The Wellbeing Framework

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Now the country has had time to digest its first "wellbeing" Budget, what should we make of the "wellbeing" approach to government?

The government has actively promoted the wellbeing approach as world leading and the Treasury has embraced the cause. But how new is the focus on wellbeing? Is it more than just a branding exercise? And at the end of the day, is the focus on wellbeing going to make the country better off?

The wellbeing approach highlights that the government should consider more than just GDP or financial matters when assessing its policies. The government should care about our overall wellbeing, including environmental, social and cultural goals.

But is that new? Economics has always been about more than money. Any good economics textbook will tell you that economic welfare is the sum of monetary values (like GDP) and non-monetary values (like the environment).

People clearly care about much more than money. People care about maintaining minimum water flows in rivers, they care about the quality of air they breathe and they care about each other. They also care about their quality of life, as measured by such things as health status, work-life balance, education and skills, social connections and personal security.

But how much do these non-monetary things matter? If more water in the river means less water for irrigation and boosting farm output, how are the trade-offs to be made? That is where the wellbeing framework could help us. If it results in the development of new ways to measure those non-monetary values and if it involves a rigorous analysis of the overall costs and benefits of different policy choices it could be a big step forward.

A positive start has been made by the government in the area of improving child wellbeing, with clear, measurable targets set in the Child Poverty Reduction Act, 2018 and with Budget 2019 including a specific Child Poverty Report. In other areas though, performance targets that were in place, like the Better Public Service Targets, have been removed.

A notable feature of the recent "wellbeing" budget was a lack of measurable targets indicating what the extra $3.8 billion that was being spent in the budget was intended to achieve. Ironically, the extra dollars themselves were taken as demonstrating that wellbeing would increase, without measures being provided for what outcomes would be achieved or how society would be better off.

In the health sector, for example, where most of that extra taxpayer money went, public reporting of District Health Board (DHB) performance, including wait times for elective surgeries, cancer treatment and emergency departments, has been abolished, reducing the transparency and accountability of the government's $14 billion spending on the DHBs.

While the wellbeing framework has the potential to improve policy analysis and political decision making there are risks it could take us in the opposite direction. In particular, I have four main concerns with the wellbeing framework:

- firstly, will it encourage the government to use the wrong tool for the job;
- secondly, is the government, or are we ourselves, best placed to assess and promote our wellbeing?
- thirdly, if the Treasury is tasked with assessing the overall "wellbeing" impacts of different policies, who will be the champion of financial discipline in the government; and
- finally, where does productivity feature in the framework?

Turning to the first point, the Treasury refers in the wellbeing framework to the four capitals - social, environmental, human and financial/physical capital. But should the impact on all four capitals be explicitly taken into account by advisors when considering each and every policy? And should all government agencies target all four capitals when undertaking their work. Or perhaps some policies, and some agencies, are better at achieving some goals than others.

To take an analogy, does a builder use a hammer, a screwdriver and a saw to put a nail in? No, (s)he uses the right tool for the job. All three tools are needed to build the house, but each tool has its best role for a particular job.

For the same reason, when it comes to public policy, we need to match the policy instrument to the objective to which it is best suited. The best contribution government agencies like state owned enterprises, for example, can make is to focus on achieving their corporate goals, within the government's overall regulatory framework. The government can then use the dividends it receives from its SOEs to help achieve its social objectives.

An example of where the government could choose a better tool for the job is road pricing. We don't currently price roads according to when and where people drive, despite now having the technology to do so. Not charging people for their time and place on the roads means our roads are more congested than necessary, we build more roads than we need to, cars and truck emit extra emissions and people waste a lot of time sitting in traffic jams. Our current approach of free road use might be seen as contributing to social or equity objectives because charging may burden the poor. However, free road use is a blunt instrument for redistributing income, it runs counter to our carbon policies and penalises rail and other forms of public transport. Having free roads as a way of helping those on low incomes is like a builder using a saw to put a screw in.

Turning to the second point, is it really the government's role to care about your and my wellbeing? Or should the government's role be more about maintaining the security of the nation, maintaining the rule of law, funding public goods and providing a hand up for those who need it?

To put the issue another way, who in most cases is better placed to assess and promote your wellbeing: the government or you? Certainly, for the vulnerable and at-risk sections of the community there is a vital role for the government. But for the great majority in society, aren't we best placed to assess what is in our interest and what is not.

Thirdly, what should the role of the Treasury be in the wellbeing approach? Is it the Treasury's role to consider and advise on the impact of policy proposals on all the "four capitals" – to look at the impact of government policy proposals on the distribution of income, the environment and on human and financial capital – and to somehow weigh up the trade-offs.

We already have a Ministry for the Environment with lead responsibility for environmental policy; we have a Ministry for Education and Tertiary Education Commission with lead responsibility for human capital development; and we have a Ministry of Social Development with lead responsibility on social policy. Who in the government though has lead responsibility for advising on and championing financial/physical capital? If that is not the Treasury's core function, what is?

Finally, where does productivity fit in the framework? New Zealand has a poor productivity track record and our productivity is well below that of most other OECD countries. Yet it's productivity that permits us to have the capacity to achieve our social, environmental and other aspirations.

As the OECD reminds us in its latest country report, New Zealanders generally enjoy high levels of well-being. Where we are falling short is in average earnings and household incomes, reflecting our low productivity growth. If the wellbeing framework doesn't focus on lifting our productivity, achieving the other goals will be that much harder.

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