



**Tweede Kamer**  
DER STATEN-GENERAAL



Summary of the report of the Temporary Committee on a Broad Definition of Welfare

# Mapping Welfare

## Foreword

What is welfare and how can we measure it adequately? In our day-to-day lives, welfare covers much more than our income alone. In a broad sense, our welfare encompasses numerous different aspects, including health, security, good housing and education. This not only applies to welfare of individuals, but also to welfare of society as a whole. Furthermore, it not only concerns what is happening «here and now», but also the consequences of our actions «elsewhere» and «later».

The parliamentary Committee on a Broad Definition of Welfare («commissie Breed welvaartsbegrip») notes that the widely known concept of GDP, Gross Domestic Product, is the main indicator for measuring the size of our economy, but was never intended to measure welfare in a broad sense.

In the Netherlands and internationally, there are numerous sources of information on welfare in a broad sense. However, this information has very little impact on the political debate, especially in comparison to GDP. In the view of the committee, many (inter)national political discussions place too much emphasis on the means, i.e. on developing a particular measurement instrument independently. As a result, no progress is achieved in reaching the end, which is greater political focus on welfare in a broad sense. In its work, the committee has avoided this pitfall. Especially in view of the fact that initiatives taken by academics and international institutions are resulting in a growing consensus on the way welfare should be measured, it makes more sense to build on these developments, rather than reinventing the wheel.

It has become clear to the committee that the primary need is not for more information about welfare, but rather for an authoritative and effective instrument for presenting up-to-date information clearly and succinctly. The committee's conclusions are unlikely to be the final word on this matter, but the committee hopes that its recommendations will provide the House of Representatives with a clear framework for an annual debate on the development of our welfare.

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## Main Conclusions and Recommendations

### Background and Objective

Gross Domestic Product, or GDP, plays a prominent role in economics and in economic policy. The use of GDP has become so entrenched that the warning issued by Simon Kuznets, one of the pioneers of GDP in the 1940s, is sometimes forgotten in practice: GDP is not a measure of welfare. In 2013, the Dutch Scientific Council for Government Policy («Wetenschappelijke Raad voor het Regeringsbeleid», WRR) concluded that GDP has increasingly been equated to welfare or societal progress over the last fifty years in the Netherlands.

The assumption that GDP is the equivalent of welfare is not only based on a faulty understanding of GDP, but may also be related to the need for an effective measure of welfare in a broad sense. The conclusion drawn by the WRR prompted the Dutch House of Representatives to set up a parliamentary committee to provide greater clarity on precisely these two points. Its aim was both to improve understanding of GDP and to explore measures of welfare in a broad sense.

In concrete terms, the following three-fold objective has been drawn up for the investigation:

1. Clarifying exactly what GDP does and does not measure, and the role that it plays in policy-making and political decision-making.
2. Determining whether, and if so to what extent, it makes sense to develop complementary instruments and/or indicators alongside GDP to clarify different elements of welfare with a view to involving these instruments and/or indicators in policy-making and in the political debate.
3. If that indeed makes sense, formulating a proposal on how these instruments and/or indicators should be designed and how they could be used.

The House of Representatives established the Temporary Committee on a Broad Definition of Welfare and instructed it to conduct the investigation. From October 2015 until April 2016, this committee conducted literature research, held more than 20 interviews with experts and made two working visits abroad.

The committee presents its main conclusions and recommendations below.

### Main Conclusions and Recommendations

**GDP is a robust indicator** for gauging the overall size of the economy. It has a prominent presence within the public and political debate. However, GDP has its limitations and was never intended as a means of measuring welfare in a broad sense.

**Welfare in a broad sense is more than GDP alone.** According to the committee, welfare involves more than goods and services traded in the market. In line with economic theory on the subject, the committee assumes that welfare covers all kinds of aspects involved in satisfying people's needs and requirements. As well as material aspects, this also includes such areas as education, health, the environment, the informal economy, inequality and innovation. In measuring welfare, the committee argues that not only welfare «here and now» matters, but also future welfare («later») and the impact of a nation on other countries in the world («elsewhere»). In order to measure welfare in a broad sense, the committee argues that additional indicators are necessary, alongside GDP.

### **Welfare is being widely discussed at international level...**

There is an ongoing international discussion about indicators of welfare. The discussion was given particular momentum in 2009 as a result of a report whose authors included Nobel Prize-winners Stiglitz and Sen. Across the world, hundreds of different initiatives have been taken to measure welfare.

Since 2004, joint working groups from the UN, the OECD and Eurostat, also involving participation by the World Bank and national statistics agencies, have been working to harmonise the measuring of welfare. An important result of this work was the publication in 2014 of the CES recommendations on measuring sustainable development. These recommendations were significantly influenced by the report of the Stiglitz-Sen-Fitoussi Commission. The international institutes and Chief Statisticians of more than sixty countries, including the Netherlands, have endorsed these recommendations. Currently, ten countries are pilot-testing the CES recommendations.

In categorising welfare, the CES recommendations use the dimensions «here and now», «elsewhere» and «later». For «later», the so-called capital approach is taken as the conceptual framework. The committee acknowledges the analytical strength of this approach. In the capital approach, it is assumed that future welfare depends on the different types of capital that a society passes on to later generations. The different types of capital are economic, human, natural and social capital. The CES recommendations include the recommendation that so-called footprint indicators should also be used in the future when they have been sufficiently developed. The committee has noticed that the carbon footprint is the most developed of these and highlights the importance of developing this further.

### **...but the initiatives remain highly fragmented**

International organisations and individual countries have taken initiatives in order to develop sets of indicators for welfare. For example, France and Germany have pursued projects lasting many years in order to reach their own set of indicators, but with only limited results and ultimately without agreement. International organisations, such as the UN, the OECD, Eurostat and the World Bank have each developed their own set of indicators. The committee notes that there remains a lack of international harmonisation and coordination between the various countries and international organisations, partly as a result of which the different initiatives have so far achieved little impact. The committee therefore argues that the Netherlands should not attempt to reinvent the wheel by developing its own national set of indicators, but actually contribute to achieving further international harmonisation.

The Sustainability Monitor for the Netherlands («Monitor Duurzaam Nederland») developed by Statistics Netherlands («Centraal Bureau voor de Statistiek») and the economic, social and environmental policy institutes<sup>1</sup> is about welfare in a broad sense. However, in its current form, it is not sufficiently useful for political debate. Similar types of studies and reports have been published in various other countries, often on the same themes (such as material prosperity, the living environment, education, health and security). However, the indicators used differ. The result is a fragmented picture and minimal societal impact.

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1 Netherlands Bureau for Economic Policy Analysis («Centraal Planbureau»), Netherlands Environmental Assessment Agency («Planbureau voor de Leefomgeving»), The Netherlands Institute for Social Research («Sociaal en Cultureel Planbureau»).

Some international agreement is beginning to emerge on the use of indicators, as demonstrated by the CES recommendations referred to above. Many countries and international organisations have however not yet brought their instruments for measuring welfare in line with the CES recommendations.

The way in which the instruments are presented visually also varies. The committee points out that, unlike the Sustainability Monitor for the Netherlands, the OECD's Better Life Index provides insight into welfare «here and now» in a way that is attractive, accessible and useful. The committee also appreciates the fact that the Better Life Index primarily comprises objective indicators and believes that it would form a good basis for the presentation.

In the Netherlands, a lot of information is available at national level about welfare, including in the many publications from Statistics Netherlands and the Dutch policy institutes. There is a wealth of information on welfare «here and now» in particular. Although some information is also available on the dimensions of welfare «later» and «elsewhere», there remain important questions and gaps in terms of knowledge and information, scientific or otherwise. There is a lack of knowledge on how to expand existing projecting and forecasting studies to include more aspects of welfare. In addition, some types of capital in the capitals approach cannot yet be expressed in a single figure and methodological limitations still exist in the calculation of footprint indicators. Dutch academics and institutes play an important role in developments in these areas. The committee welcomes their active contribution to improving the way in which these dimensions are measured.

**The information about welfare in a broad sense has so far had little impact in the public and political debate.** Despite the availability of information about welfare in a broad sense, the impact of that information in the public and political debate is negligible compared to that of GDP. The committee concludes that the information that is available has so far not been put to optimum use. The committee believes this has been caused by the variety and diversity of initiatives and indicators, the lack of international harmonisation, the shortage of up-to-date information and the way in which information has been published and presented. The publication methods, presentation and frequency of publication vary considerably for the many initiatives and publications on welfare in a broad sense. None of these publications are linked to fixed dates or occasions in the parliamentary process.

In the view of the committee, the issue of welfare in a broad sense deserves greater attention in the political debate. Rather than addressing such issues as measurement instruments and indicators, the political debate should be about the overall development of welfare in a broad sense and the political choices that this entails. Until now, this debate has often failed to take place. In order to provide a basis for that debate, the committee makes the following recommendations.

1. The committee recommends that the Cabinet ask Statistics Netherlands to publish a **Monitor on Welfare** on an annual basis. To this end, the committee recommends that the existing **Sustainability Monitor for the Netherlands be taken as the basis** for developing the desired Monitor on Welfare. The **OECD's Better Life Index** should also be used as inspiration for clarifying the visual presentation of the dashboards in order to ensure that the monitor offers the most essential information at a glance. It should be ensured that the information presented in the monitor is **more up-to-date** than at present, possibly by means of extrapolating data to apply it to the present («nowcasting»). For relevant indicators, information should be provided about **inequality and the distribution** of specific aspects of welfare across different population groups. The monitor should also provide opportunities for **comparison** with other countries and over time.

2. The committee suggests that the House of Representatives determine a specific time in the parliamentary year to debate the Monitor on Welfare. The committee considers the annual **Accountability day** («Verantwoordingsdag») in the spring to be the most suitable occasion for this. The monitor will need to be published prior to this day on an annual basis. The committee recommends that, in the lead-up to the debate, the House of Representatives ask for a specific **Cabinet response** to the current state of welfare in the Netherlands, as outlined in the monitor.
3. The committee believes international harmonisation in measuring welfare to be extremely important and considers that a breakthrough in this area is required. The committee therefore calls on the national statistics institutes and international organisations such as the OECD, the UN, Eurostat and the World Bank to focus hard on reaching further harmonisation, making choices and **enhancing the coherence between the various instruments for measuring welfare**. This would be preferable to individual countries pursuing even more unilateral initiatives. The committee calls on the national statistics institutes actually to apply the already endorsed **CES recommendations on measuring sustainable development** in their publications and instruments on welfare. Of course, the new Monitor on Welfare should also apply the CES recommendations. The committee urges Statistics Netherlands to continue to spur the international harmonisation processes.