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From growth to well-being: a new paradigm for EU economic governance

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Policy recommendations

The current framework for European economic governance needs to be refocused to facilitate an economic policy geared towards well-being and convergence, which are both cited as primary economic objectives by the Treaty on European Union (TEU). The overly narrow goal of economic growth has to be replaced by broader measures concerning economic performance, social progress and environmental sustainability. At the same time, better measurement of well-being and social progress is needed, as is the discursive and institutional anchoring of well-being orientation within the European governance framework.

More specifically, economic policymaking procedures have to overcome the bias towards competitiveness and restrictive fiscal rules, though economic restrictions do have an important role to play. I am therefore proposing a new, balanced 'magic polygon of well-being oriented economic policy' – accompanied by a new scoreboard of indicators – as a central tool for policymaking within the European Semester. This new 'magic polygon' can serve as a general framework for commonly shared economic policy objectives and evidence-based current priorities.

Introduction¹

Many citizens' mounting frustration with the outcome of European economic policy has become increasingly apparent, especially since the 2008 economic and financial crisis. Early that year, the French president at the time, Nicolas Sarkozy, launched the *Commission on the Measurement of Economic Performance and Social Progress* (CMEPSP, see Stiglitz *et al.* 2009), led by Joseph Stiglitz, Amartya Sen and Jean-Paul Fitoussi. The basic premise behind the work of the CMEPSP was that social progress and individual well-being cannot be achieved on the basis of a solely growth-oriented economic policy. The implicit question asked was how to facilitate an evidence- and/or indicator-based well-being-oriented policy? And the answer provided was that we need a broader definition of overall objectives, measured by a new set of indicators.

In this policy brief, I take up this idea and examine a European paradox: whilst the theoretical foundation of well-being and sustainability improved, and frustration with Europe's failure to deliver prosperity and well-being grew (mainly due to consequences of the crisis), in actual fact the implemented reforms merely had the opposite effect by focussing on austerity and

competitiveness. Clearly then, we need to go beyond discussing objectives and indicators and look at the European governance framework, focusing on economic policy, and ask how well-being and convergence can be built into it. I will argue that a tool linking objectives and indicators (a new well-being oriented magic polygon) and the adaptation of various ideas proposed within the framework of the European Semester seem promising.

Rethinking prosperity: well-being, convergence and sustainability

Although the CMEPSP had many antecedents (from alternative proposals to GDP itself during its development to the UN Human Development Index and the first OECD World Forum on Key Indicators, cf. Feigl *et al.* 2013), it nonetheless kick-started or shored

¹ This policy brief is based on Chapter 2.4 of the independent Annual Growth Survey (iAGS) 2017 (Timbeau *et al.* 2016).

up a range of projects designed to overcome a predominantly narrow view of economic objectives. The OECD launched the *How's Life?* initiative (2011) and the European Commission published a communication entitled *GDP and Beyond* (2009), prompting intensive efforts by Eurostat (2011) to provide a new dataset on *Measuring Progress, Well-being and Sustainable Development*. Last year the synthesis report by *WWWforEurope*, a four-year research project involving 34 European research institutions, proposed that the Europe 2020 strategy be superseded by the vision of Europe as 'a region with high social and environmental standards guaranteeing its citizens a high level of well-being' by 2050 (Aiginger 2016: 3).

At the national level, too, a number of related projects were initiated, including the joint report by the French Conseil d'Analyse Économique and the German Council of Economic Experts (CAE and GCEE 2010), a German parliamentary commission (2013) and the 2013 *How's Austria?* report (Statistik Austria 2013). In parallel, at the global level the UN set its Sustainable Development Goals, or SDGs (UN 2015).

The premise shared by all these initiatives is that we need to overcome the predominant and prevailing narrow focus on specific economic goals like GDP growth, and should instead aim to attain a broader set of economic, social and environmental objectives. Otherwise our economic policy will be misguided, leading to poor results in terms of well-being, social progress and sustainability, for: 'Those attempting to guide the economy and our societies are like pilots trying to steering a course without a reliable compass' (Stiglitz *et al.* 2009: 9). Had better metrics been available, we could probably have avoided some of the financial bubbles that burst and triggered the economic crisis and would be more aware of looming social and environmental crises as well.

Missing the objective of the EU?

The Treaty on European Union (TEU) clearly states that the Union's overall 'aim is to promote [...] the well-being of its peoples' (Art. 3 (1)) and goes on to specify in paragraph 3 that it shall work, amongst other things, for sustainable development, social progress and to improve the quality of the environment.² Whereas 'economic resources' and 'non-economic aspects of peoples' lives' are decisive for determining current well-being, long-term well-being 'depends on whether stocks of capital that matter for our lives (natural, physical, human, social) are passed on to future generations' (Stiglitz *et al.* 2009: 11). Furthermore, 'diversity of peoples' experiences' has to be taken on board by considering distributional issues, not just measuring average levels of well-being.

In the current setup, European governance is not focused on well-being, but overwhelmingly on economics (or to be more precise removing obstacles to stable public finances) and on boosting growth potential and the macroeconomic stability of national

economies, first and foremost by fostering competitiveness. While many processes have been defined (e.g. the European Semester), analyses have been drawn up (e.g. the *Annual Growth Survey* and accompanying documents) and economic developments have been monitored, even though these topics feature prominently on the current political agenda, the overall objectives set out in the TEU have been overlooked. However this need not turn out to be a contradiction in practice (fiscal targets could help to sustain well-being in the long run for example), unintended effects are very likely to occur unless the target is set within an overall framework geared towards attaining the general objectives.

Especially since the economic crisis, European Economic Governance and policymakers have tended to focus much less on the overall objective of well-being and much more on economic restrictions, like obstacles to macroeconomic stability, leading to a situation in which far more attention is paid to metrics like the *Macroeconomic Imbalance Procedure (MIP) Scoreboard* and fiscal indicators than to indicators of well-being. Instead of aiming to establish an integrated framework of economic, environmental and social policies, only a few, isolated problems are being tackled, with no thought given to unintended negative impacts in other areas (e.g. income distribution) or social progress and overall well-being. Since European institutions overall are particularly 'output-legitimised', political backing for the European project can be undermined by relying solely on individual technocratic metrics – like the *MIP Scoreboard* – to measure success.

To some extent, there is a growing awareness of the overly narrow focus on highly specific economic targets within the scope of European governance. One step forward in the debate was the political demand to include social indicators in the *MIP Scoreboard* or define a new scoreboard of social indicators; another is the proposed European Pillar of Social Rights. However, these seem likely to lead to a parallel, but less prominent process, one that is incapable of balancing economic governance, and there is a danger that they will merely serve to hide an inherent bias towards competitiveness and end up increasing the unintended side-effects of another initiative of only limited scope.

Putting well-being first: a magic polygon and a new scoreboard

Against such a backdrop, in practice policymaking probably does not pay enough attention to the most important objective of all: attaining a high, sustainable level of well-being. So we need governance reforms that put well-being first. This need should be addressed by further specifying a framework of more concrete economic, environmental and social goals, backed by indicators to measure any progress made and a procedure for setting discretionary priorities based on the current economic, environmental and social situation.

However, since European politics is centred on economic policy, our overall goals have to be incorporated in economic governance for well-being to get the attention it deserves. Germany at least used to have an economic policy framework of this kind (the 1967 Act to Promote Economic Stability and Growth), which was called

² However, it should be noted that this paragraph already contains implicitly the problematic assumption that economic growth already covers material well-being.

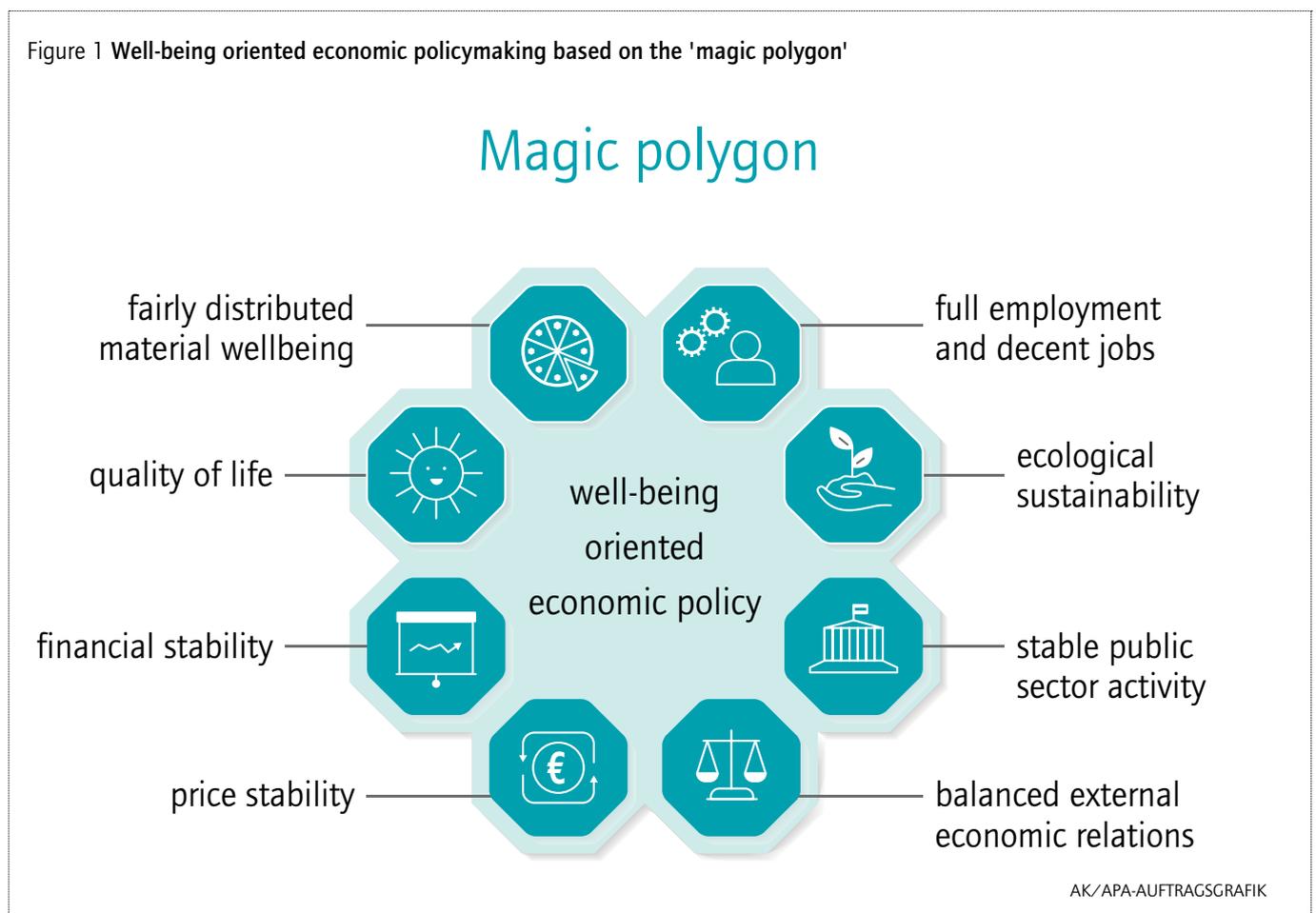
the 'magic square', being based on four main policy goals: steady economic growth, price stability, high employment and balanced external economic relations. Since some of these goals are at odds with each other (particularly low inflation and full employment), in practice the 'magic' involves achieving these goals simultaneously as far as possible, whilst taking account of the current economic situation. Today, the old magic square is no longer adequate. For Germany, Sebastian Dullien and Till van Treeck proposed a new, updated version to promote sustainability, highlighting as its overarching policy goals economic, fiscal, ecological and social sustainability (Dullien and van Treeck 2013).

In my view, this too is insufficiently explicit when the focus is on well-being, and we need a new 'magic polygon' to take account of 1) the critique of GDP, 2) the financial crisis, 3) the higher concern for public-sector sustainability and 4) mounting demand for high-quality jobs (see Timbeau *et al.* 2016). Fairly distributed material well-being, full employment with decent jobs, high quality of life and ecological sustainability can serve as main policy goals, but targets aimed at ensuring a stable economic framework also need to be integrated. Financial stability, stable public sector activity (reflected by an increasing public capital stock and long-term stability of public finances, cf. Dullien and Van Treeck 2013), price stability and balanced external economic relations all seem appropriate candidates for such targets (for more details, see Feigl 2017).

The next step entails identifying indicators that can measure the progress for each goal. To some extent we can draw on the Europe 2020 indicators for our four main policy goals and the *MIP Scoreboard* to measure macroeconomic imbalances for our other four targets addressing economic constraints. In addition, two similar Eurostat projects lay suitable foundations for the development of a well-being scoreboard: first, the follow-up initiative linked to the CMEPSP and the European Commission communication *GDP and Beyond* (Eurostat 2017). However, the initiative's outcome is not ready to be used as a policy tool since 1) it does not provide a full scoreboard of current indicators and 2) there is no annual report with a further analysis of recent developments. The second reference for further work could be the set of sustainable development headline indicators (Eurostat 2015), with the proviso that it merely serves to monitor sustainability, not well-being, convergence *and* overall sustainability.

One example of a successful full set of well-being indicators is the one developed by Statistik Austria in a long process involving a great many national stakeholders. This set contains 31 indicators designed to operationalise the CMEPSP's recommendations and take on board the Europe 2020 Strategy, and it could already serve to measure the main policy goals of the magic polygon (Feigl 2017), though it should also be adopted to enhance acceptance and communicability (see Griesser and Brand 2016) and incorporate

Figure 1 Well-being oriented economic policymaking based on the 'magic polygon'



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Source: AK Wien.

targets for economic convergence and sustainability. The latter can be done by including the indicators on the current account balance (CAB), net international investment position (NIIP) (both regarding the external economic balance), private sector debt and total financial sector liabilities (both regarding financial stability) from the *MIP Scoreboard*, complemented by unadjusted equity-to-assets ratios of banks, the public sector structural balance with and without net investment, a structural current account balance and the consumer price index (or GDP deflator).

Aligning the political process to foster well-being

Maybe the most important step towards a stronger orientation to well-being will entail finding and adopting a governance structure that allows appropriate decision-making with respect to economic, social and environmental conditions. Some progress has already been made (e.g. the introduction of the European Semester), although its narrow view on national economies, instead of focusing first on the European aggregate and only subsequently on the national parts, and its complicated and to some extent counter-productive rules focused on a tiny segment of the magic polygon and its indicators is problematic. Another element missing before the priorities can be drafted is a broad debate at the beginning of the European Semester, at least within the European Parliament, the European Economic and Social Committee, the Macroeconomic Dialogue and the European Council. This debate should not be based on the *Annual Growth Survey* (AGS), but rather on an *Annual Well-being and Convergence Survey* (AWCS) centred around the proposed set of indicators, focusing on well-being, sustainability and convergence for the EU or the eurozone as a whole.

The AWCS should be written by a council of economic, social and environmental experts, not the European Commission itself, which should only draft recommendations for the European Parliament and European Council to adopt or reject after various discussions with the relevant stakeholders. This new council of experts should identify the developments in well-being, convergence and sustainability and qualitatively assess targets, indicators and the current situation. Since this new council should strengthen coherence and incorporate the objectives of the existing fiscal council (such as fiscal coordination, a proper fiscal stance and fiscal stability), the latter should be replaced by the former.

While certain limits on indicator levels should be respected at the European and national levels, there should be no sanctions, unlike in the Stability and Growth Pact (where they have to be made non-binding or at least 'non-biting' as well), because taken on their own certain thresholds will merely divert the debate from a right, overall evaluation of a balanced economic, social and environmental policy under the prevailing conditions. Instead of setting up productivity councils at the national level, advisory 'well-being and convergence councils' – retaining national traditions of economic and social decision-making – could support and coordinate policymaking and possibly avoid unsustainable asymmetric developments. In parallel with the European level, these new councils should replace the existing fiscal councils,

which are solely responsible for fiscal policy and therefore hinder a balanced economic and social policy measured in terms of the attainment of the new magic polygon.

Conclusions

Taken together, the proposal of a new magic polygon together with the use of a new scoreboard and a number of governance reforms would allow for a much more coherent policy focused on the overall goal of well-being. However, given the current balance of power in Europe, it will be difficult to place well-being at the top of the European agenda. However, things are starting to change, with the scientific basis provided by the CMEPSP and other initiatives, the Sustainable Development Goals (SDGs) gaining momentum and the European Union challenged by attempts to limit well-being and social progress to nationals within individual Member States only. Progressive forces ought to take up the well-being-discourse and link it with policy proposals that have great potential to increase well-being (measured in terms of the magic polygon) in the current situation and therefore boost public support. For now, then, new policies should especially address unemployment, environmental sustainability and the distribution of income, wealth and consumption opportunities – but without endangering economic sustainability. The best ways of doing this would appear to be by reducing working time, fostering the global expansion of social and environmental standards, boosting public services (e.g. education, care and social work) financed by wealth-related taxes and adopting a socio-ecological public investment programme.

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