Intergenerational Wellbeing and Public Policy

What Difference does Focusing on Wellbeing Make?

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Lens / Perspective

**Academic work:**
- emphasis on distinction
- cut up the elephant into digestible portions for analytical tractability

**Policy advice:**
- emphasis on connections
- we have to try to swallow the whole elephant if we have to enhance policy advice
The Way

We form the Way by actively weaving together everything around us.

Laozi

(from The Path)
Foundation Literatures

- Wellbeing (objective and subjective)
- Subjective Wellbeing and Public Policy – theoretical and empirical
- Behavioural Economics
- Amartya Sen’s Capabilities Work and related works
- Human Needs
- Complex Systems
- Sustainable Development
- Endogenous Economic Growth
- Directed Technical Change
- Credit-Based-Money (Macro) Models
Key Assumption: Human Action

Human drive and inventiveness: bounded by their opportunities and capabilities, individuals and communities are constantly striving to improve their lives as they wish to live it (i.e. their wellbeing)

Public policy: interface between public and private action
Purpose of Public Policy

To make it easier for individuals and communities to achieve their aim to improve their wellbeing - to help people live the kinds of lives they have reason to value …

… without passing any judgement on the lives they value – provided they do not interfere with others’ wishes to live their own lives as they value them.
OECD’s Better Life Index

Figure 1.1. The OECD framework for measuring well-being

INDIVIDUAL WELL-BEING
[Populations averages and differences across groups]

Quality of Life
- Health status
- Work-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

Figure 3.2 / Dimensions of Social Progress vs. GDP per capita

- Basic Human Needs
- Foundations of Wellbeing
- Opportunity
# Social Progress Index

## Basic Human Needs

<table>
<thead>
<tr>
<th>Nutrition and Basic Medical Care</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Undernourishment</td>
</tr>
<tr>
<td>- Depth of food deficit</td>
</tr>
<tr>
<td>- Maternal mortality rate</td>
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<tr>
<td>- Child mortality rate</td>
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<tr>
<td>- Deaths from infectious diseases</td>
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<table>
<thead>
<tr>
<th>Water and Sanitation</th>
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<tbody>
<tr>
<td>- Access to piped water</td>
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<tr>
<td>- Rural access to improved water source</td>
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<tr>
<td>- Access to improved sanitation facilities</td>
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<thead>
<tr>
<th>Shelter</th>
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<tbody>
<tr>
<td>- Availability of affordable housing</td>
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<tr>
<td>- Access to electricity</td>
</tr>
<tr>
<td>- Quality of electricity supply</td>
</tr>
<tr>
<td>- Household air pollution attributable deaths</td>
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<table>
<thead>
<tr>
<th>Personal Safety</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Homicide rate</td>
</tr>
<tr>
<td>- Level of violent crime</td>
</tr>
<tr>
<td>- Perceived criminality</td>
</tr>
<tr>
<td>- Political terror</td>
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<tr>
<td>- Traffic deaths</td>
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## Foundations of Wellbeing

<table>
<thead>
<tr>
<th>Access to Basic Knowledge</th>
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<tbody>
<tr>
<td>- Adult literacy rate</td>
</tr>
<tr>
<td>- Primary school enrollment</td>
</tr>
<tr>
<td>- Lower secondary school enrollment</td>
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<tr>
<td>- Upper secondary school enrollment</td>
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<tr>
<td>- Gender parity in secondary enrollment</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Access to Information and Communications</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Mobile telephone subscriptions</td>
</tr>
<tr>
<td>- Internet users</td>
</tr>
<tr>
<td>- Press Freedom Index</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Health and Wellness</th>
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<tbody>
<tr>
<td>- Life expectancy at 60</td>
</tr>
<tr>
<td>- Premature deaths from non-communicable diseases</td>
</tr>
<tr>
<td>- Obesity rate</td>
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<tr>
<td>- Suicide rate</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Environmental Quality</th>
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</thead>
<tbody>
<tr>
<td>- Outdoor air pollution attributable deaths</td>
</tr>
<tr>
<td>- Wastewater treatment</td>
</tr>
<tr>
<td>- Greenhouse gas emissions</td>
</tr>
<tr>
<td>- Biodiversity and habitat</td>
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</tbody>
</table>

## Opportunity

<table>
<thead>
<tr>
<th>Personal Rights</th>
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<tbody>
<tr>
<td>- Political rights</td>
</tr>
<tr>
<td>- Freedom of speech</td>
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<tr>
<td>- Freedom of assembly/association</td>
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<tr>
<td>- Freedom of movement</td>
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<tr>
<td>- Private property rights</td>
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<table>
<thead>
<tr>
<th>Personal Freedom and Choice</th>
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<tbody>
<tr>
<td>- Freedom over life choices</td>
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<tr>
<td>- Freedom of religion</td>
</tr>
<tr>
<td>- Early marriage</td>
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<tr>
<td>- Satisfied demand for contraception</td>
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<tr>
<td>- Corruption</td>
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<table>
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<tr>
<th>Tolerance and Inclusion</th>
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<tbody>
<tr>
<td>- Tolerance for immigrants</td>
</tr>
<tr>
<td>- Tolerance for homosexuals</td>
</tr>
<tr>
<td>- Discrimination and violence against minorities</td>
</tr>
<tr>
<td>- Religious tolerance</td>
</tr>
<tr>
<td>- Community safety net</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Access to Advanced Education</th>
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</thead>
<tbody>
<tr>
<td>- Years of tertiary schooling</td>
</tr>
<tr>
<td>- Women's average years in school</td>
</tr>
<tr>
<td>- Inequality in the attainment of education</td>
</tr>
<tr>
<td>- Globally ranked universities</td>
</tr>
<tr>
<td>- Percentage of tertiary students enrolled in globally ranked universities</td>
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</table>
Intergenerational Wellbeing

- Resilience
  - Social Cohesion
  - Sustainability
  - Potential
  - Economic Growth

- Natural Capital
- Human Capital
- Economic Capital
- Social Capital
- Economic Capital
**BACKGROUND and CONTEXT**

**Objective**
Objective of public policy is to increase overall wellbeing on a sustainable basis.

**Wellbeing**
Wellbeing is sourced from “comprehensive consumption”, which is derived from “comprehensive wealth”.

**Proposition**
Sustained increase in wellbeing requires an integrated approach to social, environmental and economic policy.

**Aim**
Aim of public policy is to improve the capabilities and opportunities of individuals to live the lives they have reason to value.

**Instruments**
Investing in the capital stocks with a view to growing, shaping and protecting them – “investment approach”.

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**POLICY FRAMING**

Comparing the Better Life Initiative to NZ Treasury ‘Living Standards Framework’

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Higher Living Standards for New Zealanders
Management and Measurement

We manage (invest in) objective sources of wellbeing ...

... and we measure success or failure by measuring SWB
Ingredients

• Capabilities and Opportunities
  – Skills
  – Knowledge
  – Health
  – Others

• Responsibility
Outcomes
Wellbeing

Incentives

Capabilities and Opportunities

Barriers
INVESTMENT APPROACH
Key Opportunities + Current Policy Focus

• Data

• Analytics

• Investment Approach

• Public Policy and Public Management
Investment Questions

• **WHAT** do we invest in?

• **WHEN** do we invest?

• **HOW** do we invest?
“Investment”

Any increase in the flow of services that the asset can provide over its lifetime. To leave a forest alone so that it can grow is in our extended sense to invest in the forest. To allow a fishery to restock under natural conditions is to invest in the fishery. To give food to someone hungry no doubt enhances her current wellbeing, but it also increases her future productivity – which means that to prevent hunger is to invest in human capital.
Investment is the commitment of resources with the expectation of receiving future benefits. It is not only about the decision to invest, but the entire investment lifecycle – in order to realise the return on that investment. When we talk about investment we should include in our thinking the set of options we have to bring about change. This includes: taxation, regulation, policy change, as well as the traditional funding to bring about change.
Faced with numerous potential catastrophes, with uncertainties surrounding occurrences and timings, which should society attempt to avert?

Even if the benefit of averting each exceeds its cost, we should not necessarily avert them all.

Nor is it optimal to rank them, and invest sequentially, starting with the one with the highest benefit:cost ratio.

Society’s risk aversion, time preferences, broader preferences, sizes and interdependencies of consequences of these catastrophes are all relevant in deciding which subset and how much we should be investing to increase resilience against.
MODELLING
Why Models?

• Menu without prices
• Integrated approach – key dependencies – complementarities – substitutes – all empirically testable
• Optimisation is useful in terms of clearing our heads about opportunity costs
• Encourages pro-active policy interjections vs responding after the event
STYLISED MODEL
Main Driver of Intergenerational Wellbeing

In my stylised model, the main engine of intergenerational wellbeing is technological progress …

… supported by the accumulation and equitable distribution of comprehensive wealth (opportunities and capabilities are imbedded in comprehensive wealth and its distribution across society and generations) …

… allowing for the potential substitutability between different components of comprehensive wealth as sources of wellbeing – and thus of the sustainability of wellbeing …

… given effect through the “investment approach”.
Key Question: What matters more to New Zealanders?

- **Higher Living Standards:** To design public policies that enhances living standards, especially where there are trade-offs, we need to know which aspects of living standards are most important to people.

- “Designing policies starting with an understanding of people’s preferences (values) and their willingness to trade-off one aspect of wellbeing over another will help us better align policies with the way New Zealanders want to live”. **Au and Karacaoglu (2015),** New Zealand Sociology Volume 30 Issue 3
Having better health is most important for NZers...

Average Rank
(rank 1 = most important ... rank 15 = least important)
The subjective price of one year of longevity appears to be in the vicinity of 5% of disposable income, with a range comprised between 4.4% and 7.8%.

The subjective price of a cut by one percentage point of unemployment is worth about 4% of disposable income and ranges from 1.6% to 5.2%.

Tested a number of different surveys of New Zealanders and estimated that the shadow price of one year of longevity to be around 4% and a cut of one percentage point of unemployment is worth about 4%. These results are very similar to the OECD’s estimate.
POLICY APPLICATIONS
Policy Triangle for a Wellbeing State

- **Basic income, health, housing, education for all**
- **Economic, social, environmental Infrastructure (incl. institutions)**
- **Incentives and investments towards “clean technology”**
- **Clear vision for NZ**

**History, Cultures, Values**
Sustainable Increase in Wellbeing requires an Integrated Approach to Environmental, Social and Economic Policy
Key Lessons

• Starting point – history is critical
• Institutions are critical
• Culture is critical
• Values are critical
• Adaptability is critical
Key Success Factors - History

- Immigrants brought institutional knowledge and broader human capital
- They then attracted direct investment
- Initial high income then enabled us to build even stronger institutions
- The initial high performance of our institutions meant that we gained a social norm of high performance
- Our initial ethnic mix came from countries that valued high performing social institutions
- Reasonable homogeneous (bi-cultural) society with increasing emphasis on social cohesion
Key Issue and Challenge

• Science and Art of Public Policy

• Episteme/Techne and Metis

• Public Policy and Public Management
Key Considerations

• Uncertainty and contingency
• Fertilising human inventiveness
• Diversification
• Localism
• Taking small steps
• Favouring reversibility
• Planning on surprises
Risk with Equilibrium Models

• Too much focus on solutions ...

• ... and too little on ecosystems
Complementary Ecosystems

Social Capital  
Built Capital  
Human Capital  
Natural Capital

Interaction

Ecosystem Services

Sustainable Human Well-Being

Recent Policy Developments

• **Narrative Refresh**
  – Prosperity
  – Sustainability (environment has come in)
  – Inclusiveness (social investment has come in)

• **2016 Long Term Fiscal Statement**

• **Investment Approach**
Summary of our advice on policy priorities

**Inclusion: lifting outcomes for disadvantaged New Zealanders**

Reducing child poverty and supporting inclusion: expanding smart social sector investment and helping those on the lowest incomes.
A continued shift towards investment in effective social sector interventions that improve long-term outcomes, reduce long-term economic, social and fiscal costs and focus on those most in need.

**Sustainability: sustaining wellbeing across generations**

Sustaining the wellbeing-generating capacity of comprehensive wealth (all capital stocks).

**Prosperity: boosting productivity and international connections**

Microeconomic and state sector reform
Increasing the responsiveness of housing supply, improving natural resource management and lifting state sector effectiveness.

Internationally-competitive business environment
Continued strengthening of international connections and ‘behind the border’ policy settings.

Environmental and fiscal challenges
Managing the risks and costs to New Zealand of climate change and demographic fiscal pressures.

Long-term productivity
Tertiary education and infrastructure are two key priorities for long-term productivity performance.
Social inclusion

• All New Zealanders can participate in society and the economy to the best of their ability
• Better health, education, and employment for the most disadvantaged
• Better use of social spending
• Increased use of data and information
Social Investments Insights

Four key indicators of high risk - Children aged 0 to 14

Using information collected by government agencies we can identify four indicators that are associated with having poor outcomes later in life. These are:

**INDICATOR 1**
Having a CYF finding of abuse or neglect
- 8% of children

**INDICATOR 2**
Being mostly supported by benefits since birth
- 15% of children

**INDICATOR 3**
Having a parent with a prison or community sentence
- 17% of children

**INDICATOR 4**
Having a mother with no formal qualifications
- 10% of children

Although these four indicators are associated with poor future outcomes, they may not cause poor outcomes directly. Instead they may be linked to other things that lead to poor outcomes.

The analysis and online tool have been made possible through Statistics NZ's Integrated Data Service. Through the collection of data from across the public sector (such as health, education and justice), Statistics NZ are enabling the analysis and understanding needed to improve social and economic outcomes for New Zealanders.
Differences in outcomes between people at high risk and others
A Way Forward

- Main focus is on investing towards sustainable wellbeing.
- *What* should we be investing in, *when*, and *how*?
- Ideas / suggestions come from the communities.
- *What Works* – integrated electronic database on what is working across the world and in different communities.
- Randomised control trials, and other tests, to test if “what works” is actually working.
- Investing in what actually works – will be different in different communities.
- Implementation through contracting for outcomes, using a selection of delivery mechanisms – involving communities.
What Difference Does Focusing on Wellbeing Make?

• It is not only about economic growth.
• Critical interdependencies between economic, environmental and social influences on wellbeing.
• Need sets of complementary policies.
• Focus on opportunities and capabilities needs to be complemented with investments in economic, environmental and social ecosystems towards building resilience.
• Although what we invest in, and when and how, can be guided by models and preference explorations, we must also involve affected communities in all these decisions, in deliberate and structured ways.