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Speech to the opening of the Third International Conference on Well-being and Public Policy



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Kia ora and welcome to the Parliament of New Zealand, Te Whare Paremata. It is my great pleasure to be here today to open the Third International Conference on Well-Being and Public Policy. We are honoured to have you here in Wellington to discuss this essential topic.

For me this is a momentous day for another reason. It is my mother's birthday. She will be horrendously embarrassed that I mentioned that, but not only does it save on sending flowers, it is an acute reminder for me of what is important in life.

I was raised in a tightknit Presbyterian family in Dunedin in the South Island of New Zealand. My parents raised my two brothers and me with some simple philosophies - to treat others as you wish to be treated, that we are our brothers' and sisters' keepers, and that if you work hard you will achieve your goals. I was taught what was important in life was more than material things, it was about what we could do for ourselves and our community to make the world a better place.

It is that philosophy I have tried to take with me through my political life as well, and in particular into my role as Minister of Finance. Of course it is my job to ensure that the country's finances are managed well, but that is not the end of the story. The economy is not an end in itself, it is the means to the end of allowing our people to live good and fulfilling lives.

And so it is from this position that a focus on wellbeing for me and for our Coalition Government is an obvious direction. We have long held the view that GDP is an inadequate measure not only of the quality of our economic growth, but of the value of the other things that affect how we live our lives. In a room such as this I am loathe to start a debate about the definition of wellbeing. I am attracted,

however, to ideas of Amartya Sen of giving people the capabilities to live lives of purpose and meaning for them. Equally it is clear that wellbeing is a long-term proposition - in particular an intergenerational one.

This was made more than clear here in New Zealand at the election last year. The topics that I was questioned about the most in the campaign, be it in the boardroom or the smoko room, were child poverty, the quality of our rivers and lakes, the state of our public services and institutions. New Zealanders were rightly concerned that, despite enviable GDP growth, we found ourselves being reported as having the worst homelessness in the OECD.

There is a saying that what we measure is what we do. If we want the focus to shift to a wider definition of success for our country then we have to change what we measure, not to mention when and how we measure it.

But our ambition goes beyond that. We want the focus on wellbeing to also be what drives the decisions we make about policies and Budget priorities. In 2019 it is my aim to deliver New Zealand's first Wellbeing Budget. This implies and requires a rigorous framework to understand wellbeing and to be able to report, measure and compare the tangible and the intangible. It is no easy task, and it will evolve over time, but it is our goal, and indeed as the Prime Minister has said, it defines our purpose as a Government. She will speak later in the month about the overall priorities of the Government within this framework.

For me there is also a reason beyond the intrinsic importance of understanding all the elements of wellbeing in defining our economic approach. This is an idea whose time has come, and an approach that is essential to addressing the big issues of this generation and the next.

A narrow approach to value and purpose will not allow us to meet the challenges and accept the opportunities of a rapidly changing world of work where technology, automation and globalisation are changing everything about our working lives.

We cannot hope to make the best choices for future generations about mitigating climate change or ensuring a just transition to a low carbon world if we do not look at environmental, social and economic implications together.

The complex, messy problems that create poverty and inequality require us to look beyond basic economic issues, as essential as they are to solving them, to the wellbeing of our wider communities, the impacts of cultural alienation and our understanding of what makes for security and hope.

The Future of Work, Climate Change and Inequality are to me the defining economic and social issues that this Government must face up to, and they all require a wellbeing approach to deal with them. Indeed, strengthening human, social and natural capital is essential to building a foundation of sustainable growth in the face of these issues.

If we look just at the Future of Work, this is clear. In May this year Andrew Haldane, Chief Economist at the Bank of England, gave a speech where he tracked the phases of the economy over the centuries and noted that it has been the emergence of institutions that saw rises in human and social capital that were an essential pre-condition for economic growth. He speaks of "enabling institutions", like free and readily available primary and secondary education and in later centuries free tertiary education, that

have equipped workers with skills to face changing working environments. He also speaks of “insuring institutions” such as the welfare state, trade unions, and central banks, which provided the cushion of certainty and support through buffeting periods of change.

Haldane has argued that as we face the fourth industrial revolution we need to build our stocks of human and social capital through these types of institutions in order to grasp opportunities and ensure a just and fair transition.

This Government recognises this. In Opposition I established a Future of Work Commission to develop policy responses to support workers and businesses to face the rapidly changing world of work with confidence and resilience. In government we are implementing many of these policies. This includes introducing free post-secondary school education and training, and investment in active labour market policies including re-training programmes and subsidised apprenticeships.

We are continuing the work of the Commission with a tripartite Future of Work Forum bringing government, business and unions together to develop further policy responses to support business to increase technological uptake, improve workplace productivity, further skills and training and make a just transition to a low carbon economy.

We have also launched a re-shaping of other institutions such as the Reserve Bank and of our tax system to ensure we meet wider economic goals. This has meant expanding the objectives of the Reserve Bank beyond price stability to include employment outcomes. We want our tax system to be re-balanced towards the productive sector, and to be ready to support positive environmental outcomes. We are also refreshing our welfare system on the basis of expert advice to be fit for purpose for the changing dynamics of the 21st century.

These policies and institutions are aimed at building social and human capital and are part of creating the pre-conditions for a strong and sustainable economy.

Building natural capital is part of the foundation. This is clear in addressing climate change, where this Government has set ambitious goals to be a net zero emissions economy by 2050. Essential to this is the work of an Independent Climate Commission to undertake carbon budgeting and help develop clear pathways to emissions reductions. Alongside this the Government has established a Just Transitions Unit to support communities and industries through the necessary changes as we work towards this goal. We have new financing mechanisms to take up the opportunities for new technology through our Green Investment Fund and our \$1 billion annual Provincial Growth Fund – all about building natural, social, human and financial capital.

In addressing inequality and child poverty our first action as a government was to cancel across the board tax cuts and refocus that to a package of support for low and middle income families and children. We have taken the first steps in re-defining our measures of success. Our Prime Minister has a piece of legislation before Parliament that will oblige the government to set targets to reduce child poverty, and measurements across a range of indicators. What is more, the Bill alters the Public Finance Act to ensure that the Minister of Finance reports on the progress in the context of the Budget.

This is the first step in a much deeper reform to how we undertake our public policy and Budgets to ensure they are truly based on wellbeing.

I am fortunate in this process for the work that has been underway for some time in the New Zealand Treasury, in particular on the Living Standards Framework. In turn that work has drawn on the OECD Better Life Initiative and experiences overseas, and I am grateful to a number of people in the room today for that.

For those not familiar with the Treasury's Living Standards Framework it is a tool to put sustainable intergenerational wellbeing at the centre of its different functions including policy advice, government expenditure and long term management of our asset stocks. It uses the four capital stocks - natural, social, human and financial/physical - to organise indicators of wellbeing. It has been evolving for some time, and work is now well advanced on the development of a Living Standards Dashboard that will specifically describe the current wellbeing of New Zealanders across twelve domains, the distribution of wellbeing across the population, including on a gender and ethnic basis, and future wellbeing through indicators of the four capitals. This dashboard will be reported on annually and will of course evolve over time.

In tandem with this work, the Treasury and Statistics New Zealand are developing an ambitious project called Indicators Aotearoa New Zealand. Born of the Confidence and Supply Agreement between the Labour and Green Parties it will create a comprehensive set of indicators across the dimensions of the current wellbeing of New Zealanders, future wellbeing based on the four capitals and the impact New Zealand is having on the world.

The officials working on this project have used the concept of a pantry from which appropriate indicators can be drawn. The Living Standards Dashboard is expected to largely be drawn from Indicators Aotearoa New Zealand. It will also inform other government strategies including the Child Wellbeing strategy, and support international reporting such as that on the UN Sustainable Development Goals. It is clear that there are information gaps and there will be proxy indicators or, indeed in some cases, no indicators at all while better data is identified or created.

The framework and our wellbeing approach must continue evolve. There are significant challenges to it, many of which you will hear about in the conference today. The biggest among those for me is making sure that the approach genuinely reflects Aotearoa New Zealand and our values.

The work of the OECD has been extraordinarily helpful, but we must acknowledge the importance of Te Ao Maori (Maori world view) to who we are as a country. A common criticism of the framework is that it does not encapsulate a world view that is more collectivist, and where concepts of value are not so easily separated into clearly defined capitals or disaggregated wellbeing domains.

Treasury and Te Puni Kokiri have been working on this, and some interesting ideas are emerging that actually help to draw together the notion of wellbeing. One example draws on a tikanga Maori concepts such as mannaakitanga (care/respect), kaitiakitanga (guardianship or stewardship) and whanaungatanga (connectedness and relationships) to draw together into waiora or wellbeing.

Similar issues arise in working with the Pasifika community. There is a desire to see family resilience, cultural recognition and Pacific connectedness and belonging recognised more clearly within the framework.

It is vital that this work continues to ensure the framework fairly reflects who we are as a nation and who we want to be as a country, and I know Treasury is committed to this work.

And it is similarly essential that we allow the framework to be open to further challenge and development. Many of the sessions at this conference will challenge the assumptions in the framework and I am grateful for that.

Issues I am keen to see explored more include:

- how do we adequately manage weighting the relative merits of each capital? How do we develop traditional cost benefit analysis tools to truly reflect wellbeing?
- conceptual challenges to the framework including the underlying assumptions of grounding it in traditional economic concepts. The word “capital” itself is so value-laden that even used in its literal form (an accumulation of value) it causes concerns. But it is important that the framework is rigorous and grounded.
- underlying assumptions within the measurement of capitals - for example the continued use of the System of National Accounts and its undervaluing of so-called ‘unpaid work’. Can the framework truly provide an adequate gender analysis in this respect?

Perhaps unusually for a politician I am not at all afraid to debate these challenges. We need to, in order to ensure that the framework is truly useful and enduring.

In terms of the practical application of this approach to our Budget in New Zealand there is an important distinction to make. The Wellbeing Budget is the Budget of this Coalition Government. The Living Standards Framework is designed to endure beyond any particular government and be a long-term approach to highlighting the importance of intergenerational wellbeing. Individual governments will ultimately make their own choices as to what they prioritise and choose to highlight. For us, the Living Standards Framework will be a core input, but it is not the only input, nor is it a strait jacket on our decision making.

For the creation of the Wellbeing Budget we are drawing on the Living Standards Framework, expert advice on evidence-based policy from our Science Advisors and other indicators of wellbeing. It is our desire that from the beginning of the process of setting Budget priorities, through making decisions about specific initiatives, and then measuring and reporting on success, the Budget will use a wellbeing lens. This will see the Budget look different in form and in substance. I will have more to say about the detail of this in December when I release the Budget Policy Statement, but I can say that we are well advanced in our planning for this.

I am often asked for a practical example of how a wellbeing approach would affect Budget prioritisation or policy making. One of the most difficult issues our Government faced on coming into office was to do with the decrepit Waikeria Prison. We were presented with a number of options, and I was advised that the best option was to replace the prison with a 2,500 bed mega prison because the per-bed cost was the cheapest option.

What a wellbeing approach tells us is that a better option is a smaller prison, with a specialist mental health unit attached, and more resources for transitional housing for released prisoners and more funding for addiction services. The per-bed cost will be higher but the long-term benefits, fiscally and socially, will be far more significant. That is the approach that we took - and it is what I believe a wellbeing lens will do for us across our policy framework.

Already in our work on establishing Budget priorities we are seeing the power of a wellbeing approach to breaking down the silos of government and supporting a focus on outcomes ahead of both inputs and outputs. I will have more to say about that in December as well.

In order to achieve lasting impact of a wellbeing approach, we need to ensure that the framework in which the public sector operates reflects this approach.

This can only endure if we get the legislative framework right. Just yesterday, my colleague the Hon Chris Hipkins launched a consultation on the most significant public sector reform in New Zealand in thirty years. Our Government's aim is a public sector that operates as one joined-up system capable of tackling the complex challenges of our time. We want it to be centred around the needs of citizens, delivering convenient and connected public services. We want it to be marked by joint ventures, one stop shops and high levels of integrity and innovation.

It is also our intention to amend the Public Finance Act to ensure that our Budget process also embeds wellbeing. I will shortly be releasing a companion discussion document about how we do this, but it is my clear expectation that the public service and governments alike will have responsibility for reporting on wellbeing as part of our core financial processes.

It is only with a public sector of this type that we will be able to deliver wellbeing outcomes.

As you can see the wellbeing agenda of this Government is significant and it will take some time to get right. But we will get it right, and we will change the way we work.

In politics we tend to get caught up in, at best, three-year cycles or, at worst, 24-hour media cycles. We must break out of that. The programmes and policies we enact matter and we hope will transform the lives of our people. I believe that this work on wellbeing is likely to be the most significant legacy this Government can leave for future generations. Because, if we can change the way we think about success, if we find our north star in the wellbeing of all our people, now and in future generations, and if we value all that people are capable of, then we will be a better place.

We will be a country that is prosperous, but cares about who shares in that prosperity, how we look after our land and our water, how we make our people healthier, more secure, more skilled and more reflective, and where we connect our communities.

If we get this right, we will have done as Andrew Haldane has said - created the institutions and laid the foundations for our economic success in those attributes of resilience and care, and we will have done as my mother taught me to look out for others as we would want them to do us. That would be a legacy of wellbeing, and of that I would be immensely proud.

Thank you again for being here, and I wish you the very best for a fruitful conference.



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