The National and Regional Welfare Index (NWI/RWI): Redefining Progress in Germany

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ABSTRACT

In recent years, the public discussion on welfare measurement ‘beyond GDP’ has considerably gained momentum in Germany. Among other developments, a growing political interest in the National Welfare Index (NWI) and its regional adaptation (Regional Welfare Index, RWI) points to the possibility of change. The NWI was created in 2009 with support from the Federal Ministry of Environment to improve sustainability and welfare accounting in Germany at the federal level, by developing a methodology based on the Index of Sustainable Economic Welfare (ISEW) and the Genuine Progress Indicator (GPI). In response to a demand by political actors, it was adapted for the state level in 2011. Results both on the national and the regional level show striking divergences between NWI/RWI and GDP, but also between different German states. Challenges remain with regard to data availability, methodology and political adoption. However, there is growing recognition of the NWI/RWI as a serious alternative and support for the improvement of the data necessary for its calculation. Drawing on our experience, we discuss some theses on conditions that may favour or impede the adoption of alternative welfare measures.

1. Introduction

As in many other countries, the discussion about alternative welfare measurement has gained momentum in Germany during the last years. This might be considered surprising because of the unprecedented prosperity Germany in particular achieved after the Second World War. Frequently used expressions and vocabulary such as ‘economic miracle’ (of the 1950s) are based on the concept that economic growth is the dominating model to achieve material wealth, social security and political stability. But on the other hand, strong environmental movements, social scientists and some parts of the public media have recognised that the main goals of sustainable development, if taken seriously, are scarcely compatible with continuous economic growth into the future, and that the material- and energy-intensive economic model in early industrialized countries is ultimately going to undermine public wealth and social welfare.

This discussion, of course, is no peculiarity of Germany at all: Using GDP as a measure of welfare has been criticized since its creation; this critique was taken up in the 1970s by Nordhaus and Tobin (1972), by the Net National Welfare Committee (1973) in Japan and in the 1980s by Zolotas (1981). They all came to the conclusion that GDP can serve as a proxy of welfare measurement only in specific economic constellations but not in general. The first theoretical and practical discussion of the Index for Sustainable Economic Welfare in the 1980s and 1990s are well documented in a volume published in 1993 (Cobb and Cobb, 1994), including the first case study on the ISEW in Germany (Diefenbacher, 1994). The economic crises in the first decade of the current century gave rise to further concerns that the welfare of society has to become a more important objective than purely quantitative economic growth. The OECD conference series on “Measuring the Progress of Societies” and the EU congress “Beyond GDP” in 2007 revitalized an existing international discussion, which, unlike earlier decades, now transcended the scientific communities into a broader interest in politics, the public and the mass media. In particular, the establishment of the “Comission on the Measurement of Economic Performance and Social Progress” by the French president Sarkozy in 2008 and its final report (Stiglitz et al., 2009) met with considerable public interest.

In the following sections of this document, we discuss recent developments of welfare measurement in Germany in general and the National Welfare Index (NWI) and its regional application RWI more specifically (Section 2). We then present in summary the methodology...
of the NWI/RWI and the ISEW/GPI “family” of welfare indices it belongs to, discuss some of the difficulties associated with data availability and the assumptions necessary to calculate the index (Section 3) and compare national and regional results (Section 4). We reflect on potential and actual usage of the welfare index (Section 5) and conclude with some theses on conditions that may favour or impede the adoption of comprehensive alternative welfare measures (Section 6).

2. The Growing Demand for Welfare Measurement in Germany

In Germany, the Federal Ministry of Environment decided in 2008 to support a research project on welfare and sustainability accounting that led to the development of the National Welfare Index (NWI) as a single comprehensive measure of welfare. The decision to focus on a single index had been taken right from the beginning: The constituents wanted to have an indicator on the same level as the GDP, which still prominently features in environmental and sustainability reporting schemes, including the so called progress indicators of the German National Sustainability Strategy (Federal Statistical Office, 2014).

The Ministry and the Federal Environment Agency have continued to fund NWI follow-ups at a national level, including a revised methodology in 2012, the NWI 2.0 (Diefenbacher et al., 2013c). In July 2016 the latest update of NWI was published, a time series from 1991 to 2014; this research was funded by the Macroeconomic Policy Institute IMK (Diefenbacher et al., 2016). Recently, the NWI has also been incorporated into the data compendium “Daten zur Umwelt” by the Federal Environment Agency, which is published on a regular basis (Umweltbundesamt, 2017). In addition, the index has generated considerable public attention especially at a regional level, which continues to today (see four paragraphs below).

A major step in raising broader public awareness for alternative welfare measurement issues in general was the establishment of an Enquête-Commission on “Growth, Wellbeing and Quality of Life” by the German Federal Parliament in 2011. Consisting of 16 members of parliament and 16 experts, the commission was mandated to identify or develop a new single comprehensive measure to replace GDP as the main indicator of welfare development, but not as a major macro-economic indicator. Until today, it has been an outstanding event that such a high-level political institution discussed the problems of economic growth and the necessity of developing a new measurement approach. Among other approaches, NWI was examined in a working group of the commission. It was also identified as particularly suited for public communication efforts in a survey among media experts, while at the same time being criticized for its complexity and, correspondingly, for its opacity for non-experts (Brode, 2011).

However, the Enquête-Commission soon decided to develop a system of indicators instead of one single measure. Finally, a majority came up with a set of 10 headline indicators plus several “warning lights” in 2013. In addition, two minority votes, one by the Green party representatives and one by the Leftist Party representatives, suggested different indicator sets (Deutscher Bundestag, 2013). None of them included the NWI or a similar measure. The different proposals led to considerable confusion in the public debate. Ultimately, the work of the commission proved ineffective in enhancing alternative welfare measurement in Germany, due to lacking political consensus.

Instead of adopting the majority proposal, the government started a new process called “Citizen Dialogue on Good Life in Germany” in 2015, focusing on quality of life.2 The results of the dialogue, which involved a great number of local citizen dialogues as well as possibilities to participate online and via postcards, were translated into an indicator system in 2016 (Bundesregierung, 2016). The indicators presented in the final report do not relate clearly to the National Sustainability Strategy nor to the proposals of the Enquête-Commission or the indicator system related to the Sustainable Development Goals that is suggested by the UN. How to deal with that remains an open question that political actors have only started to struggle with.

In addition, while there still is a political will to broaden reporting efforts on the general development of society, the momentum to challenge GDP by complementing it with a strong alternative perspective seems to have weakened again at federal level – despite some rather popular and widely discussed publications on the history and/or the critique of the gross domestic product (Fioramonti, 2013; Lepenies, 2016; Speich Chassé, 2013; Vanoli, 2005). The reception of these publications has strengthened the scepticism toward political decisions on the basis of GDP and the willingness to deal with alternative metrics, but more on a theoretical level; when it comes to practical applications, politics and the mass media are still reluctant to draw appropriate conclusions. GDP and its growth remain the goal and benchmark of many governmental decisions and processes (Fioramonti, 2017). This contributes to policies that do not consider properly the effects on, for example, household production and the environment properly because these aspects are not or only partly included in GDP.

In the meantime, interest in the NWI and its regional adaption, the Regional Welfare Index (RWI), continues to grow, especially at the Länder (federal states) level. The Green party group in the regional parliament of Schleswig-Holstein was the first to commission a regional calculation in 2011 (Diefenbacher et al., 2011). Since then, RWIs for six further states have been calculated: Bavaria 2013 and 2014 (Diefenbacher and Rodenhäuser, 2014; Diefenbacher et al., 2013b), Thuringia 2013 (Diefenbacher and Rodenhäuser, 2013), Saxonia 2013 (Diefenbacher et al., 2013a), Hamburg 2014 (Diefenbacher et al., 2014a), Rhineland-Palatinate 2014 and 2016 (Diefenbacher et al., 2014b; Rodenhäuser et al., 2016b), North Rhine-Westphalia 2016 (Rodenhäuser et al., 2016a). While the majority of them was supported by Green parliamentary groups, the reports for Rhineland-Palatinate and North Rhine-Westphalia were funded by the Ministry of Economic Affairs and Energy on the explicit demand of the minister and, respectively, the office of the socio-democrat prime minister. The support from regional governmental institutions led to a noticeable change in the general perception of the NWI/RWI. However, with the exception of the data compendium “Daten zur Umwelt” mentioned above, the index has not been integrated in a regular reporting scheme by a German government or statistical agency up to now. On the other hand, this situation leaves the door open for further independent substantial and methodological improvements of the NWI.

3. Methodology of the National and Regional Welfare Index

3.1. Methodological Approach

The National Welfare Index has been developed on the basis of an analysis of different indicator approaches.3 Fundamentally, the NWI and the Regional Welfare Index as its regional adaption share the methodological approach of the Index of Sustainable Economic Welfare (ISEW), first presented in Daly and Cobb (1989) and Cobb and Cobb (1994), and the Genuine Progress Indicator (GPI).4 Taking the deficiencies of GDP as a starting point for consideration, those indices try to capture the consequences of economic activities on current welfare in a more comprehensive way, especially with regard to social and environmental issues. Therefore, monetized costs and benefits are aggregated across social, environmental and economic dimensions into one single indicator.

The calculation follows an accounting approach, starting with

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3 For more details see Diefenbacher and Zieschang (2010).
4 ISEW was renamed GPI in the US in 1995 (Cobb et al., 1995). Since then, the name ISEW has mostly been used in Europe, whereas GPI is more common in the US and the Asia-Pacific region (Bleys and Whitby, 2015). Methodologies differ to a certain degree between ISEW and GPI, but also between different calculations of the same name.
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