

# HIGH LEVEL EXPERT GROUP ON THE MEASUREMENT OF ECONOMIC PERFORMANCE AND SOCIAL PROGRESS (HLEG)

## MAIN CONCLUSIONS FROM THE FIRST MEETING

OECD Headquarters, Paris, 16-17 January 2014

### Introduction

1. This note summarises the main decisions taken during the first meeting of the High Level Expert Group on the Measurement of Economic Performance and Social Progress (HLEG), held in Paris on 16-17 January.<sup>1</sup> It presents the main conclusions from the group on: i) the substantive areas that the HLEG will cover over the next three years; ii) organisation and division of work across members, iii) the expected deliverables of the group, and iv) resources and communication issues related to the work of the HLEG.

2. The meeting was organised in the form of presentation by each group coordinator about their own ideas on possible focus and deliverables, a general discussion across all HLEG members on all the themes, follow-up sessions in four smaller groups, and finally presentation by each group coordinator of the main decisions taken. This short summary focuses on the decisions taken, without aiming to summarise the entire discussion.

### Content of the work programme

3. The HLEG will cover four substantive areas in the field of measuring economic performance and social progress:

- Income and Wealth Inequality (Theme I, coordinator: T. Piketty)
- Multidimensional and Global Inequalities (Theme II, coordinators J. Stiglitz and F. Bourguignon)
- Multidimensional Subjective Well-Being (Theme III, coordinators A. Stone and A. Krueger)
- Sustainability (Theme IV, coordinators J-P. Fitoussi and M. Durand)

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<sup>1</sup> The meeting was attended by Martine Durand, Joe Stiglitz, Jean-Paul Fitoussi, Jil Matheson, Walter Radermacher, Chiara Saraceno, Nora Lustig, Yann Algan, Francois Bourguignon, Angus Deaton, Jacob Hacker, Geoffrey Heal, Thomas Piketty, Arthur Stone, Yan Yao. Absent: Alan Krueger, Timothy Besley, Ravi Kanbur, Pronab Sen.

4. For the theme **Income and Wealth Inequality**, the Group identified the following goal: to pursue methodological and empirical work paving the way towards the creation of Distributional National Accounts (DINA), i.e. a decomposition of key National Accounts Aggregates in particular household income by percentiles of the population.

5. This work is related to on OECD-Eurostat experimental work on Integrating Disparities in National Accounts<sup>2</sup> and seeks to improve on some of the assumptions of the latter work (notably the decomposition by quintiles and the use of household surveys as the exclusive source of information on the distribution of income and wealth). The short-term objective of this activity will not be to provide official figures of DINA but to make progress on the various methodological challenges raised by this goal (e.g. which concept and measure of income to use; how to enhance the complementarity of household surveys and tax/administrative records for eliciting good and timely information on the distribution of income and wealth; what are the most appropriate measurement units, etc.). The outcomes of this work could also inform the next revisions of the *System of National Accounts* (SNA).

6. The Group also highlighted that, in the longer run, it would be important to extend the DINA framework as currently envisaged, by considering how best to integrate the *life-time perspective* and more *dynamic* measures of inequality, and by looking at distribution of resources *within households*.

7. Several members of the Group also suggested that a range of considerations should be taken into account in the pursuit of this work:

- First, the choice of the SNA metric to be decomposed across groups of individuals or households (i.e. economic-wide measures such as GDP/GNP, or household level measures such as household disposable income).
- Second, the construction of deflators that could be applied to the various concepts measured at current prices in order to provide a coherent decomposition of nominal changes into price and volume components (e.g. to allow comparing changes in real GDP to changes in real household income of different household groups).
- Third, the possibility of expanding the relevant income concept to allow a more comprehensive analysis of the redistributive effects of government policies beyond direct taxes and cash transfers, to also include in-kind transfers such as free or subsidised government services (i.e., focusing on adjusted disposable income) and possibly consumption taxes..

8. For the theme **Multidimensional and Global Inequalities**, the Group agreed that the initial focus of the work will be on multi-dimensional inequalities and include the following activities:

- *Economic insecurity*, building on both the emerging findings from behavioural economics and the insights from information theory, and with the view to reviewing monetary measures of economic insecurity based on the equivalent income method. The Group also emphasised the need for looking at the relationship between economic insecurity and subjective well-being, going beyond the standard economic model that often understates the cost of fluctuations. A crucial consideration for this work will be whether and how to incorporate evidence from panel

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<sup>2</sup> Fesseau M., F. Wolff and M.L. Mattonetti (2013), “A cross-country comparison of household income, consumption and wealth between micro sources and national accounts aggregates”, OECD Statistics Directorate Working paper No. 52, Paris; and Fesseau M. and M.L. Mattonetti (2013), “Distributional Measures across household groups in a national accounts framework”, OECD Statistics Directorate Working paper No. 53, Paris .

data, which allow analysis of household/individual dynamics but are much more limited than standard cross-sectional data. The work will also explore how insecurity arising from income dynamic within the life-time of each person depends on the workings of insurance and capital markets.

- *Socio-economic mobility.* The Group will aim at taking stock of the relative merits and shortcomings of existing measures and at identifying the best measurement approaches. A paper (to be published in a forthcoming Handbook) by Steve Jenkins and Markus Jantii reviews various measures of inter-cohorts and within-cohorts socio-economic mobility.
- *Health inequalities.* The Group highlighted the difficulty of assessing health inequalities based on datasets that are seen as a poor source of information for both evaluating health inequalities and understanding the underlying determinants and directions of causality. Despite the significant challenges in this area, the Group felt that, if adequate resources and expertise could be mobilised, these issues should be further explored. Better measuring health inequalities, identifying the limits of alternative measures, and understanding the uses and misuses of these measures could represent an important contribution by the HLEG.
- *Measures of children's deprivation and poverty* are of particular importance, partly because such deprivation inevitably affects inequality of opportunity and raises questions of sustainability. This will involve, first of all, reviewing existing work on indicators of children' deprivation, which could be relevant from the perspective of both their present experience and their future life chances. The Group also noted the very limited availability of data on intra-household allocation of resources, and the importance of expanding information in this field.

9. The Group coordinators suggested that once the International Price Comparison Programme has issued its final results, measurement issues on Global Inequalities related to PPPs, could be addressed

10. Finally, it was suggested that future work under this Theme could also cover three additional issues:

- The extent to which alternative metrics of inequality in income, wealth or other dimensions provide appropriate summary statistics that reflect aspects that are of particular normative significance and/or have particular relevance for economic and social behaviour;
- The possible development of metrics that would help assess in real time the broader impacts of cyclical fluctuations on future economic performance and social progress;
- The possible development of metrics that would help assess the intergenerational consequences of economic fluctuations and/or policy changes.

11. For the theme **Multi-Dimensional Subjective Well-Being**, the Group identified the following streams of work:

- *Review* of the recent OECD and US National Academy of Science reports on Measuring Subjective Well-Being<sup>3</sup>, with the objective of highlighting the main progress made and open issues (e.g. multidimensionality of negative affect).
- Construction of a *dashboard* of subjective well-being indicators which will include the most relevant indicators of evaluative, experiential and eudemonic well-being. This dashboard should guide NSOs in the collection and publishing of these indicators.
- Research on the *correlates of subjective well-being*, expanding and refining the set of variables that the literature has investigated so far. In particular, the Group coordinator suggested deconstructing in greater detail the explanatory variables of subjective well-being (e.g. in the case of health, looking at types of diseases, physical and mental health) as well as possible reverse causality between subjective well-being and its correlates.
- *Work on policy uses* of subjective well-being, building on previous initiatives (Legatum Institute, OECD and others) to appraise the value added of subjective well-being in policy making (for instance in Cost Benefit analysis and in other forms of policy evaluation).

12. For the theme on **Sustainability**, the Group agreed that work will focus on:

- Achieving greater clarity on the advantages and limitations of the *Capital Approach* in measuring sustainability. The Capital Approach (recommended by the Stiglitz-Sen-Fitoussi report, in the UNECE-Eurostat-OECD Taskforce on Sustainable Development and used e.g. in the OECD Better Life Initiative) provides a starting point for understanding sustainability but faces limitations when applied to non-economic capital. These limitations pertain to both measuring the quantities of natural, human and social capital, and then valuing them in the light of risk of crossing critical thresholds in the future. The group will dwell on the possibility of translating the theoretical notion of capital into an adequate concept for robust statistical measurement.
- On *environmental capital*, the Group will work on environmental stress and tipping points, by explicitly factoring in non-linearities of risks. The Group will also reflect on the importance of evaluating trans-boundary effects on environmental externalities and how these effects could be internalised by national regulations. The Group will also review methods for social cost evaluation.
- On *human capital*, the Group will undertake work to integrate measures of skills and competences (such as PISA and PIAAC) and monetary estimates of human capital based on life-time income. The Group also stressed the importance of relaxing some of the strong assumptions of the life-time income method, notably that returns from education are only financial and that they accrue only to individuals.
- On *social capital*, the Group will start by taking stock of the significant progress accomplished in the last 15 years around non-traditional (e.g. experiment-based) measures of trust and social norms. This work will allow *inter alia* to better grasp the relationship between social capital and

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<sup>3</sup> OECD (2013), *OECD Guidelines on Measuring Subjective Well-Being*, OECD Publishing, Paris; and NRC (2013), *Subjective Well-being. Measuring happiness, Suffering, and Other Dimensions of Experience*, the National Academies Press, Washington D.C.

other well-being outcomes, particularly subjective ones. The group will also consider measures of social capital that reach beyond whether people are embedded in networks or not, to consider the characteristics of these networks (i.e. what opportunities they provide) and those aspect of social capital that reflect the characteristics of a given society. One important component of social capital that will be considered is perceptions of political efficacy and of the legitimacy and responsiveness of the political system, which will require examination of cross-national surveys, as experimental work in this realm is more limited.

- On *economic capital*, the Group will aim at identifying the critical elements and potential use of more comprehensive balance sheets, including both private and public wealth and full coverage of financial and non-financial assets. Developing a full balance sheet for households and other sectors of the economy will make it possible to obtain a more relevant and timely picture of financial stability and to understand how, over time, economic risk has transferred across sectors and increased the economic security of some at the expenses of others.

13. Two or more Thematic Workshops will be organised each year to cover in detail the issues raised by the HLEG Work Programme for the four Themes. The Workshops will gather experts in relevant fields, based on the suggestions by the theme co-ordinator and members. All HLEG members are invited to attend (and contribute). Workshops could be hosted by the Foundations that have expressed interest in supporting the work of the HLEG.

#### **Division of labour and work organisation**

14. Members of the HLEG allocated themselves across the four themes as follows:

- Theme I: Thomas Piketty (co-ordinator); Facundo Alvaredo (rapporteur); Nora Lustig; Angus Deaton; Francois Bourguignon; Jean-Paul Fitoussi; Martine Durand.
- Theme II: Joseph Stiglitz (co-ordinator); Yang Yao; Chiara Saraceno; Thomas Piketty; Geoff Heal; Angus Deaton; Francois Bourguignon; Jacob Hacker; Jean-Paul Fitoussi; ; Nora Lustig.
- Theme III: Arthur Stone and Alain Krueger (co-ordinators): Jil Matheson; Chiara Saraceno; Angus Deaton; Martine Durand; Yann Algan; Jean-Paul Fitoussi; Nora Lustig.
- Theme IV: Martine Durand and Jean-Paul Fitoussi (co-ordinators); Yang Yao; Jil Matheson; Walter Radermacher; Thomas Picketty; Geoff Heal; Yann Algan; Chiara Saraceno; Jacob Hacker.

15. The HLEG will meet once a year in a plenary meeting. During the plenary, the Group will discuss advancement on the four themes with a focus on the outcomes of the Thematic Workshops organised in the course of the year. It is envisaged that the next plenary meeting of the HLEG take place in Paris in December 2014.

#### **Envisaged outputs**

16. The HLEG will produce reports summarising the main outcomes of the Thematic Workshops. An overall, synthesis report will be produced by the end of a three-year period.

17. No additional reports are envisaged. Selected researchers will be invited to present their work at the Thematic Workshops.

## **Financial support and other resources**

18. Financial support for the work HLEG is being sought from private foundations. Some foundations have expressed their willingness to provide in-kind support, for instance by hosting one of the Thematic Workshops (e.g. SAS will sponsor the first Thematic Workshop on Sustainability, provisionally planned for May 2014; Bertelsmann Foundation has expressed an interest to host the second Thematic Workshop on Sustainability).

19. The OECD will host the Plenary meetings of the HLEG. It will also co-ordinate the basic correspondence across Group members and publish the final report of the HLEG. The OECD will also take care of creating and maintaining a dedicated website.

## **Communication aspects**

20. A dedicated website on the activities of the HLEG will be created. The website will include relevant press releases on the HLEG, list of references for the specific topics (as made available by the Group Members), background papers and all relevant documentation related to the Thematic Workshops, as well as related documentation including the final report. The group will also consider the possibility and technical options for establishing and maintaining *Facebook* and *Twitter* accounts as tools to reach younger people.