21 December 2023

Economic Policies in Pursuit of Welfare
Key Takeaways under Japan's G7 Presidency
(Presidency note)

I. Introduction

Our economies and societies are experiencing fundamental structural changes, such as digitalization, climate change, demographic trends and widening inequality, which sometimes undermine social cohesion and lead to economic and social disaffection, and in turn rising populism, thus political instability, and unrest.

Against this backdrop, it is useful to revisit our economic policy framework to ensure our economic policies remain fit for the overall objective of enhancing welfare. In turn, such efforts can better preserve the G7's shared values, including trust and faith in democracy and a market-based economy.

For the foreseeable future, GDP will remain a core synthetic indicator of a country's economic performance. It is an essential and well-established measure of the amount of value added generated by production, consistently measured over time and across countries, and available worldwide in a timely manner. At the same time, as now widely recognized, GDP also has its limitations in capturing people's welfare comprehensively. An overreliance on a single aggregate indicator has the drawback of not adequately capturing various elements of welfare, which mirror the diverse set of values that are part of our modern economies and societies. Although these limitations have been extensively discussed since GDP was first formulated, it is worth being reminded of these at a time when our economies and societies are undergoing the above-mentioned fundamental transformations and when the need to better measure and understand the resulting distributional impacts and effects on sustainability, as well as non-monetary aspects of value creation in a society, is particularly salient.

Efforts are underway to address GDP's limitations. For example, discussion on the 2025 System of National Accounts is ongoing to improve national accounts through better coverage, including recording of the distribution of income and consumption in a consistent manner as well as measurement of free digital services. Constant improvements in the measurement and coverage of GDP will undoubtedly benefit policymakers. However, these efforts will not change the fundamental nature of GDP as a measure of production, income and expenditure and would not go as far as to capture broader or non-economic aspects of welfare and exclude economic activities that do not fully contribute to welfare. Therefore, policymakers should use other indicators to better capture the shift in social structures and people's welfare in a timely manner and incorporate them in their

policymaking.

This note outlines key takeaways to measure welfare that reflects a diverse set of values with multidimensional indicators and summarizes various approaches taken by G7 members to incorporate these indicators into the economic policymaking process.

II. Approaches to capture welfare reflecting diverse values

To strengthen our pursuit of sustainable and inclusive growth, while adapting to structural changes in our economies and societies, we should reflect diverse values in measuring welfare. In doing so, the following approaches could guide us:

➤ *Addressing limited coverage of GDP.*

The current methodology of GDP is not, by definition, capable of covering some economic activities which are highly likely to affect welfare. These activities include unpaid household work, such as childcare and elderly care, as well as free digital services. There are efforts underway to improve the coverage of national accounts. At the same time, we should continue efforts to collect more granular data to capture greater details of economic conditions, especially to understand a breakdown of economic activities in different parts of a country and among different population groups.

On the other hand, what improves GDP does not necessarily improve welfare. Some activities such as manufacturing and distribution of harmful drugs as well as investments causing pollution, have undesirable externalities on welfare. There are also some aspects that are not directly measurable by GDP, such as people's health, quality of education and inequality as well as access to public services, which are crucial in designing sound and effective social or economic policies[1].

➤ *Importance of diverse set of non-GDP indicators.*

As a single indicator cannot capture the diverse aspects of today's economy and society, policymakers need to rely on various non-GDP indicators. Appropriate indicators that are context-specific need to be applied. To capture the complexity of our economies and societies in a feasible and consistent manner, a dashboard approach could be a possible solution. In this context, indicators such as life satisfaction and social connectedness may be also useful in better understanding the determinants of welfare. Appropriate indicators to measure welfare may differ from country to country, since they would reflect each country's characteristics and its policy challenges. In addition, disaggregation of aggregated data by social status such as gender and age could help showcase difference in welfare among different groups and, therefore, investigate inequality along different dimensions.

---

[1] These concerns could be alleviated by extended or thematic accounts that rely on the current structure of SNA.

➢ *Consideration of intergenerational values.*

In selecting a set of indicators for measuring welfare, interests of both current and future generations, as well as the medium-and longer-term risks associated with current economic activities need to be taken into account. In this regard, stock indicators, such as economic and social capital (e.g., shared values and institutional arrangements that foster cooperation), natural and environmental resources (e.g., soil or land quality, clean water), and human capital (e.g., healthy life expectancy, educational attainment among young adults), could be important elements in assessing the sustainability of economic growth and future welfare.

➢ *Wider engagement.*

Close consultation with a wide range of stakeholders is necessary to determine priorities among various aspects of welfare and select appropriate indicators to measure them. This is particularly important because a multidimensional approach to measuring welfare may present policy trade-offs that need to be appropriately handled. For example, some policies boosting country-wide economic growth may have a negative environmental impact in some parts of the country.

➢ *Continuous fine-tuning.*

Any system to assess multidimensional aspects of welfare needs to evolve over time. Selected indicators will probably need to be fine-tuned in accordance with economic and social developments, including emergence of new technologies (e.g., generative artificial intelligence). Efforts must be made to ensure that welfare indicators are regularly updated, harmonized internationally, where possible, and coherent to facilitate communication of policy decisions based on these indicators. In addition, our efforts should continue to improve the comprehensiveness, quality, timeliness, and granularity of the relevant data, which are critical factors for policy uptake, including through harnessing the potential of big data.

III. Incorporation into the policymaking process

In measuring welfare to reflect a diverse set of values, policymakers need to consider how to effectively integrate this into policymaking. Although there is no one-size-fits-all approach, it is beneficial to learn from experiences and various approaches from other countries, with each G7 member making significant efforts in pursuit of a multi-dimensional approach to enhancing welfare through its economic policymaking. Here are illustrations of some approaches taken by G7 members on this front. Member- specific examples are described in the annex.

➢ *G7 members are utilizing multidimensional indicators to capture welfare comprehensively.* Several G7 members employ a dashboard approach. The selected indicators differ among members, reflecting their characteristics and specific circumstances. They utilize these indicators in various ways, including in budgeting as well as policy appraisal

and evaluation, in different phases of the policy cycle. In addition to a dashboard approach, G7 members also utilize multiple indicators along with GDP according to their circumstances.

➢ ***G7 members embed dashboard indicators in policymaking and budgeting processes through legislation or a relevant mechanism for policymaking.*** Typical application is to require an agency by laws or other instruments to report the analysis on these indicators to a national legislative body.

➢ ***G7 members formally take multidimensional indicators into consideration in policy appraisal and evaluation with the aim to enhance welfare.*** Such appraisal and evaluation, building on evidence-based analysis, can be used to assess potential policy trade-offs as well as broader welfare implications.

➢ ***G7 members actively go through an extensive public consultation process in developing and fine-tuning their framework relating to welfare.*** Parliamentary debate and other forms of stakeholder engagement also help to strengthen democratic dialogue and ensure transparency and government accountability.

➢ ***G7 members promote proper cross-agency coordination and maximize potential synergies in policymaking in pursuit of welfare.*** This aims to realign policy practice across government and realize integrated, coordinated, and forward-looking solutions that can better address the interdependency between economic, social, and environmental policy objectives.

➢ ***Adequate skill set and expertise for policymakers will be of critical importance in harnessing the welfare consideration in economic policymaking.*** Some members point out that there is a strong need for individuals with skills in creating and using multi-source microdata. This is to foster improvements in data availability, timeliness, quality, disaggregation, and connections (for example linking survey data to administrative data and also micro and macro data) as they are keys not only to developing better metrics but also to setting up refined modelling tools for policy impact evaluations and forecasts. Such advancements can require a specific HR strategy in addition to existing ones.

➢ ***International cooperation, including through sharing information and exchanging views from each country's initiatives, will help policymakers in better understanding the best practice and enhancing policy approach.*** In this regard, the OECD and the UN have launched multiple useful initiatives. The OECD's Well-being Framework, *How's Life?* report and indicator dashboard, which measures aspects of welfare in a comparable manner, enables policymakers to align their indicators with those of other countries and the OECD.

Also, the recently launched OECD Well-being Knowledge Exchange Platform, will be a useful initiative to exchange views on methodologies, data sources of statistics relating to welfare, economic modelling tools and application of a well-being lens to specific policy issues, such as child well-being or climate change. The platform is currently expected to encompass a range of activities, such as workshops on applying well-being concepts to policies and informal peer network to share experiences across government experts. The OECD World Forum on Well-being in 2024, to be hosted by Italy, will provide an opportunity to exchange international best practices on shaping decision-making and implementation throughout the policy cycle based on well- being frameworks.

Furthermore, the UN has established a core group on the "Beyond GDP" topic and proposed a framework and a set of recommendations for members to improve the measurement of progress on sustainable development with indicators that complement GDP and to support statistical capacity-building in developing countries.

IV. Way forward

Building on fruitful discussion throughout the year on welfare, G7 Finance Ministers and Central Bank Governors reaffirmed in Niigata the need for policymakers to follow multidimensional indicators for measuring welfare and explore operational tools to utilize such indicators in policymaking. They also confirmed the importance of continuing to share best practices and deepen policy deliberation in response to rapid economic and social transformation in this area.

The goal of economic policy is to deliver higher welfare and to ensure sustained improvements in living standards over time. It is particularly important today, as the economic and social disaffection and dislocation from the dynamic structural changes are more eminent, which can feed into rising populism and instability. Enhancing welfare requires considering the perceived satisfaction of people with a diverse set of values, which mirror their views on desirable outcomes in the multiple areas of life that matter for welfare. It is inherently difficult to comprehensively capture complex reality with quantitative statistics, which measures objective dimensions of welfare, so the usage of qualitative indicators to measure perceived satisfaction of people could be considered. We should also pursue our efforts to better understand the economic and social drivers of welfare in each country with a view to improving our policymaking.

To this end, the five approaches identified in section II of this note will provide us useful guidance in capturing welfare reflecting diverse values, and the policy actions taken by G7 members illustrated in section III will help us incorporate welfare into the policymaking process. While there is no one-size-fits-all solution, we should continue our efforts to progress toward better economic policy in pursuit of welfare.

The G7 looks forward to continuing further discussion under the next Presidency of Italy.

(Annex)

Member-specific examples of incorporating multidimensional aspects into the policymaking process
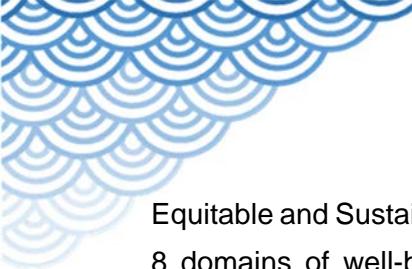
Canada: Canada has been measuring welfare including through its "Quality of Life Framework" to help policymakers in determining priorities and developing indicators based on evidence of the determinants of well-being. The framework which includes a set of 84 indicators, organized into a series of domains such as prosperity and good governance, was developed based on a broad-based consultation process with stakeholders and experts.

EU: The EU member states have taken very tangible measures to make sure that the scope of economic policy is effectively broadened to address welfare considerations not captured by GDP. The integration of the UN Sustainable Development Goals (SDGs) in the European economic surveillance framework is a clear example of this effort. The European statistical agency (Eurostat) publishes a comprehensive set of indicators to monitor progress in the achievement of the SDG goals. Eurostat also collects and disseminates a dashboard of Quality of Life indicators, which allow each member state to monitor their own progress and to evaluate its position in a particular dimension relative to other European countries.

France: In accordance with the so called "Eva Sas" law of 2015, the National Institute of Statistics and Economic Studies (INSEE) produces every year a dashboard of indicators (New Indicators of Wealth), including those aligned with the monitoring indicators of the 2030 Agenda for Sustainable Development. The dashboard is designed to track the progress made on a set of variables of an economic dimension (e.g., employment rate), social dimension (e.g., life expectancy), and environmental dimension (e.g., carbon footprint and artificialization of soils). The law requires these indicators to be reported to the Parliament to inform the discussion of next year's budget proposal. The national statistical institute (INSEE) is working on some extended national accounts for 2024. They should incorporate both distributed accounts by household category (to monitor inequalities and redistribution) and green accounts (carbon footprint, valuation of environmental assets, sustainability).

Germany: The German Federal Government publishes the "Annual Economic Report" containing a special section for measurement of welfare and social progress with a set of indicators. The methodology, selection and systematization of the indicators is being constantly reviewed and improved, for example, in an online consultation process.

Italy: Through a reform of the budgetary law in 2016, Italy became the first country in the OECD to link a set of well-being indicators to economic policy programming. Specifically, a dashboard of 12

Equitable and Sustainable Well-being indicators (ESW, or BES, in Italian) was selected, representing 8 domains of well-being. These indicators are systematically analyzed and forecasted over the current year and the time horizon of the Finance Ministry's Economic and Financial Document published in April. In the Finance Ministry's February report to Parliament, the ESW indicators are instead analyzed and forecasted in light of the most recent budget law. The integration of ESW indicators into the budgetary process through these documents required the development of advanced analytical tools and models to forecast their evolution over the policy programming horizon and to provide policy impact evaluations.

Japan: Japan Cabinet Office has a dashboard of qualitative well-being indicators, such as life satisfaction. A survey is conducted annually to collect data on these indicators, and the results are published. The Cabinet Office also established an "Inter-ministry Liaison Meeting on Well-being" in 2021, aiming to strengthen cooperation among them, and to share good practices to further promote policy implementation in consideration of well-being. Building upon the discussions at the Inter-ministry Liaison Meeting, relevant ministries and agencies are working together in various areas, including in incorporating indicators related to well-being into key performance indicators of the government's various strategies and basic plans.

The United Kingdom: The Office of National Statistics has a dashboard of 44 indicators since 2018. The UK central government guidance on appraising policies — known as the "Green Book" — requires that policymakers consider all significant costs and benefits that affect the well-being of the population, not just changes in income. Also, the "What Works Centre for Well-being", an independent body formed by the UK Government, assesses evidence on the effectiveness of policy programs and practices and provides a mechanism for bringing research and expertise into decision-making.

*The United States***:** The Council of Economic Advisers (CEA) has a monthly publication that provides economic information on various economic indicators. CEA also produces an Economic Report of the President on a yearly basis to present the Administration's domestic and international economic policies with a comprehensive range of statistics. These indicators can provide an overview of the nation's economic progress and useful information for policymakers.