



Council of the  
European Union

Brussels, 21 June 2019  
(OR. en)

10414/19

**SOC 495**  
**EMPL 383**  
**ECOFIN 648**  
**EDUC 326**  
**SAN 309**  
**GENDER 29**  
**ANTIDISCRIM 19**

**NOTE**

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From: General Secretariat of the Council  
To: Delegations

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Subject: The Economy of Well-Being  
- Executive Summary of the OECD Background Paper on "Creating opportunities for people's well-being and economic growth"

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Delegations will find attached the Executive Summary of the above mentioned OECD Background Paper.

The Background Paper can be found in doc. 10414/18 ADD 1.

## ***The Economy of Well-being***

*Executive Summary of the OECD Background paper on "Creating opportunities for people's well-being and economic growth"*

### **Well-being as a Compass for Policy**

The case for measuring economic performance and societal progress "beyond GDP" is well-established. In this respect, it is increasingly acknowledged that taking GDP as a single compass does not provide policy-makers with a sufficiently rich and accurate picture of the way in which the economy performs for citizens or of the long-term impacts of growth on sustainability. The EU was among the first institutions to recognise the importance of this agenda.

The OECD has played a prominent role in developing the notion of "multi-dimensional well-being" as a research, measurement and policy tool, through instruments such as the *OECD Well-being Framework*, the *OECD Framework for Policy Action on Inclusive Growth*, the *Better Life Initiative* and the *New Approaches to Economic Challenges Initiative*. The potential for improving policy decisions and outcomes, based on a multi-dimensional notion of well-being, is significant. By focusing on outcomes across the many dimensions that matter to people, policy-makers can better identify the areas of good performance, detect challenges and areas of strain at an early stage and set priorities more effectively.

### **From a measurement agenda to an agenda for action: The Economy of Well-being**

The "Economy of Well-being" can be defined as an economy that:

- (i) expands the opportunities available to people for upward social mobility and for improving their lives along the dimensions that matter most to them;
- (ii) ensures that these opportunities translate into well-being outcomes for all segments of the population, including those at the bottom of the distribution.
- (iii) reduces inequalities; and
- (iv) ensures environmental and social sustainability.

By providing people with opportunities for greater well-being and helping them realise those opportunities, policy-makers are not only promoting well-being as an intrinsic good, they are also investing in people's potential as a key driver for long-term economic growth, societal resilience and stability. Similarly, by paying attention to the sustainability of well-being over time, policy-makers can maximise the potential for long-term economic growth and better protect their economies from adverse shocks. In both cases, the "Economy of Well-being" seeks to establish and sustain a "virtuous circle" in which both elements – sustainable economic growth and well-being – work together to the benefit of people and society.

### **How to build economies of well-being?**

This Paper seeks to show how countries can build economies of well-being and to specify the role that policies can play in achieving this objective. It provides analysis of several important channels through which economic growth and well-being support and reinforce one another, focusing on a number of policy areas that are essential both for well-being and economic growth: (i) education and training; (ii) health care; (iii) social protection and redistribution; and (iv) gender equality.

The Paper argues first of all that investing in people's well-being sets the foundations for stronger and more sustainable long-term economic growth. In particular, expanding opportunities for access to high quality education and health care, and promoting inclusive social protection systems that foster resilience and social mobility, are shown to be powerful levers for activating the virtuous circle that characterises the "economy of well-being". Secondly, the paper argues that, in order to bear their full returns, these investments need to translate into improved well-being outcomes for all segments of the population. In doing so, it highlights the importance of eliminating gender inequality in access to quality jobs.

## Education

The benefits of longer and better *education* go beyond their effects on GDP growth and cover many other dimensions of well-being. For instance, **in OECD countries, highly educated people live on average around 6 years longer than low-educated people**. They experience higher employment rates, lower labour market insecurity and job strain, though the impact of longer education on work-life balance may be negative. Attempts to quantify the total net impact of education on well-being show that **returns to education more than double once the benefits in terms of health and employment are accounted for**.

Policy can improve well-being and increase economic performance by expanding access to high quality education for all segments of the population. Significant levers for doing so include higher attendance at pre-primary level, greater autonomy for schools and universities, lower student-to-teacher ratios, smaller differences (and easier pathways) between academic and vocational education, and lower barriers for funding students at tertiary level. Reducing inequalities of access and opportunity at school is essential to promote better educational outcomes, as countries with high levels of inequality in education and skills also record lower average educational performance. Similarly, the scope, targeting and efficiency of training and lifelong learning could be significantly improved. **Only around 40% of adults in OECD countries engage in adult learning in a given year**, with some groups – notably the less educated – being much less likely to take part in adult learning activities.

## Health care

*Health* is a fundamental human right and key contributing factor to well-being. On the positive side, improved health status contributes to increased economic growth through greater educational investment, improved labour market participation and higher savings. On the negative side, ill-health imposes a significant economic burden on society and public finances, in addition to its human toll. For instance, **the total costs of mental ill-health are estimated at more than 4% of GDP – or over EUR 600 billion** – across the 28 EU countries. Around **550 000 people of working-age die prematurely every year across the EU due to non-communicable diseases, amounting to 3.4 million life-years and EUR 115 billion in economic potential lost annually**. The impact of health status on other dimensions of well-being goes well beyond its effects on GDP growth. This starts with education, as higher longevity raises the lifetime return of investment in education, while poor health lowers children's cognitive development and educational outcomes. Health is also an important determinant of employment and subjective well-being.

Policy can improve well-being and increase economic performance by ensuring access to high quality health care for all segments of the population. Significant levers for doing so include policies designed to improve the effectiveness of health care systems, notably by extending the range of goods and services covered by basic health care. **Preventive measures and high levels of health protection represent an essential investment, as they are often more cost-effective** than treating the associated health problems *ex-post*. **Measures contributing to improve mental health should also constitute policy priorities**, such as developing more systematic diagnostic and support programmes (notably at school and during pregnancy and peri-natal periods), promoting non-discrimination at work and reducing stress in the workplace. Similarly, a **study of 36 OECD, EU28 and G20 countries finds that population-wide communication strategies and policy interventions to improve diet and physical activity could help save up to EUR 58 Billion on total health budgets by 2050**. Reducing inequalities of access is also essential to promote better health outcomes, as the proportion of people in poor health weighs heavily on key health indicators. Moreover, health inequalities are often stratified along economic, educational or occupational lines. For instance, **unmet care needs are substantially higher for low-income groups**.

## Social protection and redistribution

*Social protection and redistribution* impact on well-being and economic growth through two main mechanisms. First of all, social transfers protect people from economic volatility and help them recover more quickly from adverse shocks. Secondly, they can prevent inequality in present outcomes from translating into inequality of opportunities for the next generation, notably in health, education and on the labour market. In doing so, **social protection contributes to increase socio-economic resilience and promotes investment in physical and human capital, as well as higher economic growth**. Recent OECD research confirms that more inclusive social protection and redistribution systems may be associated with higher GDP growth, while higher income inequality puts a break on economic performance. The impact of social protection and redistribution on well-being is not limited to their effects on income. There is evidence that social protection and some redistribution of income are associated with higher subjective well-being.

Policy can improve well-being and increase economic performance by promoting more inclusive social protection systems and reducing inequality in opportunities and outcomes. The *new OECD Jobs Strategy* underlines the fact that **well-designed social insurance and assistance schemes, if combined with active labour market policies and with policies to foster labour demand, can be very effective in protecting individuals, while at the same time delivering better labour market outcomes**. Effects can be important, notably for middle-class families who face higher risks of downward mobility. **OECD countries that spend more on active labour market programmes (ALMP) tend to have a lower share of middle income households moving down the income distribution**. To support these objectives, there is scope in many countries to make the income tax system more progressive, in particular for top income earners, and fairer for the middle class.

## Gender equality

Promoting *gender equality* benefits societies and economies in a number of different ways, in addition to its intrinsic value. **Raising women's employment and hours worked would deliver productivity gains and higher GDP growth.** It can also reduce income inequality, support household incomes during economic downturns and consolidate the middle class. **For the EU, improving gender equality could lead to an increase in total GDP of up to 9.6% by 2050.**

Current trends in life-expectancy and fertility rates strengthen the case for increasing the participation of women in the labour force. Furthermore, despite a rise in female labour participation rates, gender inequalities in terms of access to quality jobs remain substantial. Women with jobs are more likely to work part-time, for lower pay, and in less lucrative sectors.

Policy can improve well-being and increase economic performance by helping reduce the gender gap in access to quality jobs. Doing so requires addressing gender inequality on the labour market, but also in education and unpaid care work. **Gender issues are intrinsically linked with family-friendly policies – around paid leave, care support and flexible workplace arrangements –** that help both men and women achieve a better work-life balance and greater well-being. Policies that reconcile work and family life, notably through quality early education and care services, can level the playing field by compensating for disadvantages at home, allowing women to progress in their careers and avoiding the transmission of disadvantages to children. In particular, **improving access to good-quality care and preschool programmes for children is essential for gender equality and for providing children with the best possible start in life.** Further efforts also need to be made in combatting violence against women. EU-wide, **only 14% of women who report having been victim of violence by a partner say they have contacted the police** about the most serious incident.

## A Well-being Strategy for the EU

Overall, the evidence presented in this Paper shows that well-being is no longer an interesting side-note. Rather, it deserves to take a more central place in economic decision-making. This has significant implications for policy:

- **Investment should be reprioritised to take account of the links between well-being outcomes and long-term economic growth**, so as to preserve the virtuous circle which characterises the "Economy of Well-being".
- **The effects of policies need to be properly assessed to minimise their detrimental impact on well-being and long-term growth**, notably in the context of fiscal adjustment.
- **Inequalities in well-being outcomes should be a key concern for policy. Addressing them will require a coherent and integrated approach mobilising the whole of government**, as inequalities tend to be correlated across different dimensions and a range of policies contribute to them.
- **Creating an economy of well-being is not just a mission for governments. The private sector can also contribute to this objective in different ways**. Establishing effective public/private partnerships for promoting well-being and mobilising private finance for social impact investment can constitute an innovative way of meeting financing challenges.

As a next step, the policy recommendations presented in this Background Paper could be further developed, with the aim of informing an action-oriented *Well-being and Sustainability Strategy for the EU*.