none"> 6. Early leaver from education and training
Work and life balance	<ol style="list-style-type: none"> 7. Non-participation rate 8. Ratio of employment rate for women 25-49 years with children under compulsory school age to the employment rate of women 25-49 years without children
Security	<ol style="list-style-type: none"> 9. Predatory crime (burglary rate, pick-pocketing rate, robbery rate)
Politics and institutions	<ol style="list-style-type: none"> 10. Civil justice efficiency (length of civil proceedings)
Environment	<ol style="list-style-type: none"> 11. Emissions of CO2 and other greenhouse gases (tons of CO2 equivalent per capita)
Landscape and cultural heritage	<ol style="list-style-type: none"> 12. Illegal building rate

* In red the 4 indicators with available forecast methodologies at present



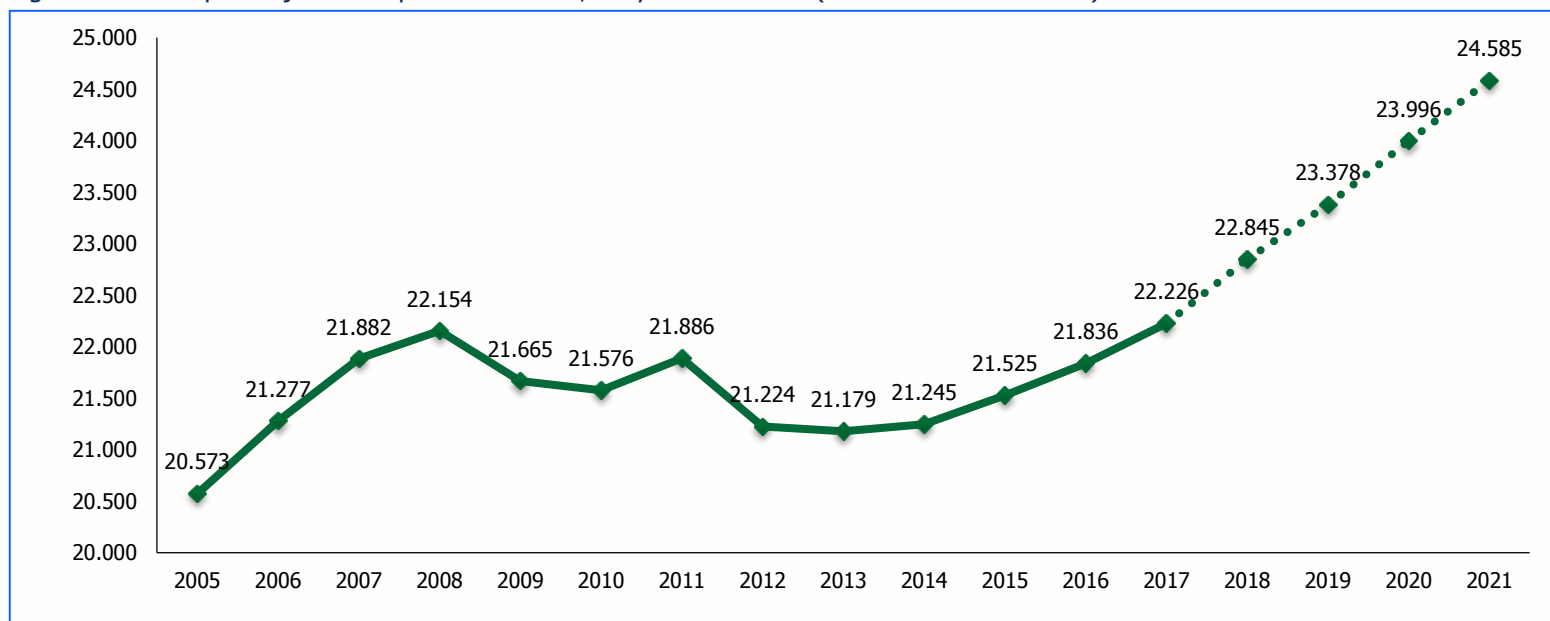
ESW Annex to the 2018 EFD: per capita adjusted disposable income

Definition: ratio between gross households disposable income, adjusted for in-kind transfers received by public and non-profit institutions, to the total number of residents.

Methodology: estimates based on the projections of gross households disposable income contained in the Macroeconomic Framework (judgemental model) used for the EFD. Adjustments for:

- a) in-kind transfers by Public Administration (PA), calculated using the projections of salaries paid by the PA and PA intermediate consumption as a proxy;
- b) in-kind transfers by non-profit institutions calculated by means of a moving average process.

Figure 1 - Per capita adjusted disposable income, Italy 2005 – 2021 (nominal values in euro)



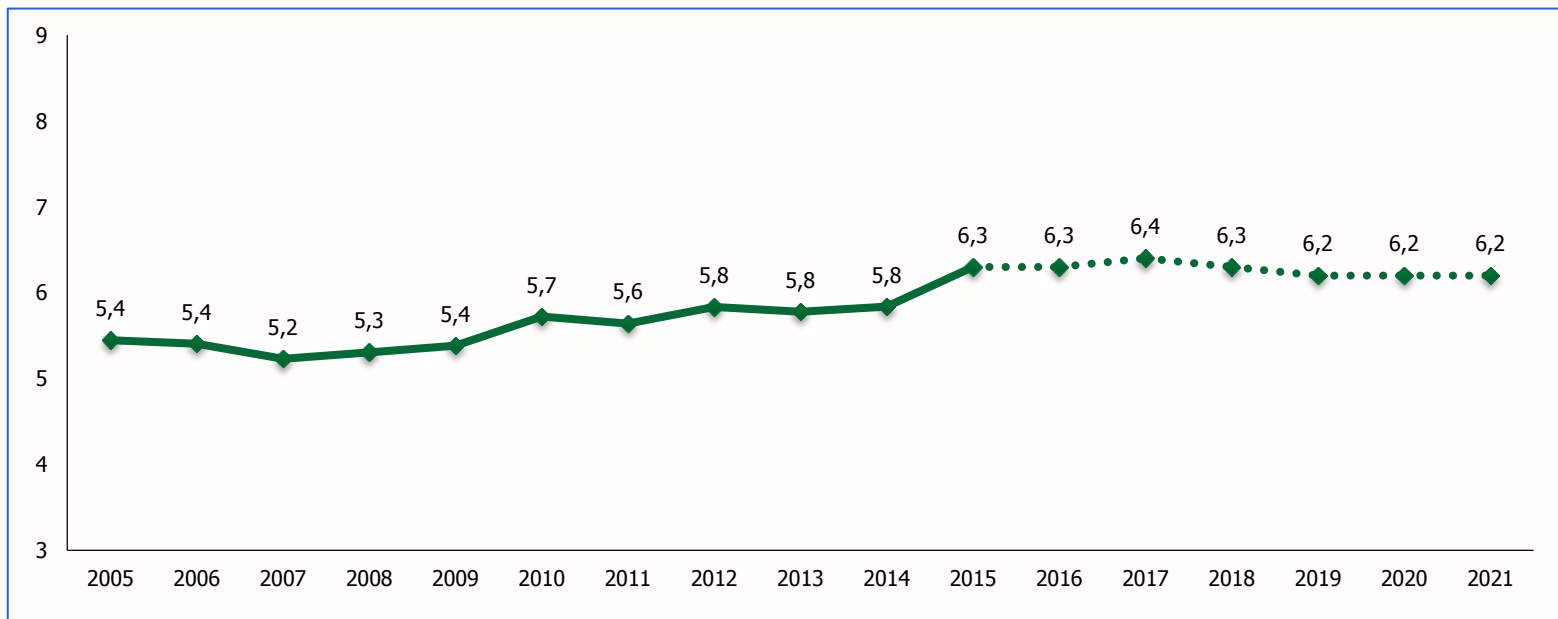
Source: Istat (2005-2017; 2017 is a provisional estimate) and MEF (2018-2021; forecasts)

ESW Annex to the 2018 EFD: disposable income inequality

Definition: ratio of total equivalised income received by the 20% of the population with the highest income to that received by the 20% of the population with the lowest income.

Methodology: *tax-benefit* microsimulation model which makes use of data by Istat and by the Department of Finance in coherence with projections contained in the Macroeconomic Framework (judgemental model) used for the EFD.

Figure 2 - Disposable income inequality, Italy 2005 – 2021 (absolute values)



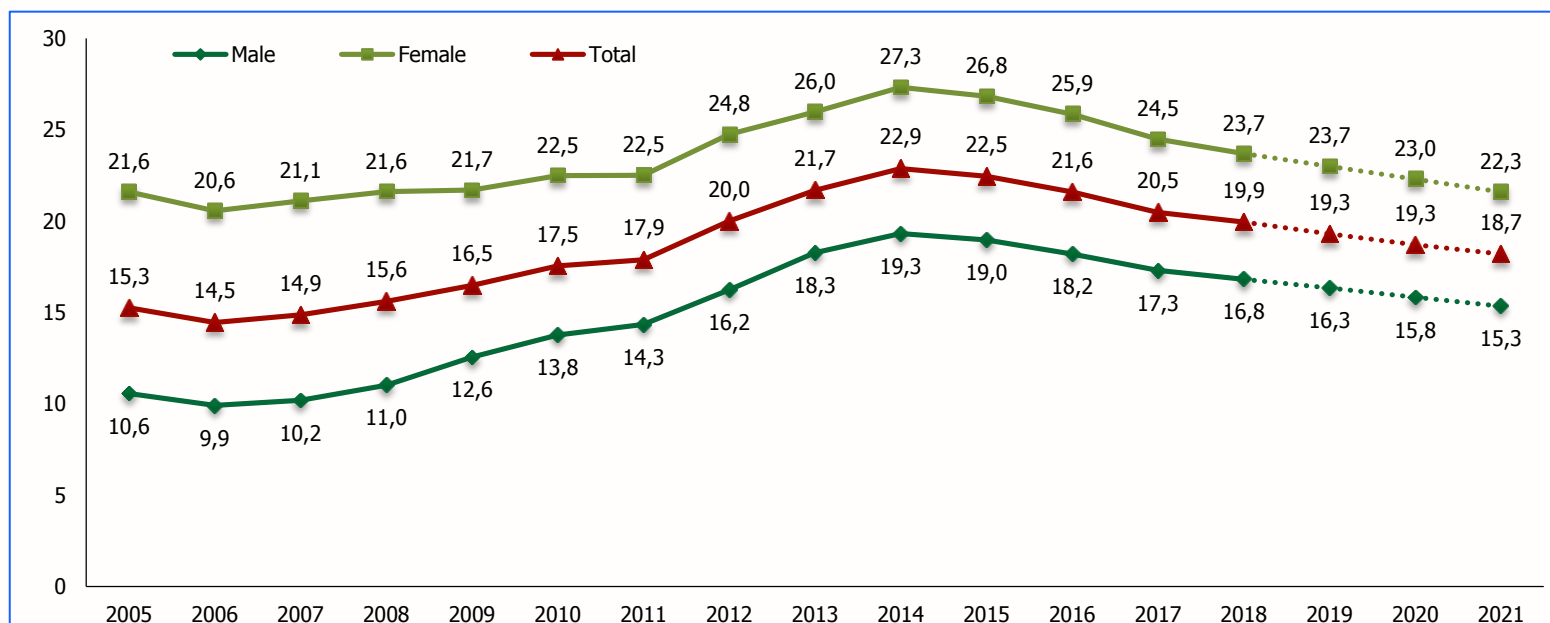
Source: Istat (2005-2017; 2016 and 2017 are provisional estimates) and MEF (2018-2021; forecasts)

ESW Annex to the 2018 EFD: non-participation rate

Definition: percentage of unemployed people aged 15-74 plus a subset of the potential labour force aged 15-74 (individuals not having looked for a job in the past 4 weeks but willing to work) on total labour force aged 15-74 plus a subset of the potential labour force aged 15-74 (individuals not having looked for a job in the past 4 weeks but willing to work).

Methodology: econometric model drawing on the projections of GDP, population, labour force, employment and unemployment contained in the Macroeconomic Framework (judgemental model) used for the EFD.

Figure 3 – Non-participation rate, Italy 2005 – 2021 (percentage values)



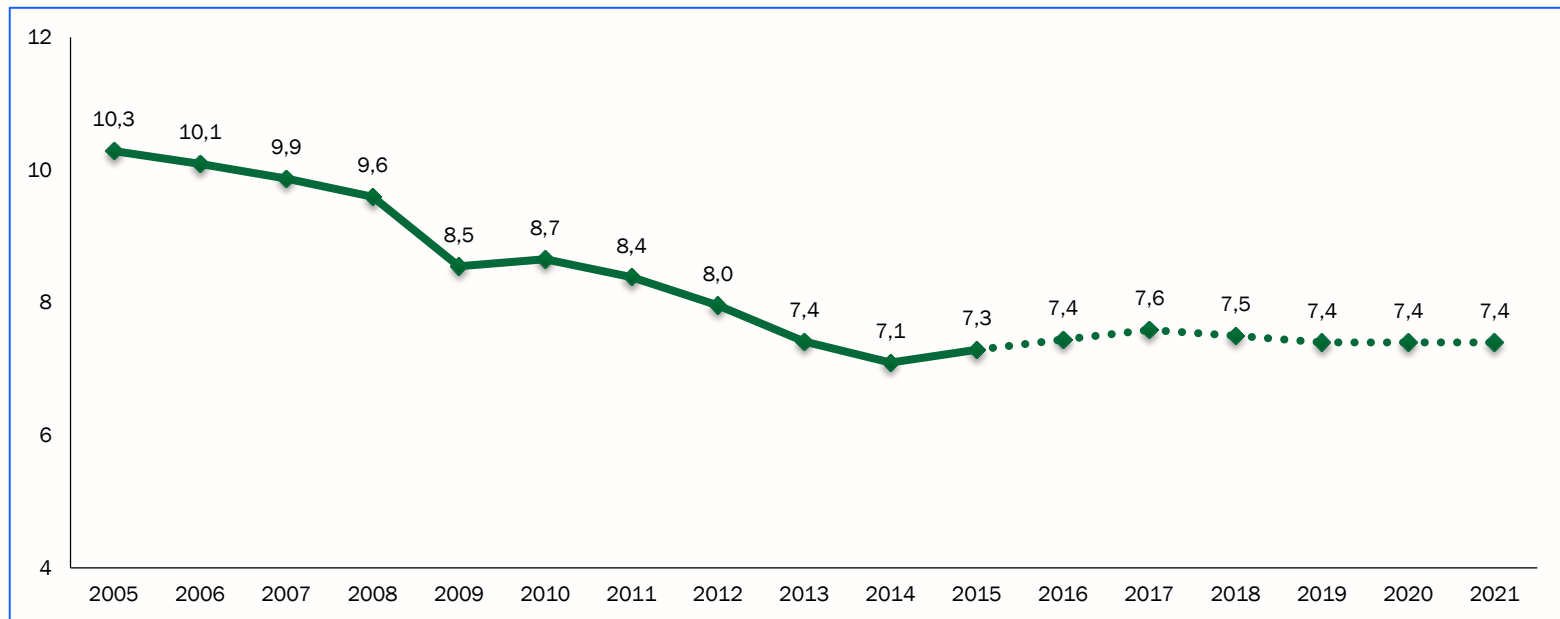
Source: Istat (2005-2017) and MEF (2018-2021; forecasts)

ESW Annex to the 2018 EFD: emissions of CO₂ and other GHG

Definition: tons of CO₂ equivalent per capita.

Methodology: econometric model with breakdown by sector on CO₂ and other greenhouse gases (GHG) emissions in relation to projections of sectorial value added, oil price and population contained in the Macroeconomic Framework (judgemental model) used for the EFD.

Figure 4 – Emissions of CO₂ and other greenhouse gases, Italy 2005 – 2021 (tons per capita)



Source: Istat (2005-2015); Eurostat (2016 provisional estimate); Istat 2017 provisional estimate) and MEF (2018-2021; forecasts)

Summing up and steps forward

- Italy's approach to ESW into policy-making: innovative and ambitious
 - ✓ complementing GDP with other monetary/non-monetary indicators of ESW
 - ✓ historical evolution
 - ✓ forecasting perspective
- Relevance of the selected ESW indicators set
 - ✓ link to the changing economic and policy environment
 - ✓ possible future revision of the set of indicators
- Gradual development of methodologies to provide indicators forecasts
 - ✓ micro-macro approaches
 - ✓ innovative ad-hoc models
 - ✓ forecast exercises coherent with the EDF Macroeconomic Framework