Intergenerational Wellbeing – and Public Finance

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Framing the Public Finance Question

IF:
Enhancing **Intergenerational Wellbeing** is the objective of public policy;

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

- Why, when our economy is growing, do we feel such despair?
- Why, when exciting new technologies are promising so much, is unhappiness so widespread?
- What about shrinking opportunities for a large mass of people?
- Why are even well-educated workers who hold middle-class jobs so disheartened?
- What should we do?
What should we do?

Making three pillars work well collectively and cooperatively:

▪ Governments
▪ Markets
▪ Communities
Platform for Intergenerational Wellbeing
Platform for Intergenerational Wellbeing

Sustainability ...

... underpinned by resilience
Sustainability is the key concept
It is the **sustainability of wellbeing** that matters

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.
Motivating the Focus on Resilience
Chart 1: World GDP per head since 1000 AD

Chart 4: Long-run UK GDP growth

700 years of growth

Decennial growth

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

Sources: Broadberry and Wallis (2017) and Bank calculations.
Framing the Public Finance Question

IF, enhancing Intergenerational Wellbeing is the objective of public policy,

THEN:

• What role can Public Finance play?
• How can this role be operationalised (in a governance and management sense)?
Building Blocks –
Investment Approach to Public Policy
Sustainable Wellbeing – through Resilience
(Enlarging the Wellbeing Frontier)

- Potential Economic Growth
- Personal Freedoms & Political Voice
- Social Cohesion
- Environmental Quality
- Equity

- Human Capital
- Natural Capital
- Social & Cultural Capital
- Economic Capital

Sustainable Wellbeing – through Resilience
Sustainable Intergenerational Wellbeing

Productivity + Resilience

Shock-absorbing capacity (preservation)
Adaptation (creativity/enhancement)

Institutions = f (distribution of power)

Access to comprehensive wealth (equity / no poverty / voice / participation)

Clean Natural Environment
Social cohesion/communities
Economic Infrastructure
Freedom/civil liberties

Public Investments

Public Finance
"Most of the radical, revolutionary innovations that have fuelled the dynamics of capitalism - from railroads to the Internet, to modern-day nanotechnology and pharmaceuticals - trace the most courageous, early and capital-intensive ‘entrepreneurial’ investments back to the State" [Mazzucato (2015)].
Institutional Settings


• Clear acknowledgement of the role of communities.
Parliament sets the very long-term (environmental, social, and economic) objectives (and associated targets) aligned with shared and sustainable (intergenerational) wellbeing.

A long-term investment agency (LTIA) (mirroring the Parliamentary Commissioner for the Environment) is set up – it is directly accountable to Parliament.

The distinctive role of the LTIA (as a “portfolio manager”) is to oversee, on behalf of Parliament, the effective and efficient achievement of the suite of objectives that have been prioritised.

Funding for long-term investments comes from the NZ Superannuation Fund.
• A multi-party Parliamentary Governance Group (PGG) acts as the governance group for the LTIA.

• A special arm of the NZ Treasury has the dedicated role of supporting, designing, and assessing the overall investment strategy of the LTIA.

• A dedicated investment manager associated with each long-term outcome (say, child poverty) plays the public sector stewardship role.

• Where it is deemed appropriate by the LTIA that the delivery of a particular long-term outcome requires substantive community ownership and participation in the delivery of that outcome, a community-based manager and budget holder (typically part of local / regional government), accountable to the LTIA, is established.
Funding tied to Accountability

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

• Since funding will come from a “strategic” portfolio allocation (say 20%) from the NZ Superannuation Fund), change the NZ Superannuation and Retirement Income ACT 2001, so that:
  – The Fund remains a long-term, growth-oriented, global investment fund.
  – However, its strategic portfolio allocation recognises that its reason for being is broader than simply funding superannuation, but also includes a long-term, wellbeing oriented, investment activities.
Statistics New Zealand predicts that the population aged 65 years and over will surpass one million by the late 2020s, compared with 550,000 in 2009. The 65+ age group will also grow as a proportion of New Zealand's total population, increasing from 13% in 2009 to more than 20% by the late 2020s. By the late 2050s, one in every four New Zealanders will be 65 years or older.

This means New Zealand will have:

• more people of retirement age, as a proportion of the population, than ever before; and

• fewer 'working-age' people to pay tax to fund the greater cost of retirement income.

These projections have significant implications for the ability of future Governments to fund not just a universal superannuation benefit, but other vital areas such as health, welfare, education and law enforcement.
Outcomes vs Outputs

Focus on OUTCOMES – often community-chosen outcomes.
Participation vs Consultation

Where substantive community involvement is appropriate, focus on community participation – not just “engagement” or “consultation”.

Where Substantive Community Involvement is Appropriate

• 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.
Ostrom’s Core Design Principles

- Clearly defined boundaries (DP1) meant that members knew they were part of a group and what the group was about (e.g., fisherman with access to a bay or farmers managing an irrigation system).
- Proportional equivalence of costs and benefits (DP2) meant that members had to earn their benefits and couldn’t just appropriate them.
- Collective choice arrangements (DP3) meant that group members had to agree upon decisions so nobody could be bossed around.
- Monitoring (DP4) and graduated sanctions (DP5) meant that disruptive self-serving behaviours could be detected and punished.
- Fast and fair conflict resolution (DP6) meant that the group would not be torn apart by internal conflicts of interest.
- Local autonomy (DP7) meant that the group had the elbow room to manage its own affairs.
- Appropriate relations with other tiers of rule making authority (DP8) meant that everything regulating the conduct of individuals within a given group also was needed to regulate conduct among groups in a multi group population.
Example – Child Poverty
# Example: Child Poverty Targets

## Table 4 – Child poverty reduction targets (% of children)

<table>
<thead>
<tr>
<th>Primary measure</th>
<th>Baseline rate (2017/18)</th>
<th>3-year target rate (2020/21)</th>
<th>10-year target rate (2027/28)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BHC50 moving-line</td>
<td>16.5%</td>
<td>10.5%</td>
<td>5%</td>
</tr>
<tr>
<td>AHC50 fixed-line</td>
<td>22.8%</td>
<td>18.8%</td>
<td>10%</td>
</tr>
<tr>
<td>Material hardship</td>
<td>13.3%</td>
<td>10.3%</td>
<td>6%</td>
</tr>
</tbody>
</table>

The percentage number in each line in the table above shows the percentage of children in New Zealand living in poverty at the baseline year (2017/18) and at the three-year and 10-year target years.
Application of the Long-term Investment Model – Child Poverty Reduction

- The role of PGG as the governance group on behalf of Parliament.
- A special arm of the NZ Treasury has the dedicated role of supporting, designing, and assessing the overall investment strategy of the LTIA.
- The LTIA can bring in a wider set of advisers, such as the Childrens’ Commissioner, and people with on the ground credibility.
- A dedicated “investment manager”, playing the public sector stewardship role (in the form of the Child Poverty and Child Wellbeing units) already exists in the DPMC.
- Since the nature of child poverty varies so much across NZ communities, the delivery of this particular outcome clearly requires substantive community ownership - community-based budget holders will be established.
- The community collective then becomes the management entity responsible for delivering the desired (specific) outcomes.
- A few “pilots” could be run in selected communities, where the appropriate leadership and other capabilities are available.