Britain, Germany and Social Europe, 1973–2020

In the inaugural Anglo-German Foundation Lecture delivered at the British Academy on 25 January 2011, **Sir Tony Atkinson FBA** *considered the evolution of social policy in Europe, and its impact on inequality, poverty, social exclusion and well-being. In the following extract, he discusses the development of new means to assess well-being in the future.*

Significance of the EU social agenda

Is the European Union social agenda just 'cheap talk', with no action? Was it the case that Member States signed up to the Social Inclusion objective at the 2000 Lisbon Summit but had no intention of adapting their policies? My answer is 'no' – for at least three reasons.

The first reason is that talk itself is important. One has only to consider the change that has taken place with regard to the political debate about poverty. The UK and Germany opposed the 1993 *Poverty 4* proposal for a fourth medium-term action programme to combat exclusion and promote solidarity. There was at the time widespread denial of the existence of poverty. In 1983, Mrs Thatcher stated in the House of Commons that 'there is no definition of the poverty line – and there has never been under any Government.' Mr Cameron could not say the same today. Not only did the Labour Government under both Mr Blair and Mr Brown adopt a high-profile commitment to end child poverty, but at the March 2010 European Council the UK government has signed up to the headline targets of the new Europe 2020 Agenda (Figure 1).

The second reason is that the social indicators adopted as part of the Lisbon Agenda, and now forming part of the Headline targets,

"The Union has set five ambitious objectives - on employment, innovation, education, social inclusion and climate/energy. Each Member State will adopt its own national targets in each of these areas. Concrete actions at EU and national levels will underpin the strategy."

- *Employment: 75% of 20-64 year-olds to be employed;*
- *Innovation: 3% of Europe's GDP to be invested in R+D/Innovation;*
- *Climate change/energy: greenhouse gas emissions 20% lower than 1990; 20% of energy from renewables; 20% increase in energy efficiency;*
- *Education: reduce school drop-out rates below 10% and at least 40% of 30-34 year-olds with completed third level education;*
- *Poverty and social exclusion: at least 20 million fewer people in or at risk of poverty and social exclusion.*

Figure 1. *The Europe 2020 Agenda.*

French-German report reached three main conclusions:

- Maintaining and increasing well-being is inseparable from economic performance measured by GDP, but this indicator can be improved;
- It is not possible to measure well-being by a single indicator;
- Well-being depends not only on the current situation but also has to be sustainable.

The report proposes a scheme of 25 indicators:

- Economic performance and material well-being (6)
- Quality of life (7)
- Sustainability (12)

Figure 2. *Franco-German report on 'Evaluating economic performance, well-being, and sustainability'.*

represent an important shift from a focus on policies and instruments to a focus on outcomes. In the report prepared by Bea Cantillon, Eric Marlier, Brian Nolan and myself that provided the basis for the EU social indicators, we stressed that the indicators should be concerned with outputs rather than inputs. The indicators should not be measures of benefit generosity or of levels of social spending. In this respect, there is a parallel with the move in the construction of national accounts to measuring the contribution of the government sector in terms of its outputs, not, as had been the case in the past, on the basis of the assumption that inputs generated commensurate outputs. In the EU policy-making context, the shift towards a focus on outcomes was essential to make sense of the principle of subsidiarity. Member States agree on the EU objectives, but are free to determine the methods by which the objectives are realised.

The third reason is that the EU social inclusion process, and the structural indicators as a whole, represented a major step towards the agenda now referred to as 'Beyond GDP', or the growing acceptance that economic, social and environmental performance should be judged on a broader range of criteria than simply Gross Domestic Product (GDP). The limitations of GDP have long been recognised – indeed they were recognised by those, such as Sir Richard Stone, who created modern national accounts – but there is gathering momentum behind calls for new and broader measures of well-being. The OECD has led the way with a global project on *Measuring the progress of societies* initiated in 2004. A French Government 'Commission on the measurement of economic performance and social progress', established in 2008 by President Sarkozy and chaired by Joseph Stiglitz, has reported calling for better statistical tools. The European Commission has taken up the subject in its 2009 Communication *GDP and beyond*.

The political salience of these developments in the UK and Germany are illustrated by two events shortly before Christmas. On 25 November 2010, Mr Cameron announced that he was asking the Office for National Statistics (ONS) to develop new statistics to measure our progress as a country not just by how our economy is growing, but by how our lives are improving, not just by our standard of living, but by our quality of life. Two weeks later, Chancellor Merkel and President Sarkozy met to discuss a report on *Evaluating economic performance, well-being, and sustainability* prepared by the Conseil d'Analyse Economique (French Council for Economic Analysis) and the Sachverständigenrat (the German Council of Economic Experts).

The Franco-German report is a significant attempt to take further the work of the Stiglitz Commission, and to provide a roadmap that may be useful also in the UK, as the ONS develops its work in this area – see Figure 2. At the same time, it raises a number of questions, including the following:

- How far will it break new ground?
- What difference will it make?

	Aggregate	Distribution
Income	NATIONAL INCOME	Inequality-adjusted national income
Multiple non-income domains	Human Development Index (HDI)	Inequality-adjusted HDI

Figure 3. *Measuring beyond national income.*

Measurements beyond national income

In seeking to answer – at least briefly – these questions, we need to have in mind that there are three distinct ingredients. That is, we are moving beyond national income (top left-hand box in Figure 3) in three distinct ways, ways that need to be kept separate. The first is the consideration of other domains apart from material circumstances: for example, health status or level of education or degree of social contact or sense of security. This can be measured at a purely aggregate level, which would correspond to the bottom left hand box. But there is a second ingredient. People criticise national income for being unconcerned about the distribution of that income. The second wing of the programme is therefore shown by the right-hand column: the distribution of national income, or the distribution of health status or of education etc.

The third ingredient, not shown, is concerned with sustainability: whether the current levels can be maintained into the future. In what follows, I am going to concentrate on the first two ingredients – though this does not imply any downplaying of the sustainability issue.

The simple point I want to make is that we are already in a position to say something about the contents of these boxes.

The idea that we should supplement GDP by consideration of other domains – that is move downwards in Figure 3 – has long been championed by the UN Development Programme in the form of the Human Development Index (HDI), which has just celebrated its 20th anniversary. The HDI is important both for broadening the approach to the evaluation of development and for having a theoretical foundation in the concept of capabilities advanced by Amartya Sen. Just as national accounts have a theoretical basis in classical welfare economics, so too it is possible to ground the addition of new domains in the theory of capabilities, interpreted as the freedom people have to function in key dimensions.

A theoretical foundation can also be provided for the move to the right-hand column. National income treats £1 as being equally valued regardless of who receives it. £1 extra for an Oxford professor is weighted the same as £1 extra for a person on the minimum wage. These implicit weights can however be replaced by distributional weights that reflect concerns with the current inequality of incomes. There are of course many different possible sets of weights, as has been much discussed in the literature on inequality measurement. Again, this is far from a new suggestion. It is indeed worth remembering that the National Income Blue Book used to publish regularly information, alongside the national accounts, on the distribution of income. This table was dropped in 1983, just as inequality began to rise.

A recent development, however, has been the fourth box. In its 20th anniversary report in November 2010, the Human Development Report introduced a new form of the HDI that took account both of new domains and of distribution. For each of the domains – income, education and health – the indicators are distributionally-adjusted.

Comparing the UK and Germany

These are not therefore empty boxes. What is more, we can go some way towards answering the question – what difference would it make if we adopted these alternative measures of well-being?

Suppose that we begin with the top left-hand box. Figure 4 shows the growth of GDP per capita in the UK and Germany, adjusted for purchasing power, in index number form. The series starts from 100 in 1973 and shows the change from that date. So that a figure of 200 means that incomes per head had doubled in terms of purchasing power. (In fact GDP per head in the UK was some 1½ per cent higher in absolute terms in 1973.) The rather surprising outcome is that the

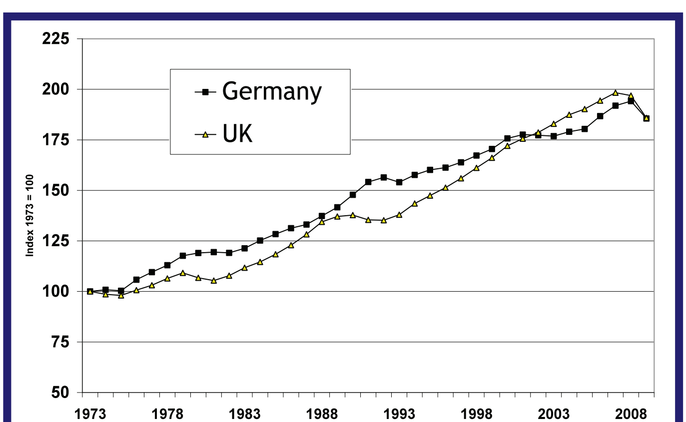

Figure 4. *GDP per capita at constant PPS, in Germany and the UK. Source: OECD StatExtracts, National Income, Main Aggregates, downloaded January 2011.*

two series not only start but also finish at the same value: an 86 per cent increase. Over the period as a whole, the two countries have grown at the same rate. Given what has happened over this period, including German reunification, this is rather surprising. Much has been made of the mediocre growth of the German economy since 1990. It was in fact, as they say in football, a game of two halves. For the first part of the period growth was faster in Germany; in the second part the UK caught up. But it seems to me that the mediocrity of the German growth performance is exaggerated. After all, even allowing for the downturn in 2009, GDP per capita had risen by a fifth since reunification.

But aggregate living standards are not everything. What about the other boxes, where we take alternative views about well-being? We have seen that poverty increased in Germany in recent years. What happens if we look, not at GDP per capita, but at distributionally adjusted GDP per capita?

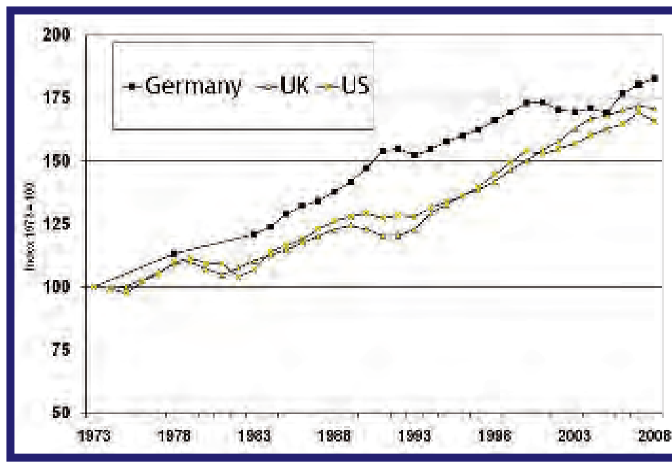

Figure 5. *Inequality-adjusted GDP per head (based on Gini coefficient), in Germany, the UK and the USA. Source: GDP from Figure 4; Gini coefficients from A.B. Atkinson and S. Morelli, 'Chartbook of Economic Inequality: 25 Countries 1911-2010' (Institute for Economic Modelling, University of Oxford).*

In Figure 5, I have taken a particular set of distributional weights, where a person's income is weighted according to their rank in the distribution, as in the Gini coefficient. People who rank near the top get relatively little weight; people near the bottom get a large weight. It may be seen that this changes the relative evaluations of economic performance by Germany and the UK (and I have added the US). The rise in inequality in the UK (and the US) in the 1980s meant that we fell increasingly behind in terms of distributionally-adjusted income. A gap of 7 per cent in GDP per capita by 1990 became a gap of 20 per cent when account is taken of the worsening inequality. Again though, it was a game of two halves. In recent years, inequality has increased in Germany, and the final score leaves Germany only ahead by 7 per cent in 2008. But it is still ahead, not level pegging as with GDP.

What happens if we consider other non-income domains? In Figure 6, I show the new HDI published in November 2010, which combines GDP per capita with health, measured in terms of life expectancy, and knowledge, measured by mean years of schooling and expected years of schooling. Attention is usually focused on developing countries, but it is also interesting to see the outcome for rich countries. As you can see, in 1995 the UK had a slightly higher HDI score than Germany, but this century Germany has pulled ahead. And this becomes even more pronounced when the different components are adjusted for inequality. The two countries, similar in terms of GDP per capita, are a long way apart when we consider the inequality-adjusted HDI.

The short answer is that how we measure well-being does make a difference. Mr Cameron's request to the ONS may well lead us to take a different view of ourselves; and it may differ in ways that he does not expect.

Office for National Statistics

Before leaving the figures, I should end with a reminder. Neither the analysis in this Lecture nor the construction of the EU social indicators would have been possible without the major developments in official statistics over the past four decades. These include

- Annual household surveys of incomes and employment
- Harmonised across countries: EU-SILC
- Official analyses: Households Below Average Income, and Redistribution of Income.

I mention this, since the ONS is currently reviewing its priorities in the light of budget cuts. It would be ironic if we were to lose the statistics at just the time when governments and the EU are making increased demands for tools to evaluate social and economic performance.

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The Anglo-German Foundation for the Study of Industrial Society was established in 1973, by an agreement between the British and German governments. When the Foundation closed in 2009 on the expiry of its Royal Charter, its Trustees made available to the British Academy funds to establish a lecture series to commemorate and continue the work of the Foundation. Further information about the Anglo-German Foundation and about its publications can be found via *www.agf.org.uk*

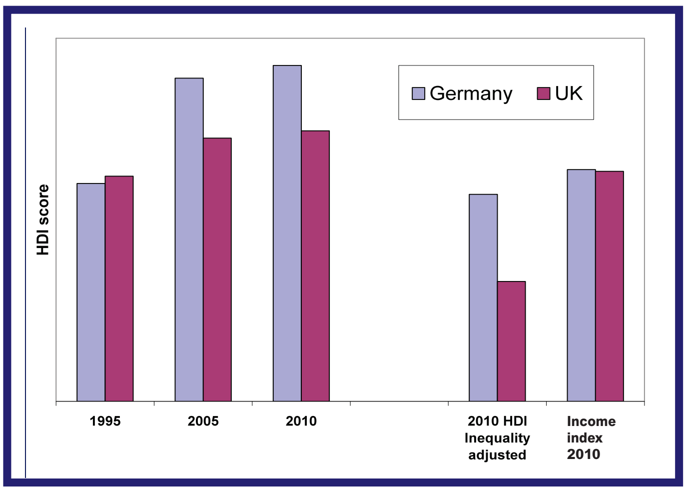

Figure 6. *Germany and the UK according to new Human Development Index. Source: Human Development Report 2010, Tables 1, 2 and 3.*