

Wellbeing Budget 2019 – Background, Context, Priorities, Next Steps

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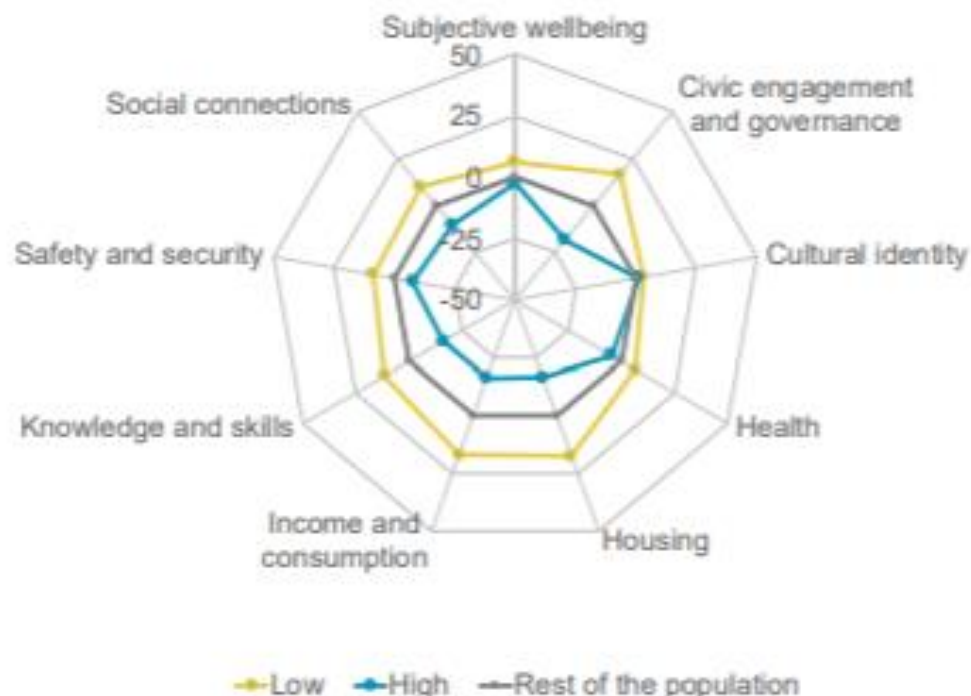
Background and Context

- Undeniable worrying trends (in terms of actual **outcomes**) in all the major pillars underpinning wellbeing – the natural environment, our society, and our economy.
- Recognition that the current approach to public policy is inadequate to address these challenges.
- Redefinition of the objective of public policy – towards wellbeing.
- Redesign of the public policy framework – towards supporting “progressive capitalism”.
- In this very context, rethinking the role of communities in the implementation of public policies - “the third pillar”.
- Alignment of the design and operation of public finance with the new public policy framework and modus operandi.

Table 1 – Examples of evidence behind the Wellbeing Budget priorities¹

Taking Mental Health Seriously	Improving Child Wellbeing	Supporting Māori and Pasifika Aspirations	Building a Productive Nation	Transforming the Economy
Mental health – In any year, one in five New Zealanders will have a diagnosable mental illness, with three-quarters of lifetime cases starting by the age of 25	Material hardship – Around 150,000 children in New Zealand live in households experiencing material hardship	Living standards – Māori and Pacific people rank low in most measures of wellbeing relative to the rest of the population	R&D expenditure – New Zealand has low research and development (R&D) expenditure relative to OECD countries	Greenhouse gas emissions – New Zealand has one of the highest per capita rates of greenhouse gas emissions in the OECD
Suicide rates – New Zealand's suicide rate for young people is amongst the worst in the OECD	Health outcomes – 41,000 children are hospitalised each year for conditions associated with deprivation	Income level disparities – Māori and Pacific people have lower income levels, on average, than other groups	Future of work and automation – 21 per cent of current workforce tasks may be automated by 2030	Quality of waterways – Waterways in our farming areas have markedly higher pollution than in catchments dominated by native vegetation
Homelessness – One in 100 New Zealanders are homeless, based on the 2013 Census	Family violence – New Zealand has high rates of family violence	Educational attainment – Māori and Pacific people are less likely to attain higher educational qualifications than other groups	Productivity – New Zealand's productivity is low relative to other OECD countries	Soil erosion – Annual soil erosion of 720 tonnes per square kilometre is reducing our land's productivity and harming aquatic ecosystems
Young people in employment – 12 per cent of young people aged 15-24 years are not in education, employment or training	Crowded housing – Over 40 per cent of Pacific children and roughly 25 per cent of Māori children live in crowded homes	Disparities in health status – Māori and Pacific people are less likely to report good, very good or excellent health than other groups	Incomes – New Zealand's incomes are in the bottom half of the OECD as measured by per capita Gross Domestic Product (GDP)	Waste – New Zealand's level of waste per capita has increased substantially since 2013

Figure 4 – Māori wellbeing analysis compared to the rest of New Zealand



Sources: Treasury analysis, Stats NZ

Note: Figure 4 shows how Māori compare to the rest of the population. If a yellow point is further from the middle than a corresponding grey point, this means wellbeing for Māori is lower than the national average in that domain. Māori rank low relative to the rest of the population in most measures of wellbeing.

Key Framing Question

The Minister of Finance's budget speech comments, '[i]n the election that led to the formation of this Government, New Zealanders were asking a core question: If we have declared success because we have a relatively high rate of GDP growth, why are the things that we value going backwards, like child wellbeing, a warm, dry home for all, mental health services, or rivers and lakes that we can swim in?' (Minister of Finance's 2019 Budget Speech)

Budget 2019 Priorities

With broader ideas of wellbeing taking root, the NZ government is now focused on delivering sustainable wellbeing across multiple dimensions. NZ's *Wellbeing Budget* (2019) has given priority to:

- improving mental health
- improving child wellbeing
- lifting Māori and Pasifika aspirations
- building a productive nation
- transforming the economy
- investing in NZ

Wicked Problems –

underpinned by

Adaptive Complexity and Fundamental Uncertainty

“Wicked Problems”

The idea of wicked problems first emerged in the 1970s from the perspective of systems theory, with the understanding that problems cannot be understood and addressed in isolation.

Wicked problems have many characteristics, but their principal challenge to governments stems from the fact that they cannot be solved only by partial or transactional solutions, but requires concerted, adaptive and carefully stewarded approaches.

Key Aspects of Wicked Problems

- The implication of multiple stakeholders, each acting to a certain extent within their own norms.
- Complete diagnosis or understanding is not possible—“there are no definitive definitions” because each perspective from which the problem is viewed provides a different understanding of its nature.
- There are no optimum solutions to wicked problems. Nevertheless, often future gets discounted for short term agreements.
- Liminality is inherent in the analysis and intervention in wicked problems. ‘Liminality’ denotes the condition that is ‘betwixt and between the original positions arrayed by law, custom, convention and ceremony’. It refers to a space where regular routines are suspended.
- Because wicked problems are impossible to directly observe, they are unpredictable and their behaviour is uncertain.
- Efficacy of solutions is difficult to determine because of knock-on effects, self-adaptation and their inherent complexity. Attempts have been made with RCTs and other evidence-based instruments, but they are fundamentally challenged by the fact that they must be artificially bounded in order to manage complexity and make them feasible.

Challenges to Governance

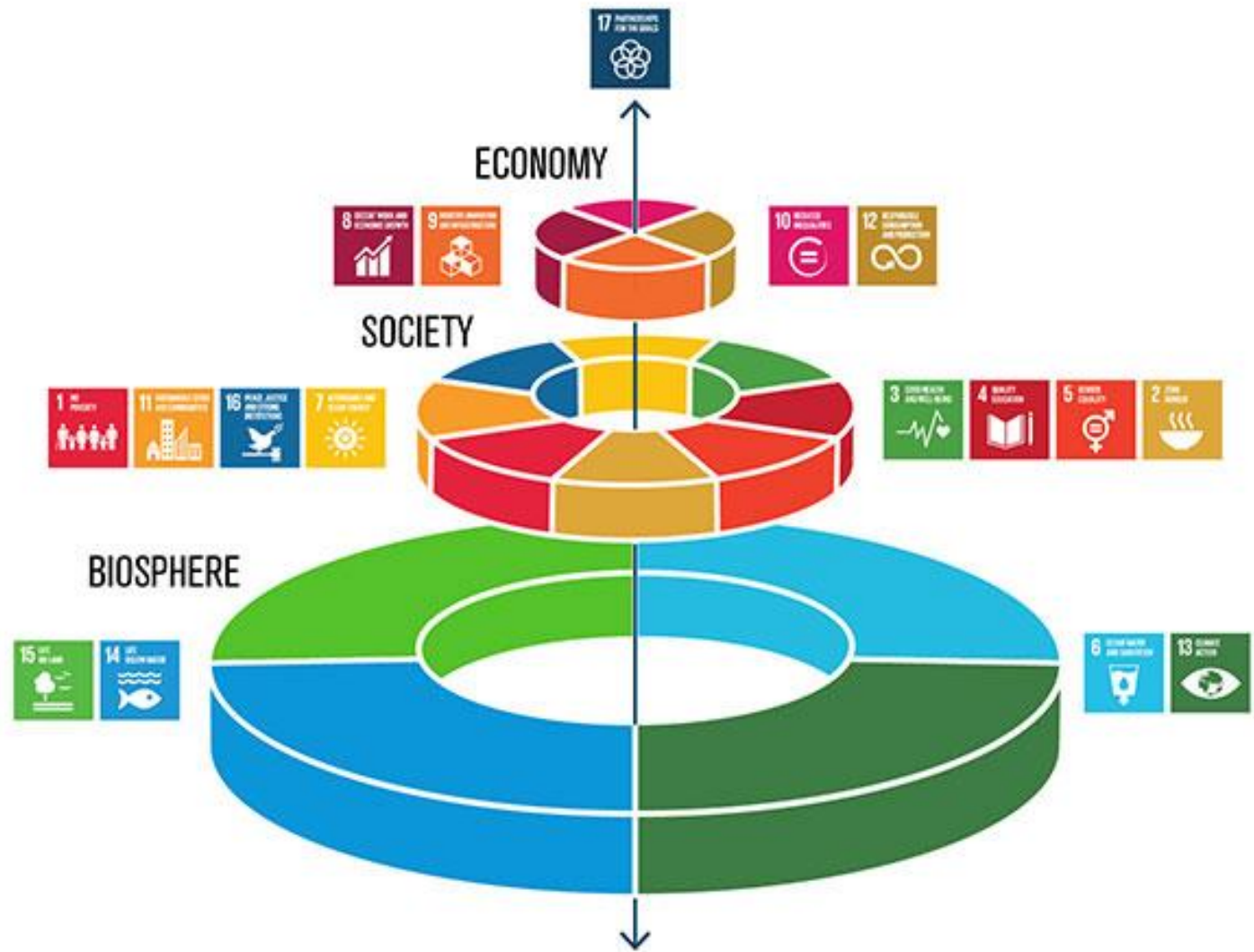
Each characteristic on its own would pose significant challenges to traditional governance approaches. But when taken together, they form a disarmingly complex set of obstacles. So much so that it is the norm for rigid institutions and bureaucracies to avoid big problems in favour of achievable solutions to proximal issues.

Wicked problems require coordinated action on the part of stakeholders (both public and private), adaptability, long term planning, sustained commitment and active management among other actions.

In some cases, these actions are antithetical to administrations, who by design have limited their instruments to work in a linear, unidirectional relationship between problem and solution. However in an interconnected world where system boundaries are difficult to define, it may no longer be possible to treat any problem as discrete.

Key Lessons

- Unless we design policies that take into account the interdependencies between environmental, social, and economic influences on wellbeing, our objective cannot be achieved.
- Multi-dimensional / complementary interventions are required.
- A very promising mix of policies is to focus on lowering poverty (by ensuring widespread access to “comprehensive wealth”), complemented by “directed technical change” towards cleaner technology.
- Poverty-reduction strategies need to be based on deep community involvement in picking areas of focus, how they will be implemented, and how they will be evaluated.



- Wellbeing priorities are defined by the communities.
- Public policy operates at the system level and ensures that communities have the resources and the voice to give effect to these priorities, calling on help and support from the centre as required.
- A combination of the *participatory* and *capabilities* approaches to designing, implementing, and evaluating public policy.

the inhabitants themselves are best qualified, as well as by their more intimate knowledge of local affairs, as by their direct interests therein, to provide for the wants and needs of their respective settlements.

... the central government would thus be deprived of the power of partiality in its legislation; while at the same time, the prosperity of the country at large, would be promoted by the honourable rivalry which would spring up among the various settlements

(Municipal Corporations Act 1842)

Outcomes vs Outputs

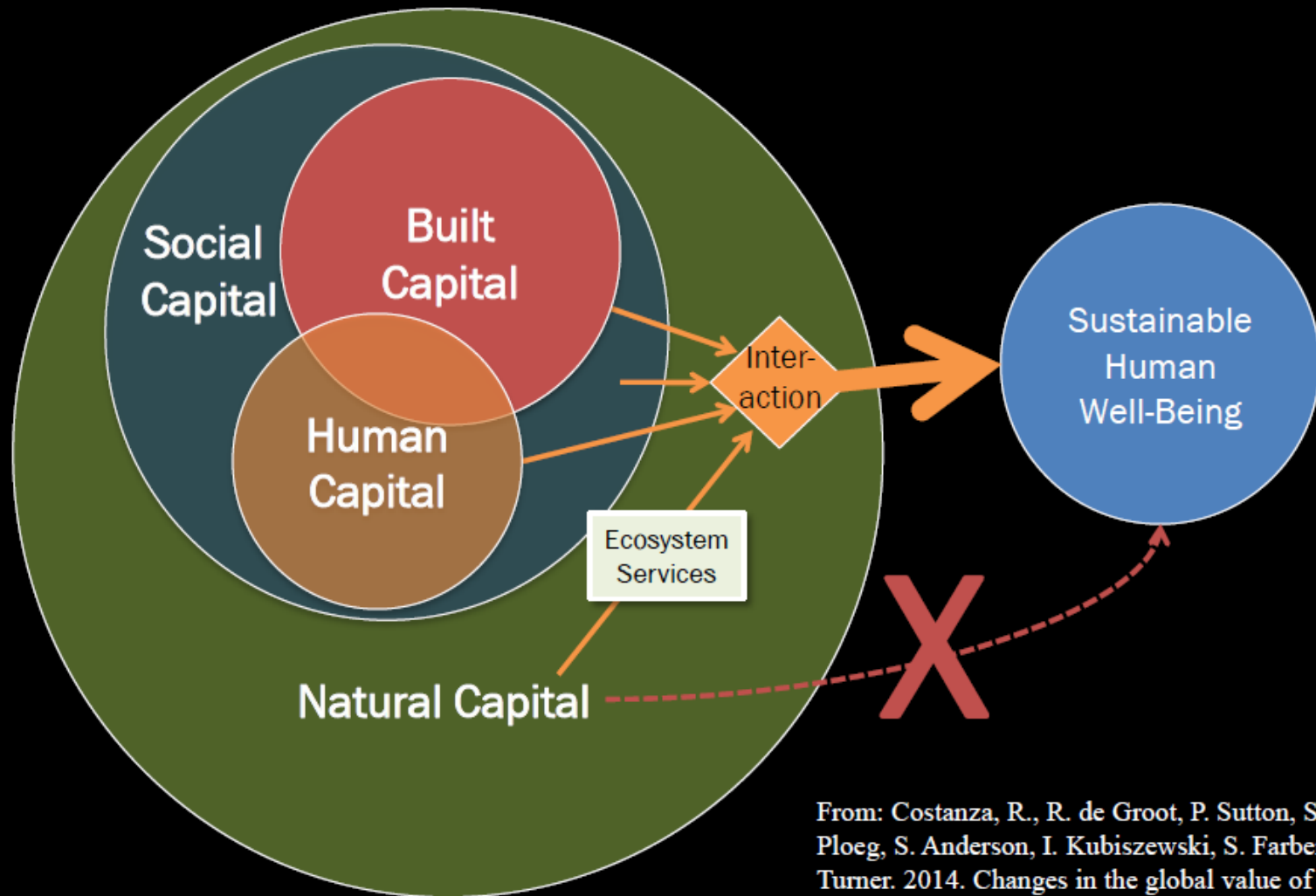
Focus on community determined / chosen
OUTCOMES

Participation vs Consultation

Focus on community participation – not just “engagement” or “consultation”

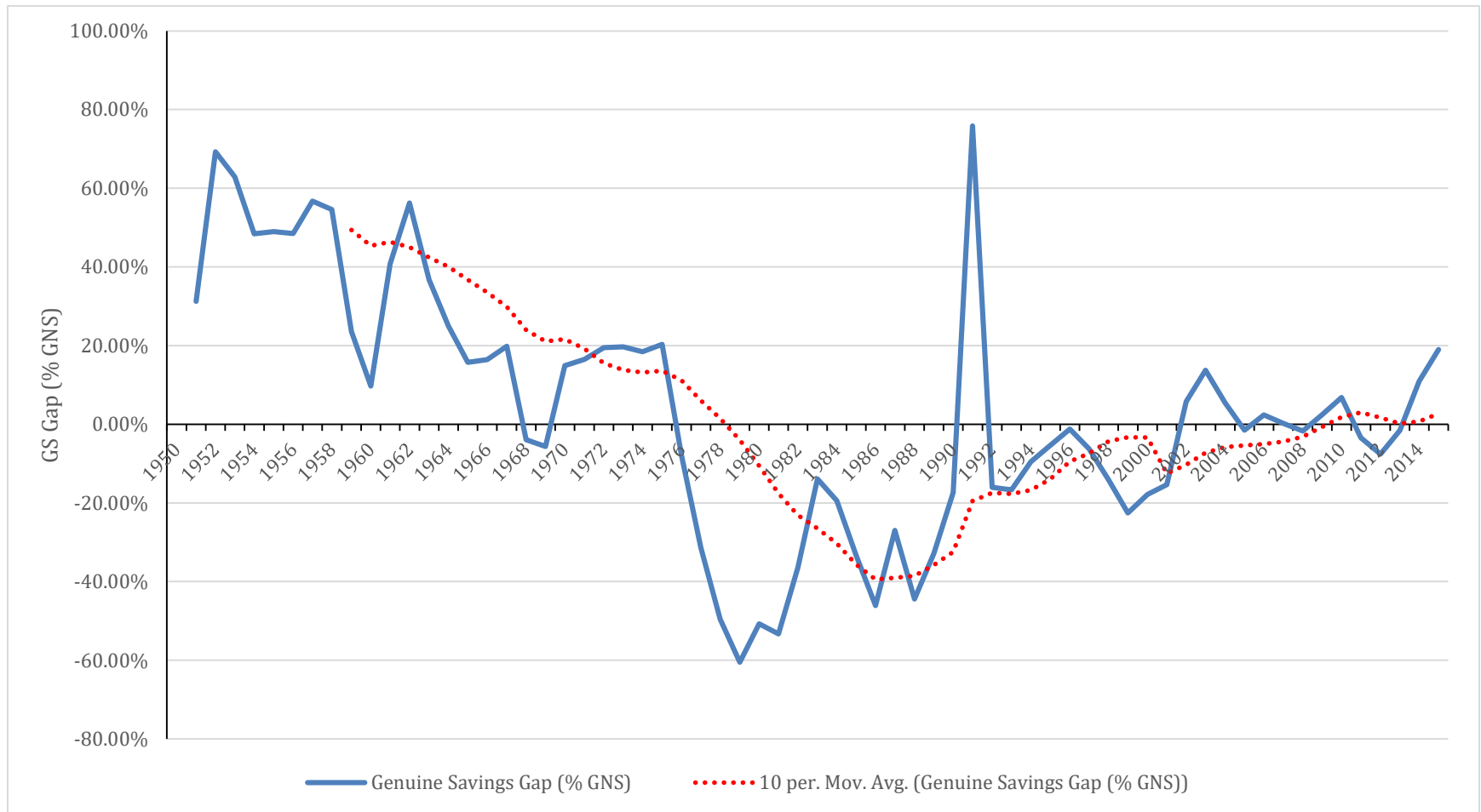
Sustainability
is a key concept

It is the **sustainability of wellbeing** that matters

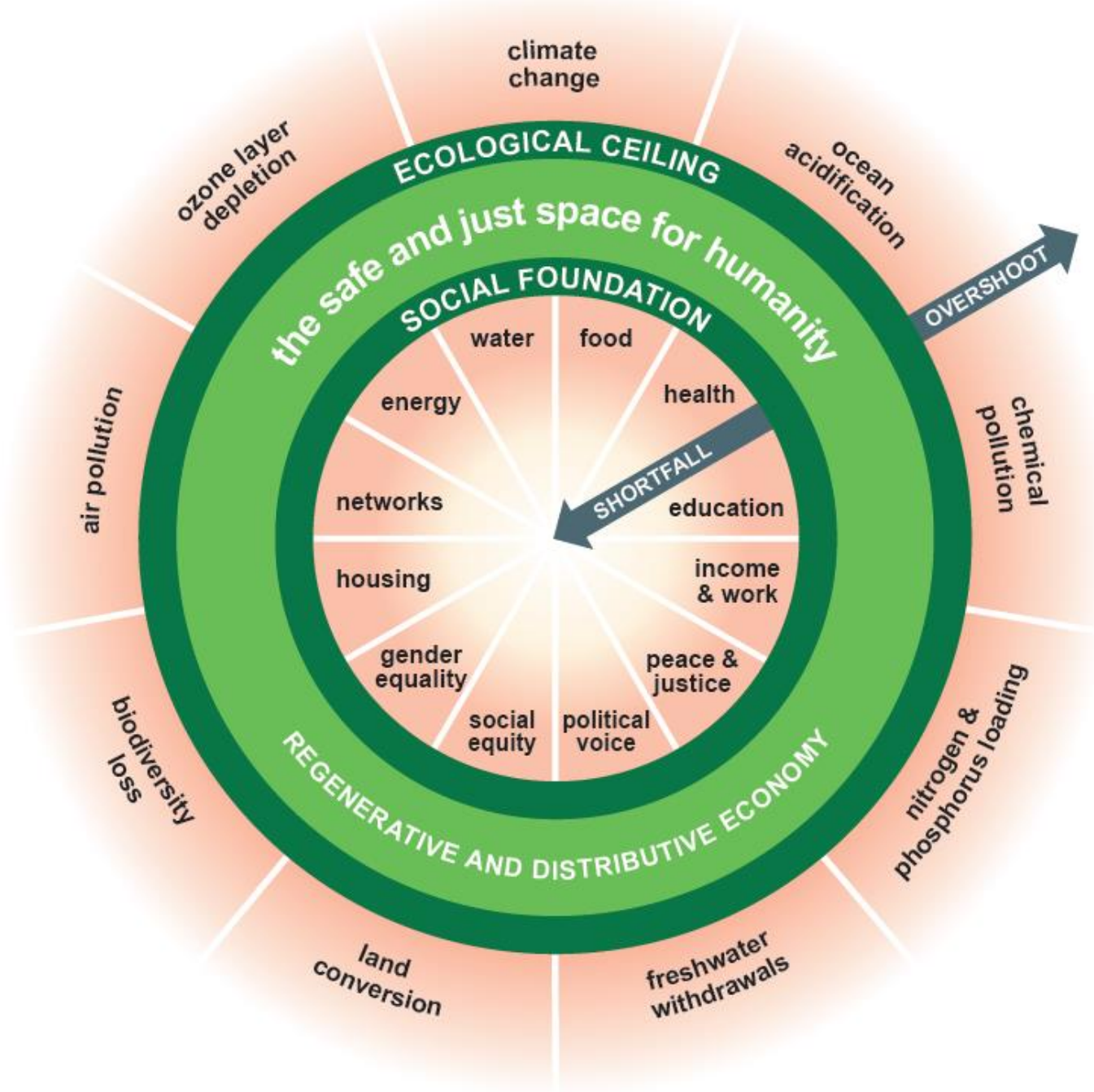


From: Costanza, R., R. de Groot, P. Sutton, S. van der Ploeg, S. Anderson, I. Kubiszewski, S. Farber, and R. K. Turner. 2014. Changes in the global value of ecosystem services. *Global Environmental Change* 26:152-158.

Sustainability - Genuine Savings Gap

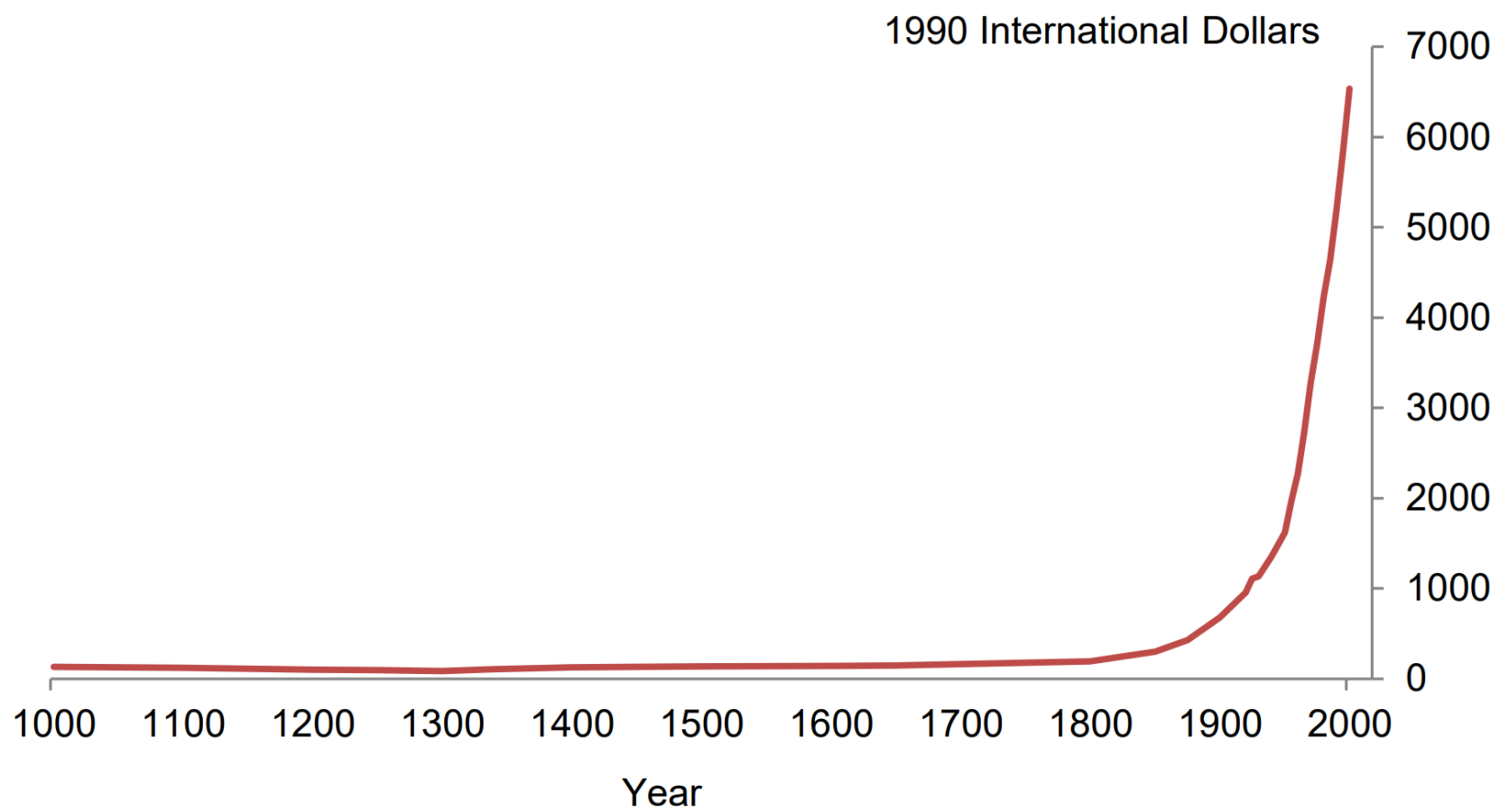


Positive (negative) number is **bad** (good) as it shows the country is saving **less** (more) than required to maintain sustainability. The World Bank (WB) has replaced negative numbers with NA (not applicable) in their estimates.



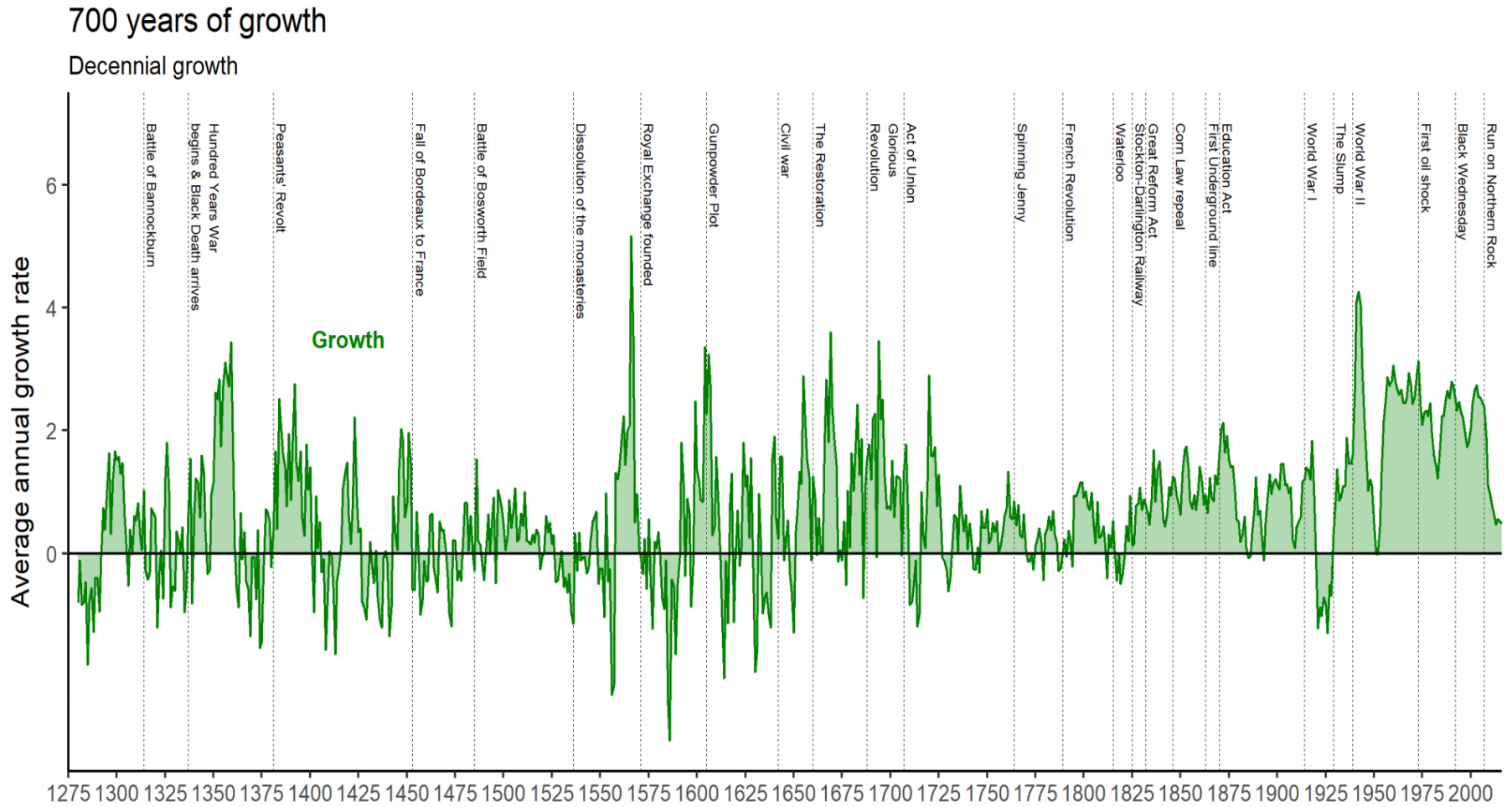
Resilience is the Key Platform

Chart 1: World GDP per head since 1000 AD



Sources: De Long (1998).

Chart 4: Long-run UK GDP growth

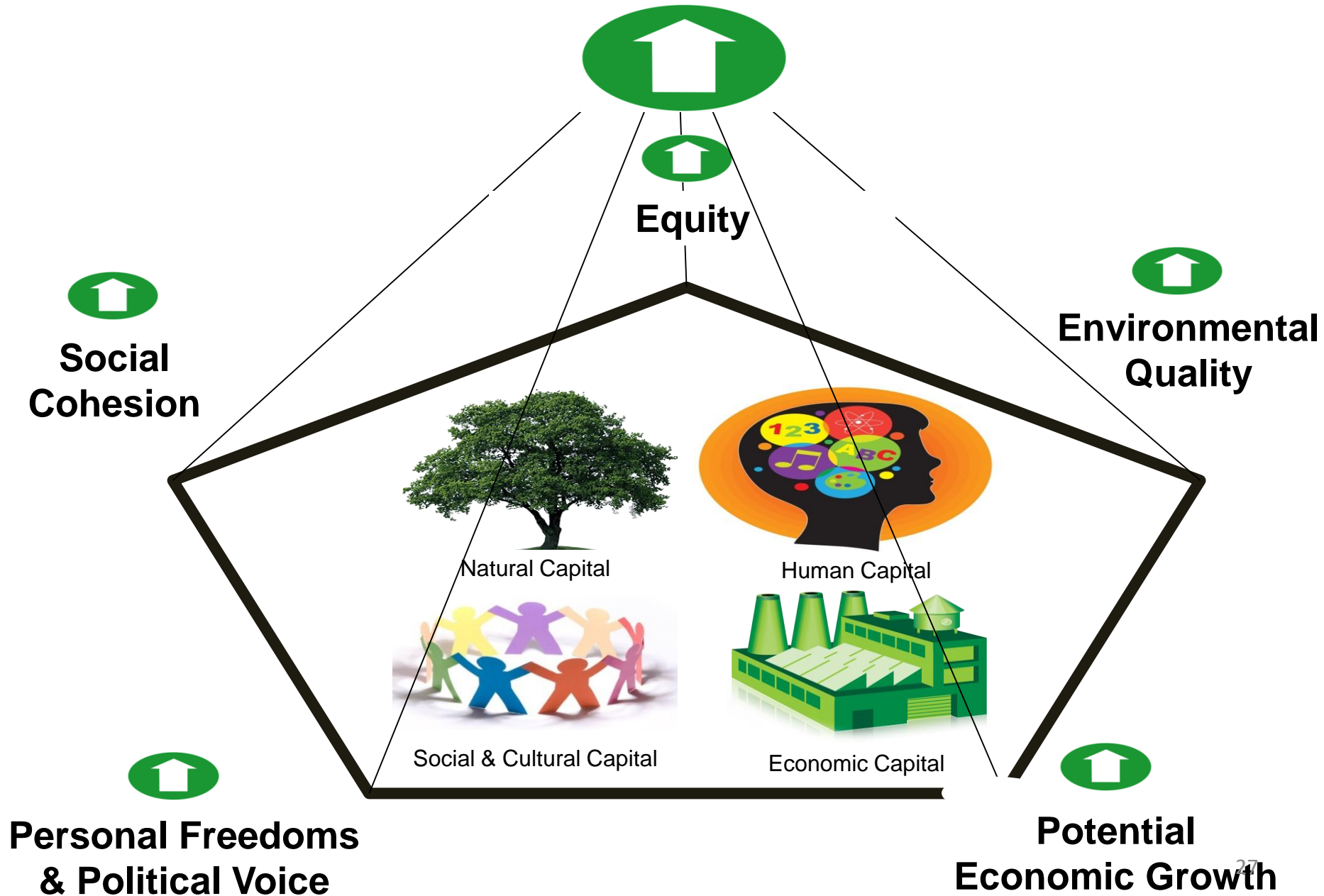


The chart plots average annual growth in GDP per capita over the preceeding ten years

Sources: Broadberry and Wallis (2017) and Bank calculations.

Building Blocks

Sustainable Wellbeing – through Resilience (Enlarging the Wellbeing Frontier)



Sustainable Intergenerational Wellbeing

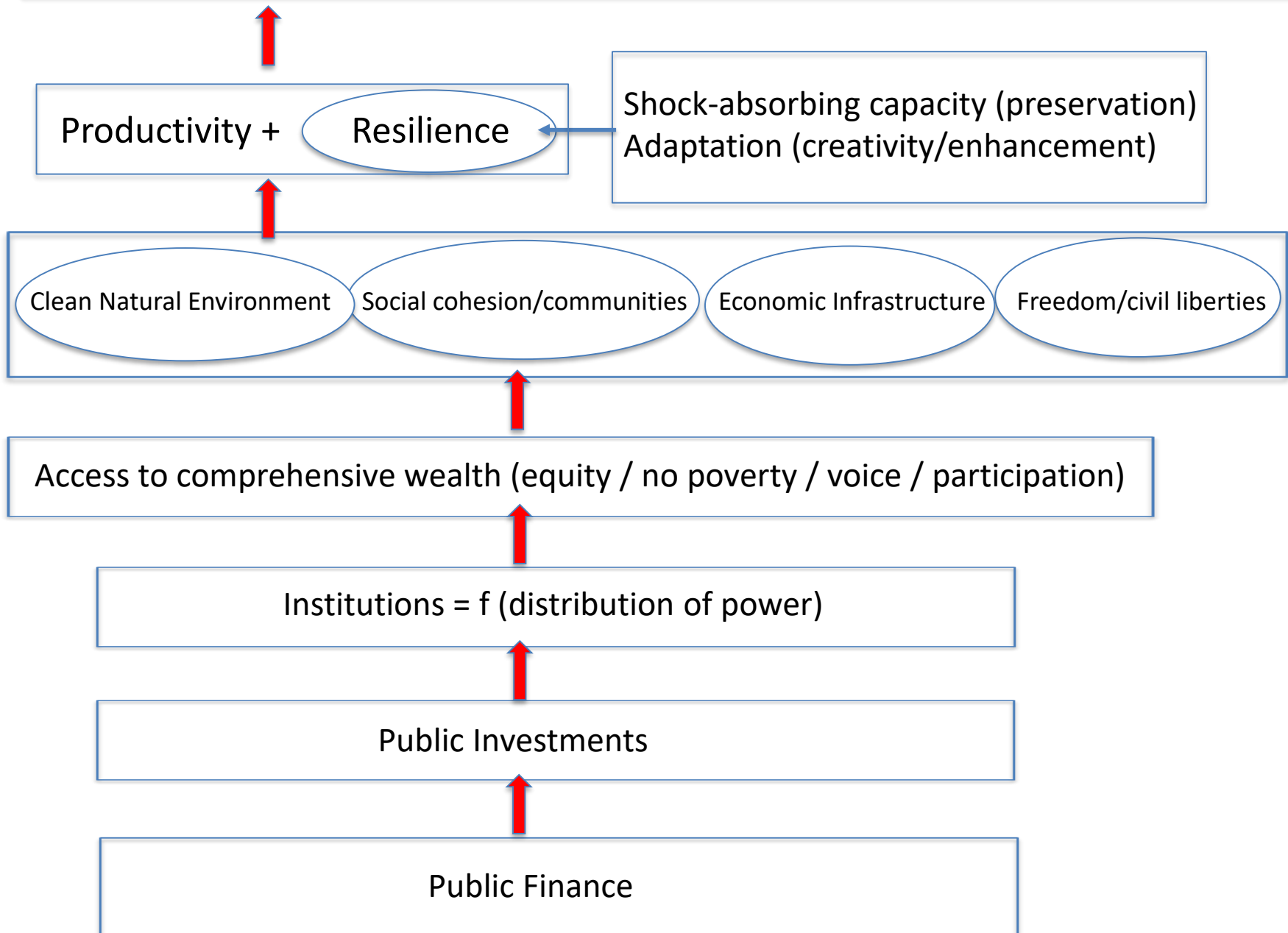
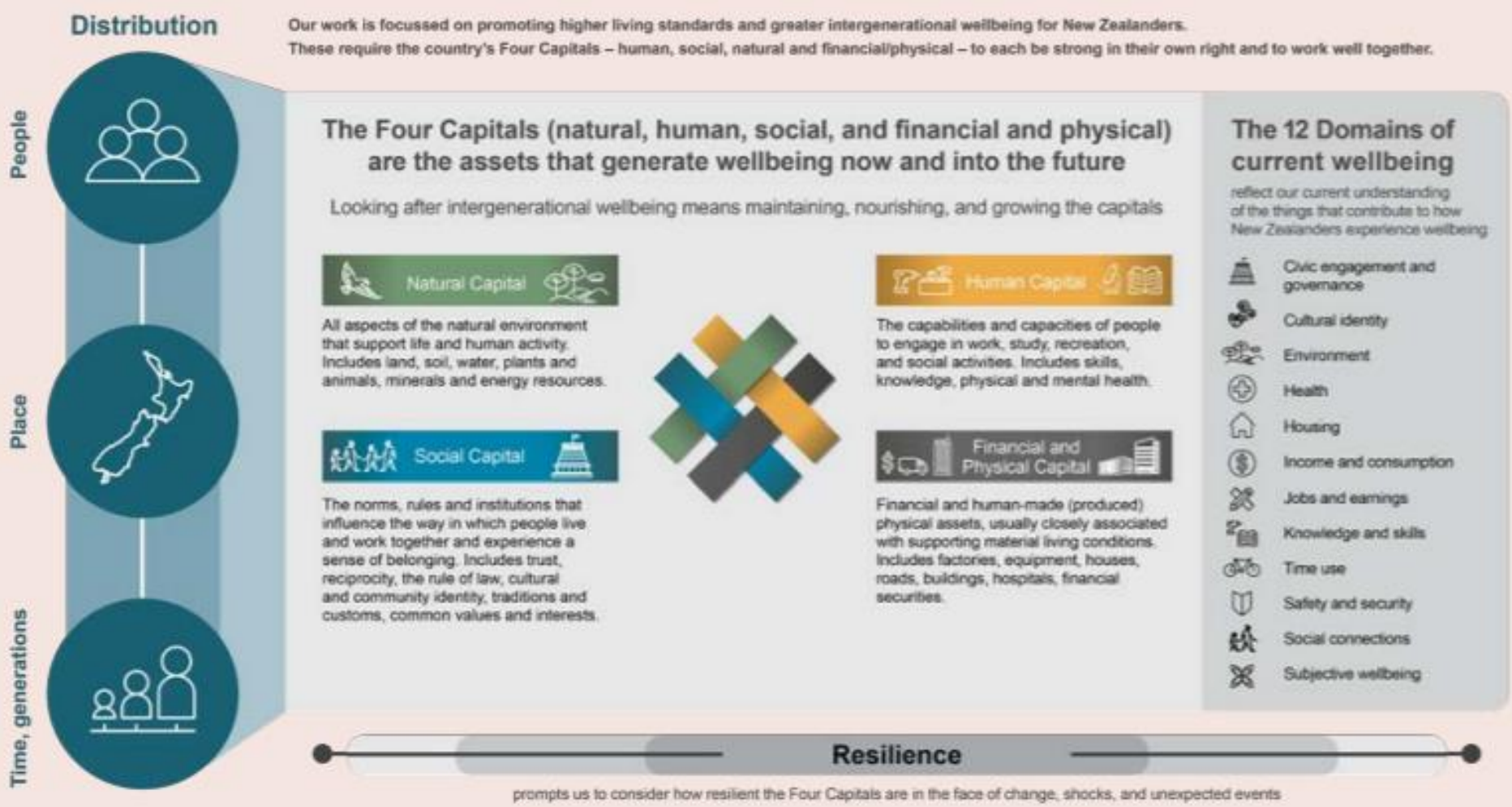


Figure 2 – The Treasury's Living Standards Framework



Channels of Public Finance

Funding with Accountability

Funding will be accompanied with a demand for accountability for outcomes.

“Collective Investment Model” – Regional Wellbeing Fund

- The role of relevant Ministers as the ultimate governance group.
- The Treasury’s role in supporting, designing, and assessing the overall investment strategy as an advisor to the governance group.
- The stewardship role of the investment manager associated with each collective (say, child poverty).
- Community-based budget holder, accountable to the Treasury.
- The collective as the management entity responsible for delivering the “desired outcomes” – negotiated between the local entity and the governance group.

“Collective Investment Model” – Child Poverty Reduction

- The role of Ministers as the ultimate governance group.
- The Treasury’s role in supporting, designing, and assessing the overall investment strategy as an advisor to the governance group.
- The required governance and management arrangements, bringing in a wider set of advisers, such as the Children’s Commissioner, and people with on the ground credibility such as Tariana Turia and/or John Tamihere
- The stewardship role of the investment manager associated with each collective. “Investment manager” (in the form of the Child Poverty and Child Wellbeing units) already exists in the DPMC.
- The community collective as the management entity responsible for delivering the desired outcomes.
- A few “pilots” to be run in selected communities, where the appropriate leadership and other capabilities are available.

Picture of Success

- Monitor progress on the dimensions of the wellbeing frontier.
- Monitor progress on the size / area of the wellbeing frontier.
- Monitor progress on the shape of the wellbeing frontier.
- Model the interactions and dependencies (complementarities and substitutabilities) between the dimensions of the wellbeing frontier.
- Estimate the parameters of the model just referred to.
- Recommend complementary policies, working through appropriate investments in the components of comprehensive wealth, that will expand the wellbeing frontier.
- Assess (estimate / quantify) the impacts of proposed policies on the size and shape of the wellbeing frontier.