

Equitable and Sustainable Well-Being (*Benessere Equo e Sostenibile*) Indicators in the Italian public finance process

The importance of measuring well-being for public choices has long been recognized by academia and civil society and has now become more crucial in institutional contexts. As experts from various disciplines (particularly relevant is the contribute of the Stiglitz-Sen-Fitoussi Commission) and a number of international organizations (United Nations, OECD and European Commission) have pointed out, it is time for economic policy to give up an approach to policy-making that is based on GDP only and to make commitments to improve specific areas of the quality of life. Nowadays, many national governments are looking to fill the gap between standard macroeconomic statistics and indicators that have a more direct bearing on people's life and consider sustainability and distributive aspects.

To respond to this need, Italy is the first country in the European Union and the Group of Seven to include well-being as one of the objectives of the Government's economic and social policy. This was done within the 2016 reform of the Budget Law.

That year the Italian Parliament approved, with a large majority, the inclusion of equitable and sustainable well-being indicators in economic policymaking. The government has to monitor the trends in well-being of the past three years, as measured by the relevant equitable and sustainable indicators, and to forecast them over the next three-year period under a no-policy change scenario as well as a policy scenario.

An ad hoc Committee - chaired by the Minister of Economics and composed by the President of the Italian Institute of Statistics (ISTAT), the Governor of the Bank of Italy and two experts coming from universities or research institutions – has been established with the task of selecting indicators to measure equitable and sustainable well-being, drawing on national and international experience.

The new regulations provide that the indicators selected by the Committee have to be integrated into the economic and financial planning cycle by means of two documents prepared by the Ministry of Economy and Finance (MEF):

- A report attached to the three years horizon planning document (DEF – Documento di Economia e Finanza) issued in April that includes the evolution of the selected well-being indicators over the last three years and the forecast over the following three years, also considering the possible impact of the economic policy announced by the Government over this period. The report is based on data provided by ISTAT, and on forecasting simulation models by the MEF;
- A Report to be presented to the Italian Parliament by February 15th every year, updating April forecasts in the light of the Budget Law.

In 2017, the Committee selected twelve indicators which are particularly significant for the quality of life of citizens and society as a whole and with the aim of evaluating the progress of society not only from an economic, but also from a social and environmental point of view.

The indicators have been selected referring to the methodological framework developed by the ISTAT and the National Council for Economics and Labor (CNEL, a constitutional body that advises the Italian government, the Parliament and the regions, and promotes legislative initiatives on economic and social

matters) within the “Equitable and Sustainable Well-Being” (“Benessere Equo e Sostenibile” – BES) project that, through the analysis of a wide set of indicators, aims to describe in a comprehensive way citizens’ well-being in Italy.

The selected BES indicators are:

1. Mean adjusted disposable income (per capita);
2. Disposable income inequality;
3. People living in absolute poverty;
4. Healthy life expectancy at birth;
5. Overweight or obesity (measure of health risk);
6. Early leavers from education and training;
7. Non participation rate;
8. Ratio of employment rate for women 25-49 years with children under compulsory school age to the employment rate of women 25-49 years without children;
9. Victims of predatory crime (robberies, burglaries and pick pocketing);
10. Efficiency of civil justice index;
11. Emissions of CO² and other greenhouse gasses (measure of environmental risk);
12. Illegal building rate.

The selected indicators are consistent with the recommendations of the Report of the "Sen-Stiglitz-Fitoussi Commission". On the one hand, they capture a measurement of current well-being, its distribution and its degree of sustainability over time. On the other hand, they include both monetary dimensions of well-being closer to the living conditions of households and non-monetary dimensions. Some of the selected indicators capture specific aspects of the dimensions of well-being, but were selected for their important signaling function. Subjective well-being indicators were excluded from the list given the analytical obstacles in forecasting the impact of new policies.

The indicators meet the criteria of parsimony (i.e. focusing on a limited number of indicators to facilitate their adoption in the public debate), sensitivity to policy intervention (accountability), data availability, timeliness and availability of long-and high-frequency time-series.

Well-being was first introduced in the Italian planning in April 2017. Since then, forecasts and evaluations for a first provisional subset of four indicators - average disposable income, the inequality index, labor force lack of participation rate and emissions of CO² and other global warming gases - have been presented. Recently, the Annex to the Economic and Financial Document (DEF) (April 2019) highlights the evolution of the performance of these four BES indicators considering the effects determined by the Budget law and the related measures recently approved in Italy, including the basic income.

The MEF aims to significantly increase the number of indicators for which forecast evaluations will be available and to refine the methodology applied for those already provided. However, the implementation of the reform requirements is a complex process that poses significant challenges both at a statistical and methodological level.

First, it is necessary to have high quality data (complete, consistent, accurate and timely) and adequate forecast models. Now, there is not any model that can link all twelve indicators to economic policy measures.

Consequently, new ad hoc models for advance estimates are needed which means a long-term research strategy.

Research activities are still in progress since results must be gradually consolidated through institution-building and trial-and-error learning. There is the necessity to refine the choices, evaluate their validity, monitor their effectiveness, strength the procedures between the different administrations involved and the debate with experts and academia.

Thus, the process to assess well-being in economic planning is just at the beginning and more efforts are needed to make it relevant in day-to-day governance and politics. On the one hand, significant investments have to be made in the improvement and development of forecasting models for the evaluation of the impact of policies in the well-being indicators. On the other hand, the success of the initiative depends on its capacity to generate continuous engagement and buy-in from across government as well as broader social partners.