

Measuring What Matters

Consultation Submission by Prof. Martin Hensher, Menzies Institute for Medical Research, University of Tasmania

Introduction

I am the Henry Baldwin Professorial Research Fellow in Health Systems Sustainability at the Menzies Institute for Medical Research, University of Tasmania. My primary research program involves the application of health economics and ecological economics perspectives to health and healthcare, in particular to the question of climate change impacts and sustainability. My PhD subject was *Health system sustainability: new perspectives from macroeconomics and ecological economics*. I am therefore highly familiar with the literature and debate on “wellbeing economics”, measurement and alternatives to GDP. In previous government roles, I served as a Senior Civil Service officer in the UK Government Economics Service; as a senior executive in the Tasmanian Department of Health I was between 2015 and 2017 Deputy Chair and then Chair of the National Health Information and Performance Principal Committee, in which role I was responsible for leading the development and agreement of the *Australian Health Performance Framework*. I therefore also have extensive experience of the challenges involved in developing effective performance measurement frameworks and systems.

My comments below contain both some suggestions for immediately available indicators that could be fielded with little or no additional effort, and also two suggestions for targeted development work in fields where no usable indicators currently exist. Based on my previous experiences, I would like to emphasise the great importance of investing resources in developing new and better indicators, and exhort Treasury to allocate resources to this end. In too many fields, performance measurement frameworks never proceed beyond the inclusion of already existing measures, with the result that indicators become ossified and no real innovation ever occurs. *Measuring What Matters* offers a vital opportunity not only to report on the real factors driving Australians’ wellbeing, but also to develop new and better measures to guide future policy more effectively.

Health Indicators

Life Expectancy

Clearly, Life Expectancy at Birth remains a central measure of health outcomes that should be retained in any Wellbeing Accounts for Australia; this is especially important given the observed impacts of the COVID pandemic on life expectancy in a number of countries, and the apparent potential for longer-lasting impacts of endemic COVID-19. However, life expectancy should be supplemented with another standard and widely used metric which provides more information on the essential question of whether increasing life expectancy reflects additional years lived in better or worsening health: Health Adjusted Life Expectancy (HALE). Capturing health status (and whether we are observing a “compression” or “expansion” of morbidity) is an essential adjunct to life expectancy in an ageing population.

HALE is routinely calculated by the Australian Institute for Health & Welfare (AIHW) as part of their regular Burden of Disease reporting, with methodological details available at:

<https://www.aihw.gov.au/reports/burden-of-disease/abds-methods-supplementary-material-2018/contents/about>

Limiting Long Term Illness / Disability and Economic Participation

A critical determinant of the wellbeing of working age Australians (and of their dependants and family members) is their ability or inability due to work as a result of illness and/or disability. In Australia, relevant measures are typically under-developed / under-reported compared with many OECD peers; however, this is a critical wellbeing issue, and one thrown into sharper focus by emerging evidence from overseas of the longer-term impacts of COVID-19 infection on the ability of some survivors to work. The Australian Bureau of Statistics reports annually on a survey-based indicator in 6228.0 Potential Workers, which includes ill health / disability as a “main reason” or “main difficulty” in looking for / finding work. It would be relatively straightforward to develop a standardised indicator based on this dataset.

<https://www.abs.gov.au/statistics/labour/employment-and-unemployment/potential-workers/latest-release>

Commercial Determinants of Health and Defensive Expenditures

An increasing weight of evidence now points to the importance of “commercial determinants of health” in driving ill-health in Australia and overseas. This refers to the harmful impacts of health on many forms of legal consumption: for example, the financial and mental health harms of gambling and pokies, the impact of sugar-sweetened beverages and ultra-processed foods on obesity, diabetes etc., and the health harms of excessive alcohol consumption. Such commercial determinants of health represent profitable, legal activities, all of which contribute to Gross Domestic Product – yet which are externalising health harms onto the population, and in so doing generating “defensive expenditures” – avoidable healthcare and other social spending, which in turn counts further towards increments of GDP. A targeted medium-term project to develop effective indicators of social “bads” and associated defensive expenditures is required (no simple indicators

are currently available), as this phenomenon arguably lies at the heart of the tension between GDP and wellbeing measurement approaches. Australian researchers are at the forefront of international work in this area; Treasury should take a ground-breaking leadership role in supporting the development of appropriate metrics in this field.

Health Impacts of Climate Change

Similarly, there is now strong consensus and evidence that climate change is already causing direct negative impacts on the health of Australians; yet “off the shelf” indicators of such impacts are not yet available. I would therefore also recommend a medium-term project to develop a small number of suitable indicators by which to measure and monitor the health harms of climate change as they unfold. Appropriate starting points for the development of such indicators might include the following:

- Incidence (case numbers) of climate-sensitive vector-borne diseases across Australia
- Person-days exposed to bushfire air pollution (> threshold level parts per million of designated pollutants)
- Persons / person-days displaced / impacted by flooding

Economic Efficiency and Wellbeing

Labour Share of National Income

Increasing evidence in many high income countries suggests a declining labour share of national income; this is a key wellbeing indicator, not only because it captures crucial distributional and equity information, but also because it is a highly reliable indicator of welfare-destroying rent extraction and excess profit-taking. It thus captures both a direct measure of improved wellbeing for the population at large, as well as being a useful indicator of the extent to which economic efficiency and innovation is being undermined by unproductive rent-seeking.

Underlying data (and established methods) with which to generate labour and capital income shares in Australia are routinely available within the Australian System of National Accounts, yet data outputs are not regularly published by ABS. However, the following resources are all available:

ABS Methods: <https://www.abs.gov.au/statistics/detailed-methodology-information/concepts-sources-methods/australian-system-national-accounts-concepts-sources-and-methods/2020-21/chapter-19-productivity-measures/data-sources-and-methods/capital-and-labour-income-shares>

ABS occasional analysis:

<https://www.abs.gov.au/ausstats/abs@.nsf/Lookup/5260.0.55.002Feature+Article32016-17>

Reserve Bank of Australia Bulletin: <https://www.rba.gov.au/publications/bulletin/2019/mar/the-labour-and-capital-shares-of-income-in-australia.html>