Measuring well-being: The OECD experience

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1. Measuring **well-being** in general
   - The OECD framework
   - Developing indicators

2. Measuring **subjective** well-being in particular
1. Measuring well-being
Gross domestic product

Percentage change on the previous quarter, seasonally adjusted data

Source: OECD, Quarterly National Accounts News Release, August 2012
Recent calls to go ‘beyond GDP’

• Stiglitz-Sen-Fitoussi report (2009)

• EU 2020 and Communication on “GDP and beyond”

• UN Resolution 65/309 (2012): “Happiness: towards a holistic approach to development”

• Rio+20 “The Future We Want” declaration, June 2012

• Wide range of national initiatives on well-being too
OECD got started early...

OECD helping to build the international evidence base:

• environmental and social indicators (1980s-90s)

• analytic reports (e.g., Society at a Glance)

• **Four OECD World Fora** on ‘Statistics, Knowledge and Policies’ since 2004 (Palermo, Istanbul, Busan and Delhi)
OECD@50: Better policies for better lives

Goal: an information system for policy

Building our understanding of well-being in 3 ways:

• Better measures of better lives
• Better knowledge of (policy) drivers
• Better understanding people’s views of better lives
OECD well-being framework

Measuring well-being > OECD framework > Developing indicators > Measuring subjective well-being

INDIVIDUAL WELL-BEING

[Populations averages and differences across groups]

Quality of Life
- Health status
- Work and life balance
- Education and skills
- Social connections
- Civic engagement and governance
- Environmental quality
- Personal security
- Subjective well-being

Material Conditions
- Income and wealth
- Jobs and earnings
- Housing

SUSTAINABILITY OF WELL-BEING OVER TIME

Requires preserving different types of capital:

- Natural capital
- Economic capital
- Human capital
- Social capital

Regrettables
Selecting the indicators

Measuring well-being > OECD framework > Developing indicators > Measuring subjective well-being

• **Relevance**
  - face valid
  - easily understood (e.g., more is better)
  - policy relevant
  - can be disaggregated by population groups

• **Quality of data and documentation**
  - official or established sources; non-official place-holders
  - comparable/standardized definitions
  - maximum country-coverage
  - recurrent data collection
How’s Life? (2011)

Measuring well-being > OECD framework > **Developing indicators** > Measuring subjective well-being

- One chapter for each of the 11 dimensions; +an overview chapter
- Progress over time
- Progress between countries
- Progress within countries (focus on inequalities)
- The statistical agenda in each of the 11 dimensions
What’s in How’s Life? (2011)

- 22 headline indicators
  e.g., Housing:
  - number of rooms per person in a dwelling
  - dwellings without basic sanitary facilities
- Wide range of secondary indicators
  e.g., Housing:
  - housing cost overburden rate
  - satisfaction with housing

→ Change over time
→ Inequalities between and within countries
What’s in How’s Life? (2011)

Air quality: PM$_{10}$ concentrations, micrograms per cubic meter

Source: World Bank; OECD (2008), OECD Environmental Outlook to 2030, Paris
What’s in How’s Life? (2011)

Employment rates by gender, 2010

Note: The latest available year is 2009 for Brazil.
• How’s Life? – close to 300 pages

• Wanted to develop something accessible to a much wider audience

• Key aim to engage the public in thinking about what makes a better life
Your Better Life Index – interactive web tool

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www.oecdbetterlifeindex.org
Building understanding and *measurement capacity*
(epecially in official statistical system)

- Distribution of income, consumption and wealth
- Social connections/capital
- Quality of jobs
- Subjective well-being
4. Measuring subjective well-being
What is subjective well-being (SWB)?

Good mental states, including the various evaluations that people make of their lives, and the affective reactions of people to their experiences.

- **Life evaluations** (e.g., life satisfaction)
- **Affect:**
  - positive (happy; content)
  - negative (sad; anxious)
- **Eudaimonia**
  - positive mental functioning; meaning + purpose in life; personal growth

→ We often say “happiness” but usually mean much more.
Measurement: Methodology matters

- Question order
- Survey design
- Question wording + response formats
- Response biases

→ Comparable answers start with comparable questions!

→ All measures contain error; solution is not to stop measuring, but to learn how to reduce and manage error

>> OECD Guidelines
We need to know more about ‘cultural’ biases.

Life satisfaction across countries, mean values in 2010

Cantril ladder (0-10 life evaluation measure)

Source: Gallup World Poll data, reported in How’s Life? OECD, 2011
SWB can adapt to life circumstances

- People can show remarkable **psychological resilience**
  → Concern that subjective data could potentially underestimate suffering

- **BUT** there are some life circumstances to which we *don’t adapt*, or where adaptation is slow/ incomplete

- **Individual differences** in the rate and extent of adaptation
  → the **personal, social, and public resources** that influence adaptation = a key policy interest
OECD Guidelines for the Measurement of Subjective Well-Being

- COMING SPRING 2013

• Conceptual issues and validity
• Methodological issues
  >> managing the risk of measurement error
• Reporting and analysing subjective well-being data
  >> managing the risks of ‘bias’ and ‘adaptation’
• A standard set of prototype question modules

For further information, please consult...
Thanks for listening!
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2 headline indicators
- Life expectancy at birth (OECD health data)
  + by high and low educational attainment
- Self-reported health status (EU-SILC and OECD health data)
  + by income quintile

4 secondary indicators
- Infant mortality (OECD health data)
- Self-reported longstanding illness (EU-SILC and OECD health data)
- Self-reported limitations in daily activities (EU-SILC and Swiss Federal Statistical Office)
- Overweight and obesity (OECD health data and WHO Global Infobase)
How are the indicators aggregated?
Each topic of well-being is measured by one to three indicators. Within each topic, indicators are averaged with equal weights. For instance education is measured through educational attainment and reading skills. The education score will thus be given by:

\[
\frac{\text{educational attainment score} + \text{reading skills score}}{2}
\]

How are the indicators normalised?
The Index gathers many indicators, expressed on very different units (dollars, years, etc). To compare and aggregate values expressed in different unities, the values have to be normalised. This normalisation is done according to a standard formula which converts the original values of the indicators into numbers varying in a range between 0 (for the worst possible outcome) and 1 (for the best possible outcome). The formula is:

\[
\frac{\text{value to convert} - \text{minimum value}}{\text{maximum value} - \text{minimum value}}
\]

When an indicator measures a negative component of well-being (e.g. unemployment) the formula used is:

\[
1 - \frac{\text{value to convert} - \text{minimum value}}{\text{maximum value} - \text{minimum value}}
\]
How are the weights assigned?

The web application that builds the Index requires some default weights at the start. For simplicity, these weights have been set equal to the grade of 1 for all topics. These default weights do not represent the OECD’s view on the relative importance of each topic.

Weights are assigned by the users, who build and customise their own Index. To do so, users have to rate each topic from 0 ("not important") to 5 ("very important").

The score given to each topic is converted into a weight, by dividing the grade given to each topic by the sum of the grades given to all topics. For example, if a user assigns a score of 5 to Health and Education and 3 to all the other topics, their Index will weigh health and education by a factor of 5/37 (i.e. around 13.5%) and all the other topics by a factor of 3/37 (i.e. around 8.1%). The sum of all weights is 100%.