

MEASURES OF SOCIAL PROGRESS AND WELLBEING

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SHAPING AUSTRALIA'S RESILIENCE:
POLICY DEVELOPMENT FOR UNCERTAIN FUTURES

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Abstract

Concepts such as individual resilience and wellbeing are usually considered to be outside the scope of mainstream economics. However, economic frameworks are being increasingly applied to policy areas addressing broader problems faced by society, such as overcoming entrenched disadvantage and climate change. This is because the ultimate aim of economic policy is to improve wellbeing.

It is important for public policy institutions to use frameworks that include a role for wellbeing. Treasury uses a wellbeing framework to provide a robust understanding of wellbeing and a rigorous foundation for public policy analysis. This framework is deliberately qualitative and encourages analysis of policy beyond GDP and material considerations.

To better assess economic performance and social progress, a broad range of indicators that can be used as proxies for wellbeing are needed. Better measures of social progress are important because what we measure affects what we do. Statistical indicators affect judgements about the current state of affairs and trends in both the economy and society.

Better measures may involve the development of new indicators, or the willingness to use existing indicators in a different way. If we develop new indicators, we need to ensure that we use them appropriately.



Introduction

Thank you for inviting me to speak today. I will be talking about measures of social progress and wellbeing. It may strike you as odd that a macroeconomist from the Australian Treasury is here talking about concepts such as individual resilience and wellbeing rather than measures of, say, GDP per capita or household wealth.

After all, notions such as social progress and wellbeing are often considered to be outside the scope of mainstream economics. But as an economist and an adviser on government policy, social progress and wellbeing are of central concern to my work, and that of my colleagues at the Australian Treasury. Indeed, Treasury's mission statement is to improve the wellbeing of the Australian people.

The economics discipline is increasingly turning its attention to these issues as economists take a greater interest in broader problems faced by society. Overcoming entrenched disadvantage and environmental issues such as climate change are examples of policy areas where economic frameworks are being increasingly applied.¹

This is because the ultimate aim of economic policy is to improve wellbeing. Clearly, economic and individual resilience affect wellbeing.

Resilience and wellbeing

An individual's resilience refers to their ability to withstand or recover from unforeseen shocks. In other words, resilience forms part of an individual's capability to respond to changes and to function effectively in society. Resilience forms part of an individual's human capital.

While the causal effects are hard to untangle, we know that wellbeing is also part of human capital. Depending on your background, you are likely to have different concepts

¹ Thus, for example, Ross Garnaut has recently written: "In my work over recent years on climate change, I have heard many criticisms of a perceived blindness of economics to environmental issues. And yet I found the analytic traditions of economics of immense value in working through the issues with non-economists." (from Ross Garnaut's acceptance speech on receiving the Economic Society of Australia's Distinguished Fellow Award for 2009).

of wellbeing. At Treasury, we believe that ultimately wellbeing encompasses aspects of life that people have reason to value. This will obviously vary from person to person.

Treasury's wellbeing framework

As mentioned previously, improving the wellbeing of the Australian people is central to the Australian Treasury's mission statement. We developed a wellbeing framework nearly a decade ago to provide a robust understanding of wellbeing, and so that we would have a rigorous foundation for public policy analysis.

There are five elements to the Treasury wellbeing framework:

- the level of freedom and opportunity that people enjoy;
- the aggregate level of consumption possibilities;
- the distribution of consumption possibilities;
- the level of risk people are required to bear; and
- the level of complexity people are required to deal with.

Of the five elements, we consider freedom and opportunity to be the glue that binds all the dimensions together. Society should aspire to provide all individuals with the capabilities necessary to be able to choose a life they have reason to value. This perspective on freedom and opportunity is heavily based on Amartya Sen's work on the contribution that 'substantive freedoms' make to development.²

A person's capabilities will influence the opportunities available to them and determine the extent to which they are able to function in society. Capabilities are not the same thing as income and, while they include basic civil rights like freedom of speech, they are not limited to 'rights'.

² Sen, A 1999, *Development as Freedom*, Oxford University Press, Oxford.

As a central policy agency with a whole-of-government approach, Treasury is interested in the capabilities of Australians and how these might be enhanced. Policy decisions and outcomes can impact on a person's capabilities, which in turn can affect their resilience.

It follows then that measuring wellbeing and social progress is a key part of implementing the wellbeing framework.

Measuring wellbeing

Treasury's wellbeing framework is deliberately qualitative. Nevertheless, GDP (or GDP per capita) is an important element of the framework because it provides at least an indication of the aggregate level of consumption possibilities that society is able to enjoy.

But I think we all accept that GDP is not a perfect measure of aggregate wellbeing. GDP measures the total market value of goods and services, and we know that wellbeing involves more than material living standards. Also, a summary measure does not allow us to assess the significant interactions and tradeoffs that occur between or within dimensions of wellbeing.

Better measures of social progress are important because what we measure affects what we do. Statistical indicators affect judgements about the current state of affairs and trends in both the economy and society more broadly. Statistical indicators also help inform policy development and design. And as I've already mentioned, policy settings have a significant impact on individual resilience (for example health and education policies), and economic resilience (for example monetary and fiscal policy settings).

Those involved in public policy are also aware that we need a better understanding of the impact of policy on the wellbeing of individuals and society. This should be based on theory and qualitative assessments, as well as rigorous evaluation of policy outcomes. Better measures of wellbeing are crucial to this process.

Australia has been influential in developing new ways of measuring wellbeing and progress. The Australian Bureau of Statistics (ABS) began work on improving the measurement of the quality of life in Australia in 2000 with the development of the

Measures of Australia's Progress report, first published in 2002. This publication provides both a conceptual framework, as well as indicators to measure progress.

We should also be concerned with sustainability, which is explicitly concerned with comparisons of wellbeing between generations. Sustainability requires that at least the current level of wellbeing is maintained for future generations. Many policy decisions taken today have an impact on the wellbeing of future generations. As the *2010 Intergenerational Report* suggests, we need to take into account the long-term impact of our current policy settings, so that future generations are spared the need to take drastic steps to maintain the same levels of wellbeing that we enjoy today. Planning for the future is an important part of wellbeing.

The recent Stiglitz-Sen-Fitoussi *Commission on the Measurement of Economic Performance and Social Progress* highlighted challenges relating to improving the measurement of wellbeing, and also offered an interesting perspective on sustainability.

The Commission examined the limits of GDP as a measure of progress, identified the elements that are most relevant to the measurement of progress, and assessed the feasibility of alternative measurement methodologies. Its Report, released in September 2009, reinforces the view that no single measure provides an adequate summary of something as complex as the wellbeing of members of society; instead, a range of different measures are needed.

The Report makes the case for separate measurement of wellbeing and sustainability. The two concepts are closely linked, as wellbeing may be affected by intergenerational considerations. But separating the concepts allows for a 'stock' based approach to sustainability. Future wellbeing will depend on the size of the stock of resources, broadly defined, that we leave to the next generation.³

³ The stock of resources refers to the quantity and quality of all the tangible and intangible economic, social, human and environmental resources that are available to a generation.

In some cases, policy decisions that increase current wellbeing will necessarily use up some of that stock. In other cases, steps we take today, such as investing in education, will result in an increase in the stock of resources available to future generations. Our challenge lies in making choices now about the use of the stock of resources without knowing what knowledge and technological advancements will be available to future generations. Perhaps some of our greatest measurement challenges are in this area.

Conclusion

The concept of wellbeing is broad, and will have a different meaning depending on background, perspective and purpose. There is a need then for a similarly broad range of measurements and indicators that can be used as proxies for wellbeing so that we can better assess economic performance and social progress. It is of vital importance for policy development and evaluation. Better measures may involve the development of new indicators, or the willingness to use existing indicators in a different way. If we develop new indicators, we need to ensure we use them appropriately

Progress in this area is being made, and the work at the ABS and the *Commission on the Measurement of Economic Performance and Social Progress* are examples of this. Nonetheless, significant methodological and data challenges remain.

Thank you.