Including well-being indicators in the economic policy: first results in Italy

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# Introduction

A comprehensive framework to measure well-being was developed at Istat since 2010, in line with the Stiglitz, Sen, Fitoussi approach (1) and taking into consideration international experiences (2).

The framework’s acronym is BES: B as Benessere (well-being) that is considered in its multidimensional nature, E indicates Equo (equitable) for a specific attention to distributional aspect of well-being, S stands for Sostenibile (sustainable) as conditions needed to preserve at least the same level of well-being for next generations are taken into account.

It includes 12 domains, related both to material well-being and to other aspect of quality of life, each of them illustrated by means of about 130 indicators, are yearly produced and analyzed by Istat in a report that is now at its fifth edition (3).

Since the definition phase, the Bes framework had two main aims: to inform all stakeholders about the state and the evolution of well-being in Italy and its regions; to support the policy cycle in definition, monitoring and evaluation.

# Methods

The reform of the Budget law, approved in 2016, brought an important innovation, as it established that well-being indicators had to be considered in the economic policy process (4) with an analysis of recent trends and through simulations of the expected evolution in a trend and a policy scenario.

An high level commission was set up to carry out the sensitive task of selecting indicators from the Bes framework, following key criteria such as parsimony, sensitivity to national policy, feasibility, ease of interpretation and transparency.

The final list, including 12 well-being indicators, was discussed and approved by the relevant parliamentary committees, ensuring a wide sharing of criteria and of the final choices (5).

From a technical and operational point of view, the introduction of well-being indicators is an important challenge: to the Statistical system, as it requires a special attention to data timeliness and accuracy, to be pursued also using ad-hoc flash estimates; to the Ministry of Economy and Finance (MEF), as new models linking economic measures to well-being are needed to provide trend and policy forecasts.

A first analysis of the different scenarios is presented, based on a comparison of subsequent estimates provided by the MEF (4 so far) and the reasons behind them.

# Results

A preliminary selection of well-being indicators was included for the first time in the document on economic and financial measures (DEF) in 2017. This first exercise was carried out on 4 indicators: mean adjusted income (per capita); non-participation in employment (rate); income inequality index (quintile ratio); CO2 and other greenhouse gas emissions (tons x inhabitant). For those indicators, the trend evolution in the next three years was simulated, based on data provided by Istat, and compared with the evolution forecasted in the policy scenario. In February 2018, the same exercise was repeated in the light of the actual policy measures included in the last Budget law, hence some adjustments were made in the policy scenario, and again with the 2018 DEF.

The paper will focus on an analysis of the subsequent scenarios presented by the MEF for the 4 indicators. As an example, fig.1 presents the indicator “Non-participation in the labour market” and the 4 evolution paths presented by the Government in the documents produced between April 2017 and April 2018.

 **Figure 1. Non-participation in the labour market – observed and forecasted rates (2014-2021) – Italy**

Some consideration can already be drown by comparing the subsequent forecasts of the non-participation in the labour market rate. The issue of the starting year for simulations is a sensitive one: the 2017 point forecasted in the 2017 DEF was 0.5 p.p. higher than the observed one (included by the 2018 DEF) implying an overall overestimation of the whole forecasting period. The estimate used for the Report to Parliament (RP2018) was more accurate, as it could already benefit of data related to the first quarters of 2017.

The yearly decrease in the estimated rate (always less than zero) highlights that all the MEF scenarios are optimistic. The same applies to the other indicators with the exception of the indicator “CO2 and other greenhouse gas emissions” that should slightly increase.

The DEF2017 policy scenario is more conservative than the one presented in RP2018, where the effect of specific measures to foster the labour market participation included in the 2018 Budget Law can be taken into consideration giving an higher informative value. In the latter the total decrease is -3 percentage points in the period 2017-2020, whereas in the former it is -2.4 p.p., much closer to the trend scenario (-2.1 p.p.).

Finally, the DEF 2018 trend scenario (the only one produced by MEF due to the political situation) starts from an observed value for 2017 which is slightly lower than the RP2018, but it presents a more moderate evolution, even though the normative framework is the same (the 2018 budget Law). Changes in the macroeconomic scenario (e.g. on the overall evolution of the labour market) that can explain this differences will be taken in to account in the paper, looking for possible links to the forecasted evolution of well-being indicators.

# Conclusions

The integration of well-being indicators in the cycle of economic policies in Italy is still at the initial stages, and most probably some adjustment will be needed. Many comments have already been made, by Parliamentary Committees, civil society, research organizations and academics, that will foster the process and give useful indications towards its full development.

A first analysis of results suggests further consideration of the opportunity to produce policy forecasts based only on the general programmatic lines presented in the DEF, in some cases lacking in specification and difficult to include in quantitative scenarios, and on possible issues linked to differences between observed and projected values for the starting year and to changes in the macroeconomic scenario. More in general, concerns were expressed by the UVI (Impact Assessment Office) of the Italian Senate about the actual feasibility of econometric models linking the specific measures included in the Budget Law – often quite heterogeneous – to single well-being indicators (6).

However the UVI’s studies presents only a preliminary insight about the relationship amid macroeconometrics models, economic theory and fiscal policy. The introduction of the 12 well-being indicators in the DEF represents a challenge along these dimensions. Together with the development of models we suggest at least the introduction of a clear framework to account for the revision process in the estimation. This will be in line with what happen for the main aggregates of the national accounts.

Also considering future adjustments, the inclusion of well-being indicators is expected to drive a cultural change, in line with the “Beyond GDP” approach, so that more consideration is given to the effects of policies on the quality of life and to a full accountability of the government action.

# References

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1. Istat (Italian National Statistical Office) [↑](#footnote-ref-1)