

What a well-being budget means for government policy

Dr. AM and Ian McAuley

A submission to The Treasury's *Measuring What Matters* consultation based on our scholarship and peer-reviewed research.

James Guthrie and Ian McAuley are both academics specialising in public administration, public finance and public economics, and are members of the Australian Government Consultative Committee on Knowledge Capital and Communication, which is concerned with measuring values in public administration.

This submission outlines six recommendations central to the well-being budget debate and the government's budget and policy process. Each recommendation begins by providing the rationale for reform, followed by specific regulatory changes that could be implemented to achieve reform.

Background

Over decades the budget has become more focused on fiscal outcomes, which have achieved high political salience, while other economic outcomes have commanded less attention. The budget once had a significant amount of line-item detail, along with policy-related justifications for allocative decisions, but starting with budgeting reforms implemented in the 1980s it has [morphed from an economic document to a fiscal document](#).¹

Fiscal policies have consequences, particularly as they relate to often countervailing measures from monetary authorities, but these consequences tend to be economy-wide.

By contrast, Australians' present concerns, such as those about food, gas and petrol prices, are about specific consequences on our way of life, as are the government's more micro-decisions on expenditure and taxation. How will education expenditure be distributed among early childhood development, universities, and everything else? Will capital expenditure be directed to transport or investment in the electricity grid? Will tax concessions favour the growth of startup companies, or will they encourage established companies to invest in a long-term energy transformation?

These decisions shape the structure of the Australian economy and directly shape how Australians lead their lives and their well-being.

Developing meaningful indicators of well-being is a challenging task, and it is complex territory for governments in pluralistic democracies. What are positive indicators to some can be negative indicators to others. Are rising house prices indicators of wealth or inequality in access to shelter? Does high workforce participation result from choice or necessity? What does "trust in government" mean – does it indicate confidence in good government or a dangerous culture of docility towards possible authoritarianism?

This is not our Australian government's first work on measuring well-being. Governments have always been concerned about health, income distribution and other indicators of well-being, but bringing it formally into the budget process is a significant step in economic reform because it stresses that economic management is about human well-being. That may seem like common sense, but it has been an assumption in public debate, by both the "left" and the "right", that there is some unavoidable trade-off between "the economy" and "society", a category error the economic philosopher Karl Polanyi warned about in 1944 when he wrote [The great transformation: the political and economic origins of our time](#). Nevertheless, as a fundamental principle, economic activity that does not improve well-being is pointless.

We, therefore, see a well-being budget as an important initiative in shifting policy emphasis from *inputs* (fiscal outlays) to *outputs* (specific allocations of those outlays) and to *outcomes* (well-being). While budget papers, such as *Budget Paper 1*, still have a reasonable amount of detail on allocations, that last link to outcomes has been missing.

Recommendations

Recommendation 1

We strongly recommend that the Australian government continue building a national well-being budget. This should be established in legislation because we require a time series of data to make decisions about improvements in Australian society's well-being.

It will take time for well-being indicators to reveal helpful information because most indicators can be evaluated only in terms of trends or comparisons with indicators from other countries.

There are already long-established time series in standard-economic indicators on inflation, production, employment, wages, trade and a host of disaggregated indicators.

It is easy for policymakers to forget that economic management is not just about impressive economic numbers – fiscal indicators on debt and deficits and the traditional economic trifecta of inflation, unemployment, and GDP growth. These are gross indicators, which in terms of practical consequences can play out differently for different people. In fact, for some indicators, including GDP, impressive numbers can be generated for many years without any improvement in many people's well-being. They are all in a specific context, and although some journalists and politicians put a normative interpretation on them, they do not necessarily convey much about well-being.

Other time series in policy domains, such as the *Annual Report on Government Services* and the *Annual State of the Environment*, come closer to providing useful outcome indicators. *Closing the Gap* has several time series of well-being indicators relating to a specific section of the Australian population.

Recommendation 2

The Treasury should build on what we have and inquire into the best way forward regarding a well-being budget with all main stakeholders.

Australia has praised itself for [more than 25 years of continuous growth](#)², but the severe [environmental](#), [inequality](#), [health](#), [housing](#)³ and [cost-of-living](#) crises it faces are telling

us that growth does not equal actual progress. By targeting well-being more directly – and explicitly building well-being considerations into policy upstream – we can create [economic systems that serve societal well-being](#)⁴, rather than continuing to sacrifice the well-being of people and the planet for the sake of the economy, as if there is some trade-off.

The OECD international framework should be adopted for Australian conditions, including education levels, violence and abuse, health standards and mental health, the environment and sustainable economic progress, life expectancy and wealth.

Until 2013, the ABS was engaged in developing [Measures of Australia's Progress](#)⁵. It is noted that the Australian Treasury well-being framework and *Measures of Australian Progress* in the early part of this century were world leaders. They measured progress and provided information about whether life was improving.

This is perhaps the most critical task for a national statistical agency. The Bureau of Statistics continues to produce reports around several social indicators.

It is essential to recognise that well-being measures should be at the heart of the budget process rather than simply a view of the budget surplus or deficit.

The work that went into *Measures of Australia's Progress* is still archived on the ABS website, and its 26 indicators are all relevant to well-being. Importantly the ABS did not attempt to aggregate these indicators: different people will have different interpretations of what counts for well-being, but the ABS ensured that each indicator would be one on which the vast majority of the population would place the same ordinal ranking. For example, a lower rate of suicide, or a higher proportion of people saying they feel safe, would be seen as positive by all imaginable normative standards.

The ABS brought a great deal of rigour into measuring well-being, but there is still much work to be done, including extensive public consultation, particularly on essential indicators of well-being that do not lend themselves to measurement. We should remember that measurement is a social construct, and the first step in any indicator must be public values.

Recommendation 3

There is a steep learning curve to educate the current public servants on the importance of policy and well-being framework. Working towards well-being asks for shared understandings across the government of what societal well-being means and how different well-being outcomes interrelate. It requires policymakers to understand the system.

Policymakers must understand the system rather than its parts and focus on the root causes of crises rather than [firefighting the symptoms of a broken system](#)⁶. Moreover, as improving well-being is ultimately a whole-of-society affair, it calls on governments to [reconnect with the people they serve](#)⁷.

Then, there is accountability. Rather than a new narrative or objective, "well-being" needs to become a new way of working. Inspiration here can be drawn from the [Wales Well-being of Future Generations Act](#), which goes beyond specifying well-being goals to identify the *ways of working* to arrive at these outcomes.

A means-ends confusion, and displaced objectives, are common problems in government administration. The accepted wisdom is that government policy should be concerned with outcomes rather than input indicators (typically amounts spent on programs) or outcome indicators (such as the number of people who received a government service). When there is so much pressure in the fiscal and political environment around these indicators, it is hard to keep outcomes in mind when in most areas of public endeavour those outcomes may not manifest for many years.

This also means that demands for redistributive welfare in social-security payments and tax concessions, which have immediate consequences, can distract from programs with far more significant long-term distributive consequences. Expenditures in health, education and infrastructure are all significant examples.

Recommendation 4

There should be specific attention paid to inequality indicators, particularly wealth inequality in all its dimensions.

The Figure below, copied from *Budget Paper 1*, shows preliminary assessments against the OECD framework.

Figure 4.2: Australia's performance against OECD indicators

At/better than OECD average and stable/improving		Worse than OECD average but stable/ improving	At/better than OECD average, but declining	Worse than OECD average and declining
Household income	Produced fixed assets	Gender parity in politics	Financial net worth of general governments	Red list index of threatened species
Household wealth	Having a say in government*	Long hours in paid work	Voter turnout	Household debt
Employment rate	Homicides	Time off	Life satisfaction	Gender gap in feeling safe
Housing affordability	Premature mortality	Greenhouse gas emissions	Social support	Labour underutilisation
Life expectancy at birth	Exposure to outdoor air pollution	80/20 income share ratio	Student skills in science	Material footprint
Education attainment among young adults	Social interactions	Gender wage gap	Trust in government	
			Gender gap in hours worked	
			Students with low skills	
			Negative affect balance	

Note: Asterisks denote assessment based on OECD average only. Indicators without recent and consistent data from the OECD are not presented. This includes the following indicators: gap in life expectancy by education, trust in others, housing overcrowding rates and access to green space. Source: OECD 2022, ABS Time Use Survey, ABS General Social Survey, AEC.

Notably, only two indicators relate to inequality – the 80/20 income share and the gender wage gap.

Even if society agrees that a high level of economic inequality is undesirable (in itself, not a settled issue), how can it be measured – in terms of income or wealth? Wealth disparities are more enduring and self-reinforcing than income disparities, as [Thomas Piketty](#)⁸ points out, but they are much harder to measure, particularly in dimensions such as human capital.

Several indicators of financial wealth do not necessarily relate to well-being. This is particularly relevant for housing wealth, for which there has been a high rise in market values but without any clear sign of increased utility in terms of shelter or location. For illiquid assets, higher market values are simply price inflation. Better indicators of housing wealth need to be developed – possibly indicators such as children's ability to study and sleep, or a house's ability to sustain a temperature within defined bounds.

Other dimensions of wealth are even harder to capture but are crucial aspects of well-being, particularly those related to human capital. They include people's education and skills attainments, social connections, and ability to navigate everyday life's complexities. Disparities in these dimensions of human capital can be just as significant in terms of relative well-being as disparities in more easily-measured dimensions.

Recommendation 5

The Australian Treasury should engage with the various not-for-profits established networks in Australia, New Zealand and globally.

For instance, it has been up to bodies such as the Global Access Partners' offshoot [The Australian Society for Progress and Well-being](#)⁹ to work on well-being. Launched in September 2014, the society is a member-based organisation through which like-minded people can champion progress and indicators of well-being to keep alive the idea that the purpose of public policy is people's well-being. After all, what is the point of economic management if it does not contribute to human well-being?

Surprisingly, the major professional bodies in their current public services thought leadership do not even mention well-being budgeting or public values¹⁰. The thought leadership of the APS Academy and even the DoF guidance on budgeting¹¹ does not mention well-being budgeting or public values.

Recommendation 6

Treasury should establish a working group including external experts to learn from the OECD and other countries.

In the 2022-23 Budget, there is a new section [in Budget Paper 1](#) titled "*Measuring what matters*". This was the government's first attempt to live up to its election promise to follow the lead of [New Zealand](#) and some other countries to present a well-being budget.

This new section is partly a discourse about the meaning of well-being indicators, acknowledging that there is work to be done. Such indicators become most meaningful after a few years as time series provide progress indicators (or retreat). The authors now consider

how some of Australia's outcomes measure against the [OECD Framework for measuring well-being and progress](#)¹².

About James Guthrie and Ian McAuley

James Guthrie FCPA, Emeritus Professor and Member of the Order (AM), Macquarie Business School, Australia, has held positions at various Australian and Italian universities. He has also been Visiting Professor at universities in Sweden, Italy, New Zealand, Scotland and England.

IMPACT, In 2020 and 2021, was recognised by Stanford University study as one of the top 2% of scientists globally.¹³

Ian McAuley is a retired lecturer in public sector finance from the University of Canberra. His publications and research projects are on his website www.ianmcauley.com.

Notes

¹ <https://theconversation.com/how-the-deficit-obsession-is-eroding-the-budgets-usefulness-57552>

²

https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/BriefingBook46p/LastRecession

³ <https://povertyandinequality.acoss.org.au/inequality/>

⁴ <https://weall.org/the-economics-of-arrival-katherine-trebeck-and-jeremy-williams-blog-on-the-themes-of-their-book>

⁵ <https://www.abs.gov.au/ausstats/abs@.nsf/mf/1370.0>

⁶ <https://weall.org/failure-demand-counting-the-true-costs-of-an-unjust-and-unsustainable-economic-system>

⁷ <https://politicsreinvented.eu/model/the-ostbelgien-model-a-permanent-citizens-council-at-eye-level-with-politics/>

⁸ <https://www.hup.harvard.edu/catalog.php?isbn=9780674273559>

⁹ <http://www.aspw.asn.au/>

¹⁰ <https://www.apsacademy.gov.au/news-events/news/top-resources-aps-accounting-and-finance-professionals>

<https://www.apsacademy.gov.au/news-events/news/finance-leaders-identify-3-major-challenges-public-sector>

¹¹ <https://www.finance.gov.au/government/federal-budget/budget-process>

¹² <https://www.oecd.org/wise/measuring-well-being-and-progress.htm>

¹³ see <https://journals.plos.org/plosbiology/article?id=10.1371/journal.pbio.3000918>