SOME CONSIDERATIONS REGARDING THE KEY ISSUES OF THE STIGLITZ-SEN-FITOUSSI REPORT

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Abstract:
This paper highlights the key issues of the Stiglitz-Sen-Fitoussi Report that was submitted in september 2009 by the Commission on the measurement of economic performance and social progress. As its name suggests, its focus is on the measurement of economic performance and social progress. The Report identified the limits of GDP as an indicator of economic performance and social progress showing in detail what is missing in current measures of economic performance and social progress. The key issues of the Stiglitz-Sen-Fitoussi Report are structured into three chapters based on the work of three working groups created by the Commission: Classical GDP issues, Sustainable development and environment and Quality of life. It also provided recommendations to better measure economic performance, societal well-being and sustainability.

Keywords: Stiglitz-Sen-Fitoussi Report, measuring economic performance, Stiglitz Commission

JEL classification: E01, E20, O47

Introduction

To respond to the growing demand for information, in the "information society"where more and more people look at statistics to be better informed or to make good decisions, the supply of statistics has increased significantly; over the last two decades, the statistical indicators have covered new domains and phenomena. However, there are phenomena that can not be captured by conventional statistics such as those which have an increasing impact on the well-being of citizens.

The role of statistical indicators is important in designing and assessing policies aiming at advancing the progress of society, as well as for assessing and influencing the functioning of economic markets. The way in which statistical figures are reported or used may provide a distorted view of the trends of economic phenomena. When the measurements are flawed, decisions may be distorted. There is a gap between the statistical measurement of socio-economic phenomena and citizen perception of the same phenomena. There was also concern about the adequacy of current measures of economic performance, particularly those based only on GDP.

Under these conditions of dissatisfaction regarding the current state of statistical information about the economy and society, at the initiative of the French Government in early 2008, was created an international commission of experts to determine the limits of the GDP, both as an indicator of economic performance, but also as an indicator of social progress and to identify information relevant indicators leading to the social progress.

This commission subsequently called the Commission on the Measurement of Economic Performance and Social Progress (Stiglitz-Sen-Fitoussi Commission or short Stiglitz Commission) is clearly emphasizes its subject. As its name suggests, its focus is on the measurement of economic performance and social progress.

Stiglitz Commission

Consists of 22 members and 8 rapporteurs, Stiglitz Commission is headed by a Chairman - Professor Joseph E. Stiglitz (Columbia University, USA), an advisor to President - Professor Amartya Sen (Harvard University, USA) and a coordinator - Prof. Jean-Paul Fitoussi (Institute of Political Studies, Paris, France).

First session of this committee was held on 22 to 23 April 2008 in Paris and it allowed to structuring the work on three themes supported by the three permanent working groups: classical problems of the GDP, sustainable development and the environment and quality of life. At the end of two days of talks productive, it was decided to develop a note of the "issues" that be taught to French president. A document was drafted that then translated into French was taught to French president in late July 2008. At the same time this material was published on the Commission's website. This document present the problems that the Commission was intended to address, largely drawn calendar committee activities and established methodology that will be used by the Commission.

In the ensuing period of July 2008 until January 2009, the three working groups of the Commission complied with the timetable set, each addressing one of the three main themes and drafting interim chapters, following that between 6-8 November 2008 to be held the second meeting of the working session in New York.

The third plenary session was held from 25 to 27 January 2009, in Paris, where most of the meeting was devoted to determining the layout of the final report. Draft chapters changed after meeting working groups at the end of the plenary session in New York, has been reviewed and approved. It was agreed that the report should contain detailed chapters texts prepared by the working groups, a summary version of these chapters, but not too technical, to allow a less informed public to have a sufficiently clear arguments that lead to the recommendations of the Commission. It was also determined the presence of an introductory chapter and has changed the order of the three main themes.

A first draft of the final report, incomplete, containing detailed chapters and chapters "non technical" in English, was published on the Commission's website in early June 2009, entitled "Draft Summary". Completion report was prepared by working groups (recommendations at the end of each chapter, synthetic summary of conclusions ("executive summary" and recommendations), and the final text of the report, translated into French, was revised by the francophone rapporteurs of the Commission on the beginning of September 2009.

On 14 September 2009, the Commission on the Measurement of Economic Performance and Social Progress presented its report to the French President, Nicolas Sarkozy, at a conference held at the Sorbonne in Paris. The Commission recommended broadening the scope of traditional measures for economic performance to include measures of quality of life, inequalities and well-being, as well as better taking into account sustainability and environmental conditions.

The main recommendations from the Stiglitz-Sen-Fitoussi Commission

To organise its work, the Commission organized itself into three working groups, focusing respectively on: Classical GDP issues, Quality of life and Sustainability. Based on the information provided by the reports of the three Task Force, the Report is written by economists and social scientists and is addressed to four distinct groups:

- political leaders,
- policy-makers,
- academic community, statisticians and intensive users of statistics and

- civil society organisations.

The following main recommendations arise from the report: top 5 recommendations related to the first group focusing on Classical GDP issues:

Recommendation 1: Look at income and consumption rather than production

The Stiglitz-Sen-Fitoussi Commission underlines the limits of GDP as a measure of economic well-being. GDP is the most widely-used measure of economic activity, but GDP mainly measures market production, though it has often been treated as if it were a measure of economic well-being.The starting point resides in realising that GDP is exclusively a measure of a country's market production, and that market production cannot be conflated as economic well -being in itself. To improve the GDP as a measure of economic performance is to take account for these capital losses: the depreciation of capital, the degradation in quality of the natural environment and the depletion of natural resources.

Recommendation 2: Emphasize the household perspective

Trends in citizens'material living standards are better followed through measures of household income and consumption. Assessing individual's economic situation is more relevant than focusing on indicators for the entire economy. The household perspective entails taking account of payments between sectors, such as taxes going to government, social benefits coming from government, and interest payments on household loans going to financial corporations.

To illustrate this point, the OECD Annual National Accounts show that for many countries, real household disposable income and GDP do not necessary follow the same tracks, and are therefore not good substitutes for the other. Therefore, the household disposable income provides more reliable information. These two concepts of consumption have direct correspondence in two concepts of household income : disposable income and adjusted disposable income presented in figure 1 below.

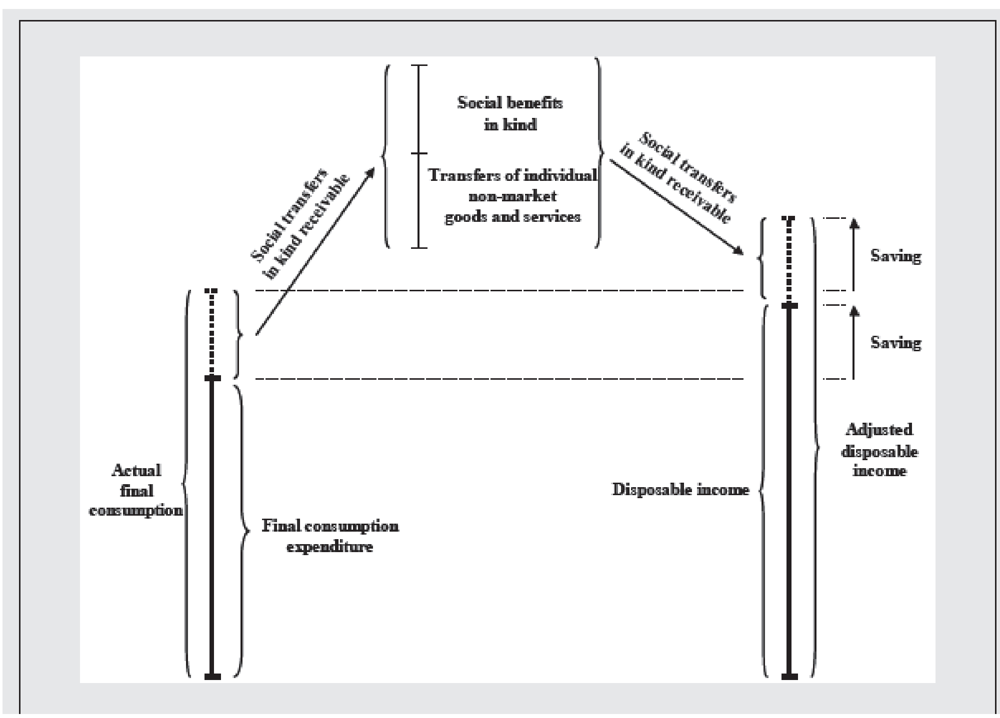

Figure 1. **Two concepts of household consumption**

Source: Sarkozy Commission, p. 113.

We conclude that giving more prominence to income measures of households, especially indicators of adjusted disposable income and actual individual consumption, are simple and useful ways to enhance the relevance of national accounts statistics to the measurement of material living standards.

Recommendation 3: Consider income and consumption jointly with wealth

A wealth measure is central for both the assessment of material living standard and the measurement of sustainability. As income doesn't necessary equal consumption, a measure of wealth is therefore crucial, for both the household level and the economy as a whole.

Income and consumption are vital for assessing living standards, but in the end they can only be gauged in conjunction with information on wealth.

Recommendation 4: Give more prominence to the distribution of income, consumption and wealth.

A rise in average income could be unequally shared across groups, leaving some households relatively worse-off than others. Thus, average measures of income, consumption and wealth should be accompanied by indicators that reflect their distribution.

Recommendation 5: Broaden income measures to non-market activities

The 5th Recommendation of the Stiglitz-Sen- Fetoussi report underlines the importance of including unpaid services that household produce for themselves in expanded measures of household income. A more complete picture of household production could be drawn by constructing a full set of accounts for households, including the services that households produce for themselves.

The following five recommendations are related to the second group that focusing on Quality of life:

Recommendation 6: Quality of life depends on people's objective conditions and capabilities. Steps should be taken to improve measures of people's health, education, personal activities and environmental conditions. In particular, substantial effort should be devoted to developing and implementing robust, reliable measures of social connections, political voice, and insecurity that can be shown to predict life satisfaction.

In practice, all approaches to Quality of Live share an emphasis on a range of features in people's lives. Therefore, it is important to determine which these features are. Measuring all these features requires both objective and subjective data.

Recommendation 7: Quality-of-life indicators in all the dimensions covered should assess inequalities in a comprehensive way.

Inequalities in human conditions are integral to any assessment of quality of life across countries and the way that it is developing over time.

Inequalities in quality of life should be assessed across people, socio-economic groups, gender and generations, with special attention to inequalities that have arisen more recently, such as those linked to immigration.

Recommendation 8: Surveys should 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

This recommendation implies that each dimension of quality-of-life requires appropriate measures of inequality, with each of these measures being significant in itself and none claiming absolute priority over others. Inequalities should be assessed across people, socio-economic groups and generations. When designing policies in specific fields, impacts on indicators pertaining to different quality-of-life dimensions should be considered jointly, to address the interactions between dimensions and the needs of people who are disadvantaged in several domains.

Recommendation 9: Statistical offices should provide the information needed to aggregate across quality-of-life dimensions, allowing the construction of different indexes

Different features of quality of life could have cumulative effects which could be mutually supportive or have consequences such as multiple disadvantages far exceed the sum of their individual effects. Education and social connections provide a good illustration of the first case, as better educated people. Is further recommended investigating causality and conditions which determine the state of societal well-being.

The Commission believes that in addition to objective indicators of well-being, subjective measures of the quality-of-life should be considered.

Recommendation 10: Measures of both objective and subjective well-being provide key information about people's quality of life. Statistical offices should incorporate questions to capture people's life evaluations, hedonic experiences and priorities in their own survey

While assessing quality-of-life requires a plurality of indicators, there are strong demands to develop a single scalar measure. Several scalar measures of quality of life are possible, depending on the question addressed and the approach taken.

The last two recommendations related to the third group concerning the sustainability:

Recommendation 11: Sustainability assessment requires a well-identified dashboard of indicators. 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.

The assessment of sustainability is complementary to the question of current well-being or economic performance, and must be examined separately. There are two versions to the stock approach to sustainability. The monetary approach requires imputations and modelling which raise informational difficulties. All this suggests starting with a more modest approach, i.e. focusing the monetary aggregation on items for which reasonable valuation techniques exist, such as physical capital, human capital and certain natural resources.

Recommendation 12: The environmental aspects of sustainability deserve a separate follow-up based on a wellchosen set of physical indicators. In particular there is a need for a clear indicator of our proximity to dangerous levels of environmental damage (such as associated with climate change or the depletion of fishing.

Members of the Commission believe in particular that there is a need for a clear indicator of increases in atmospheric concentrations of greenhouse gases associated with proximity to dangerous levels of climate change (or levels of emissions that might reasonably be expected to lead to such concentrations in the future.

Conclusions

• Quality of life includes the full range of factors that make life worth living, including those that are not traded in markets and not captured by monetary measures; recent advances in research provide an opportunity to enrich policy discussion and to inform people's view of the conditions of the communities where they live;

• Recent research has also shown that it is possible to collect meaningful and reliable data on subjective well-being; all these aspects of subjective well-being (encompasses three different aspects: cognitive evaluations of one's life, positive emotions (joy, pride), and negative ones (pain, worry, anger)) should be measured separately; national statistical agencies should incorporate questions on subjective well-being in their standard surveys to capture people's life evaluations, hedonic experiences and life priorities;

• Quality of life also depends on the objective conditions and opportunities available to people. These "capabilities" are considered by some analysts to matter more than just through their effects on people's subjective states, and should be seen rather as basic conditions of people's autonomy;

• Indicators of quality of life should inform about the inequalities in individual Experiences; this is important, as social progress depend not only on the *average* conditions in each country but also on the *inequalities* in people's conditions.

• Some of the most important policy questions for quality of life relate to how developments in one area affect those in others, and how developments in various fields are related to those in income;

• The search for a scalar measure of quality of life is often perceived as the most important challenge for quality-of-life research. While this emphasis is partly (or largely, according to some) misplaced, this report recognizes the strong demand in this field and believes that statistical offices have a role to play in answering it.

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