

Wellbeing and Economic Policy: Lessons from New Zealand

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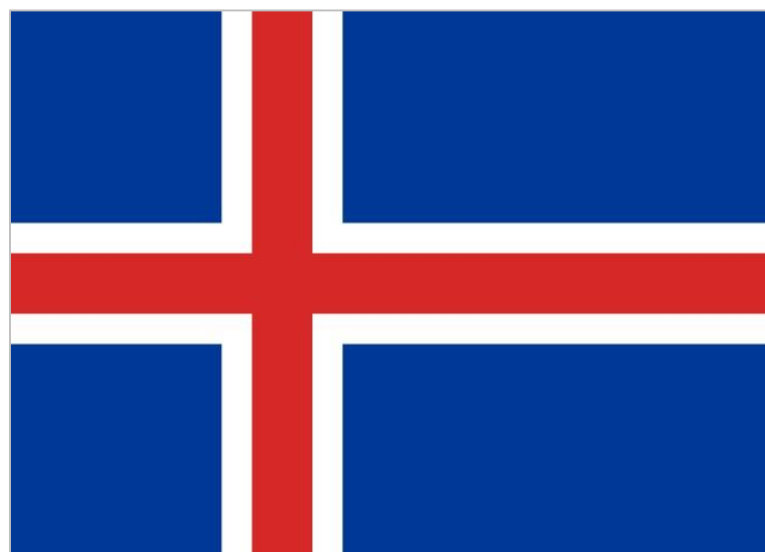
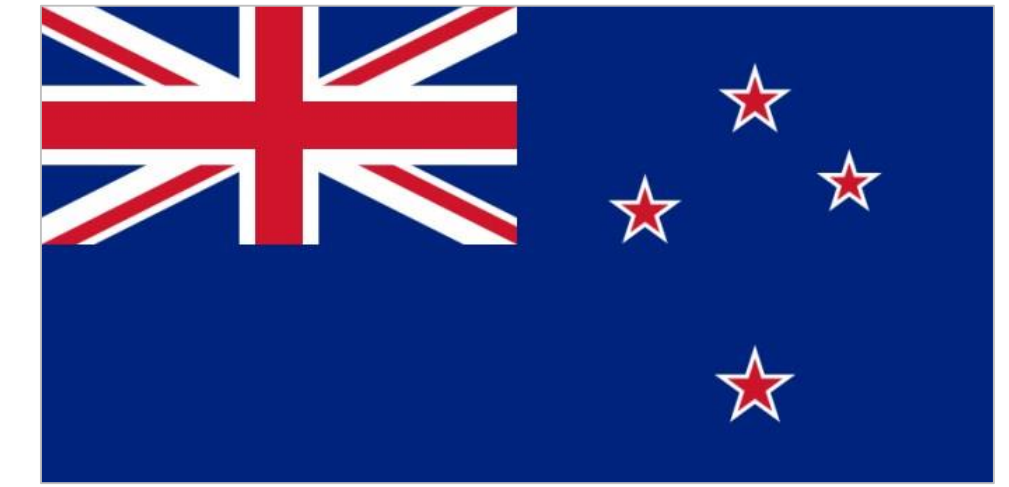
Agribusiness
& Economics
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Introduction



In November 2018, New Zealand became a founding member of the [Wellbeing Economy Governments](#) partnership (WEGo), alongside Scotland and Iceland. Wales joined the partnership in May 2020.

The governments of these four countries are collaborating to bring wellbeing into the heart of economic policymaking.

The purpose of this *Research Briefing* is to summarise lessons from New Zealand's experience of incorporating wellbeing into economic policy, which led its government on 30 May 2019 to deliver the world's first [Wellbeing Budget](#).

It is prepared by the [Agribusiness and Economics Research Unit](#) at Lincoln University, New Zealand, whose mission since 2009 is to exercise leadership in research for [sustainable wellbeing](#).

Section I

Wellbeing Economics

A Wellbeing Vision for Economic Policy

A shift to embed wellbeing economics in public policy recognises the importance of a wellbeing vision for economic policy.

Scotland's [National Performance Framework](#), for example, records this recognition in its purpose statement (see opposite).

Similarly in New Zealand, at the [State Opening of Parliament](#) after a change of government in the 2017 election, the Governor-General announced a new vision for the country's economic policy.



Purpose and Values in Scotland's [National Performance Framework](#), refreshed in 2018.

“We need to move beyond narrow measures and views of value and broaden the definition of progress. The economic strategy will focus on how we improve the wellbeing and living standards of all New Zealanders.” (Speech from the Throne, 8 November 2017)

Beyond GDP

The New Zealand and Scottish visions for economic policy on the previous page are representative of a wider movement known as [Beyond GDP](#).

Gross Domestic Product (GDP) measures the market value of economic activity in a region or country.

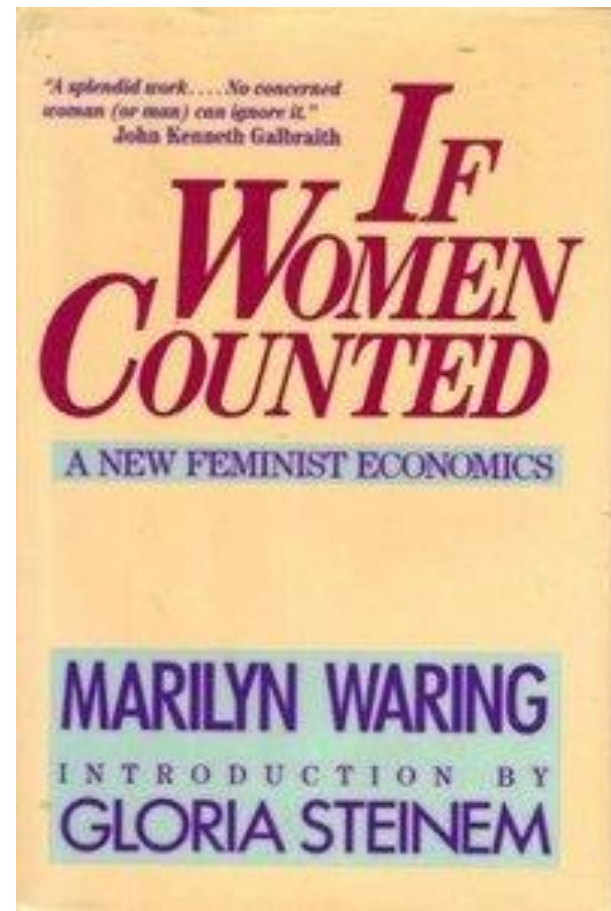
Economists have typically presumed the best contribution economic policy makes to wellbeing is to support high growth in a nation's GDP.

In 2008, the President of France created the [Commission on the Measurement of Economic Performance and Social Progress](#), headed by Joseph Stiglitz, Amartya Sen and Jean-Paul Fitoussi.

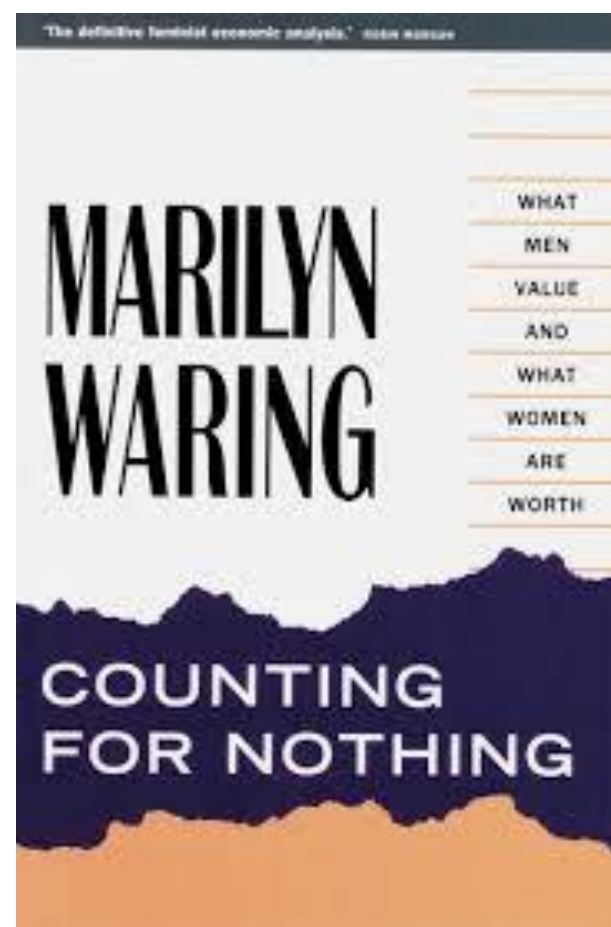
It made an influential recommendation, fuelling the Beyond GDP movement:

“The time is ripe for our measurement system to shift emphasis from measuring economic production to measuring people’s well-being.”
(Commission Report, 2009)

Critiques of GDP



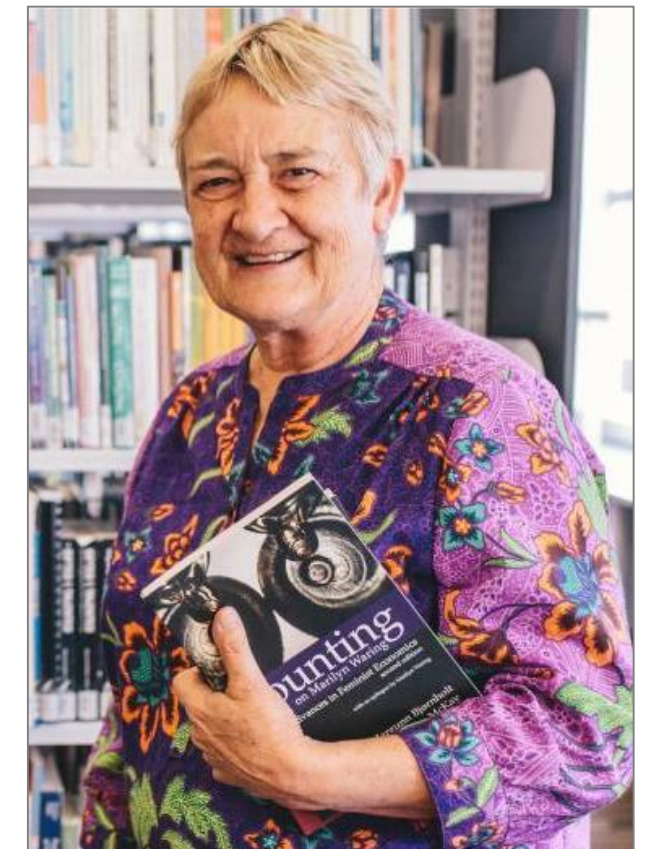
A New Zealand economist, [Marilyn Waring](#), is a pioneer critic of GDP. In 1988, Waring published a book under two titles that helped launch the field of feminist economics.



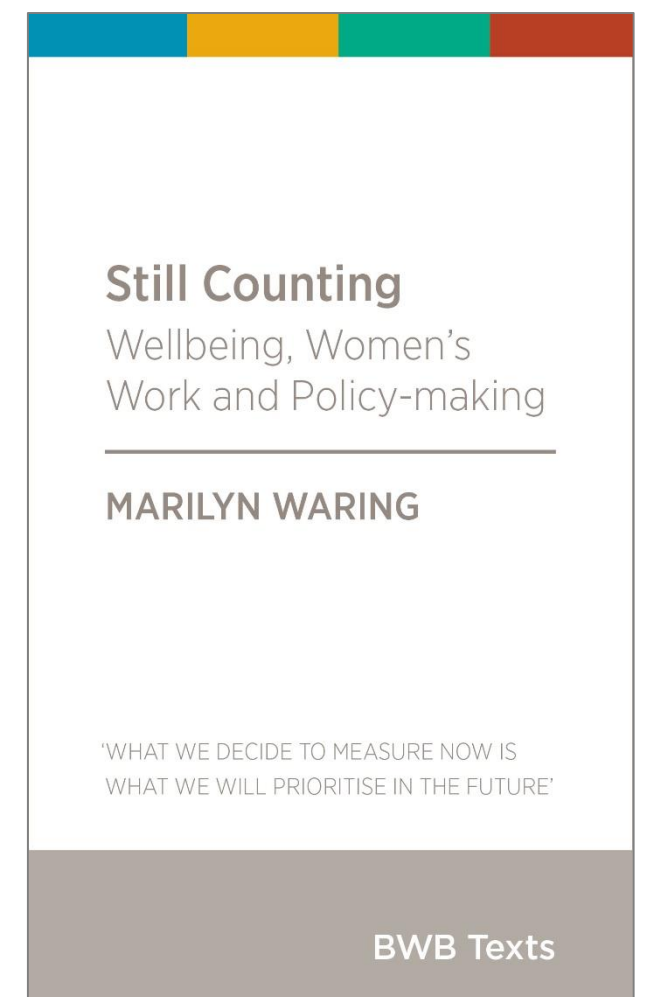
It focused on two issues:

- Essential work for wellbeing within households, often by women, is generally excluded from GDP.
- Environmental damage from human economic activity is also generally excluded from GDP.

Marilyn Waring is a Dame Companion of the New Zealand Order of Merit, awarded in 2020 for her services to women and economics (Photo: Auckland University of Technology).



Waring continues to criticise economics for not recognising all wellbeing work by women and for reducing the natural environment to a type of capital (see [page 34](#) below).



Distinguishing Elements of Wellbeing Economics

Wellbeing economics is simply good economics.

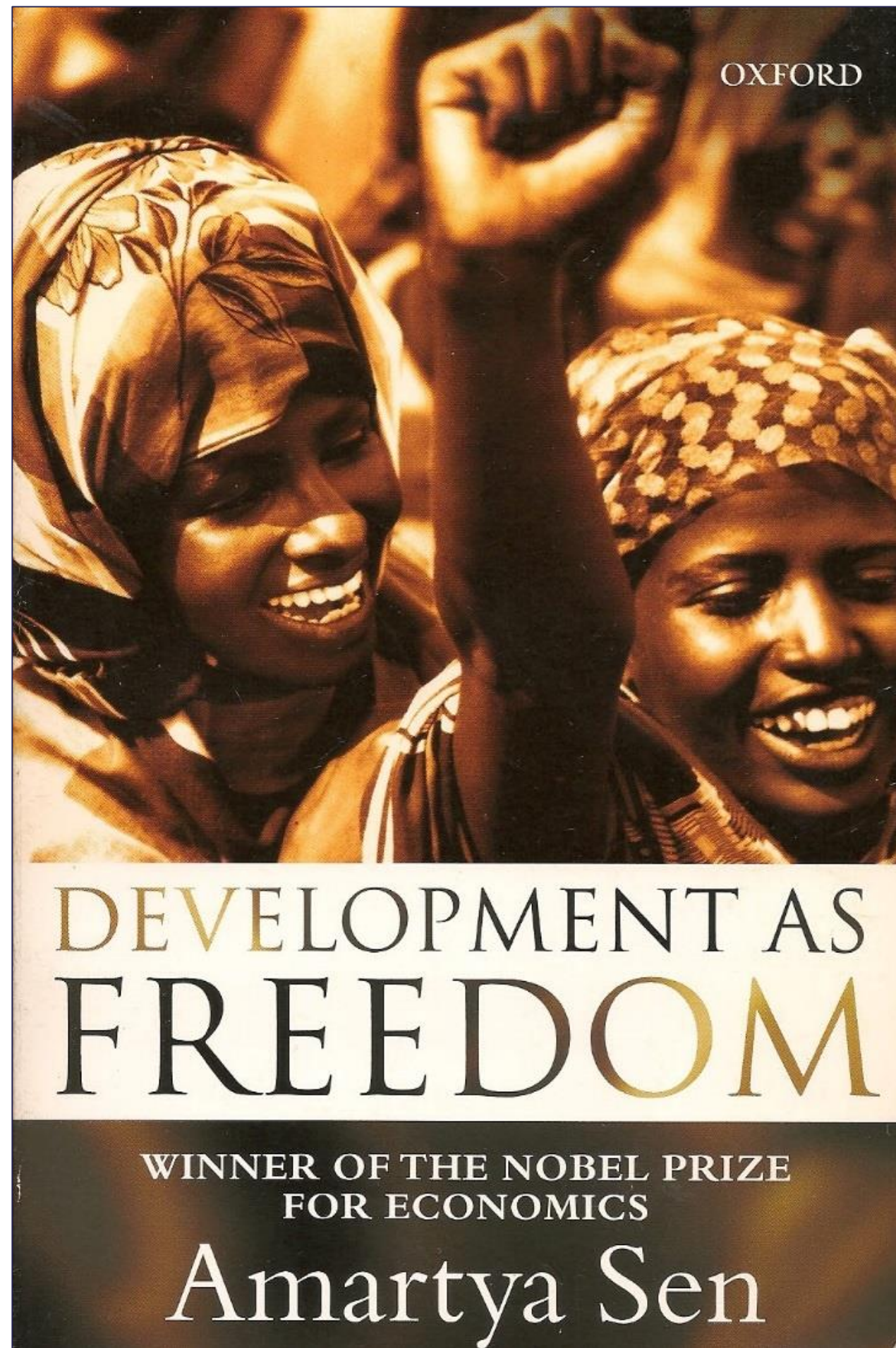
Nevertheless, in the context of the traditional focus by economists on promoting GDP growth, wellbeing economics features three distinguishing elements.

- A. **Human capabilities**: The ultimate judge of economic policy is how well people in the whole population can develop capabilities for leading lives they have reason to value.
- B. **Planetary boundaries**: There is overwhelming scientific evidence, including the global climate emergency, that human activity is pushing beyond planetary boundaries.
- C. **Future generations**: Excessive material consumption, and other forms of economic neglect, are compromising the ability of future generations to meet their own needs.

Section II

Human Capabilities

Expanding Human Capabilities



Amartya Sen introduced the capabilities approach to development.

It focuses on the lives people are able to make for themselves, and on the economic and social constraints that limit people's capabilities to lead the kinds of lives they value – and have reason to value.

“The analysis of development presented in this book treats the freedoms of individuals as the basic building blocks. Attention is thus paid particularly to the expansion of the ‘capabilities’ of persons to lead the kinds of lives they value – and have reason to value.” *(Development as Freedom, 1999)*

The purpose of economic policy is to relax those constraints, and so expand personal and communal capabilities.

The Capabilities Approach to Prosperity



In 2018, Palgrave Macmillan published a book written in New Zealand on [*Wellbeing Economics: The Capabilities Approach to Prosperity*](#).

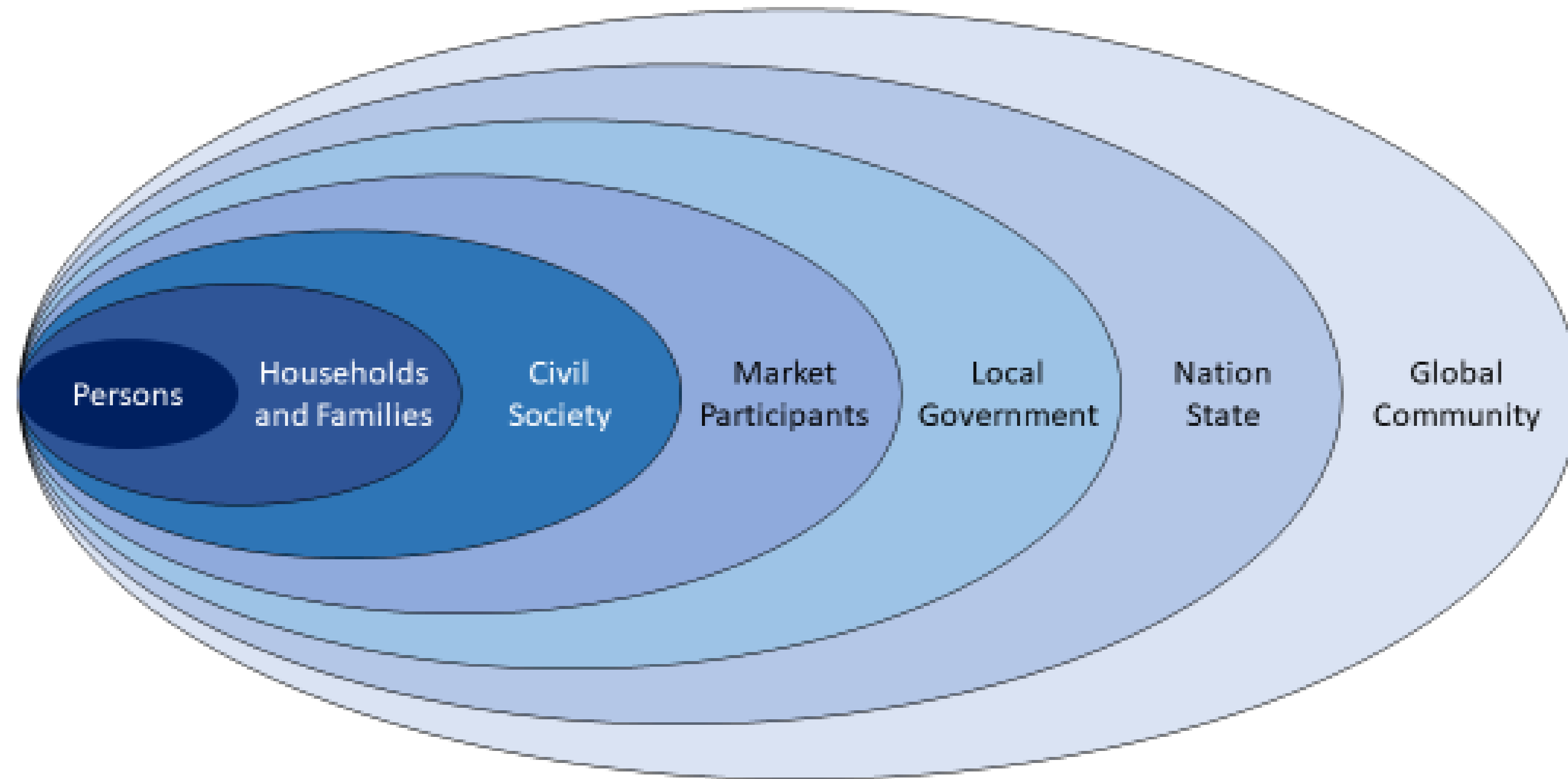
Following the lead of Amartya Sen, the book emphasises human agency as a core aspect of the capabilities approach to prosperity.

Wellbeing is not a gift of public policy. It is created from the actions of persons:

- individually and collectively;
- in the private sector and in the public sector;
- locally and globally.

Wellbeing Economics found an international audience. By September 2020, there had been 58,000 chapter downloads. This made it the 5th most downloaded book in economics and finance published by Palgrave Macmillan in 2018.

Seven Levels of Human Actions



Source: Reproduced from [*Wellbeing Economics: The Capabilities Approach to Prosperity*](#), 2018, Figure 1.1, p. 12.

New Zealand Wellbeing Frameworks

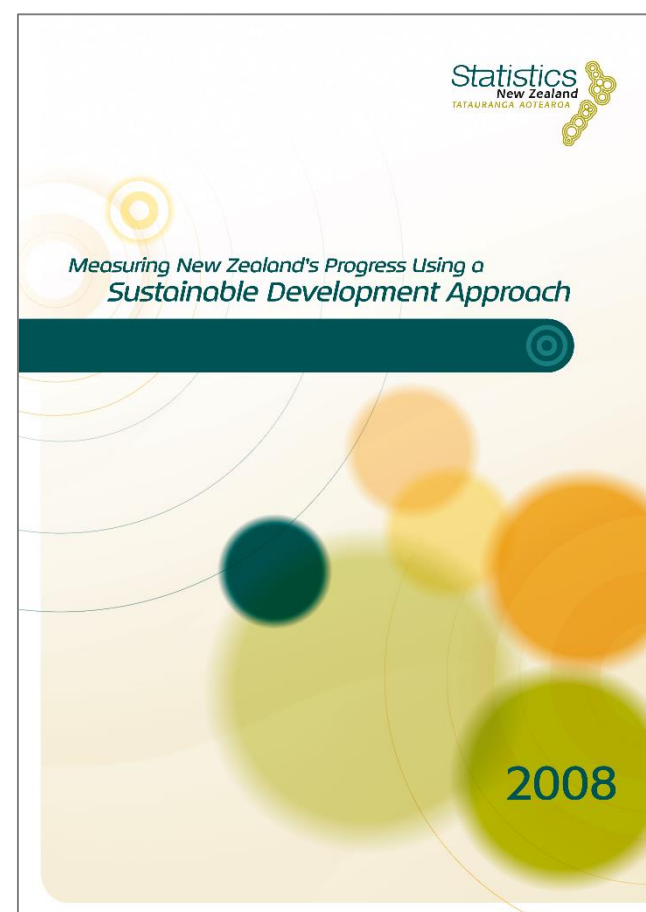
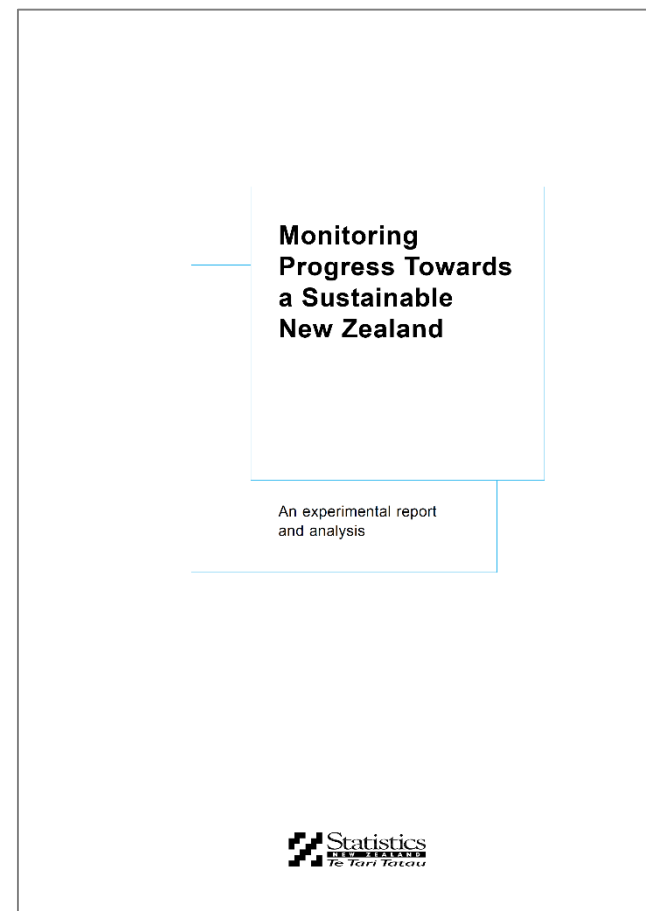
A national wellbeing framework is created in two steps.

- Policy advisors engage with citizens to create a list of important domains of current wellbeing.
- Policy experts identify appropriate statistical indicators that measure trends in each domain.

New Zealand has a history of creating frameworks along these lines, well before the current emphasis on wellbeing economics in public policy.

The national statistics agency, [Stats NZ](#), began work in 2002 to create the [Sustainable New Zealand](#) framework. This led to an on-line dashboard of [NZ Progress Indicators](#).

The [Social Report](#), published yearly by the Ministry of Social Development between 2001 and 2010, and again in 2016, presented 49 social wellbeing indicators in 10 domains.



New Zealand Wellbeing Frameworks

Several countries have created national wellbeing frameworks, including:

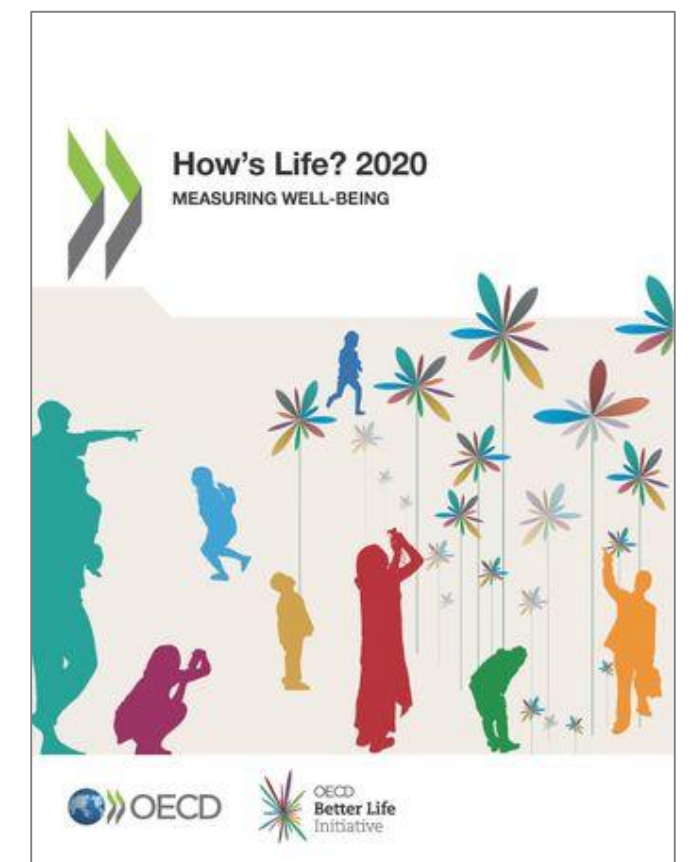
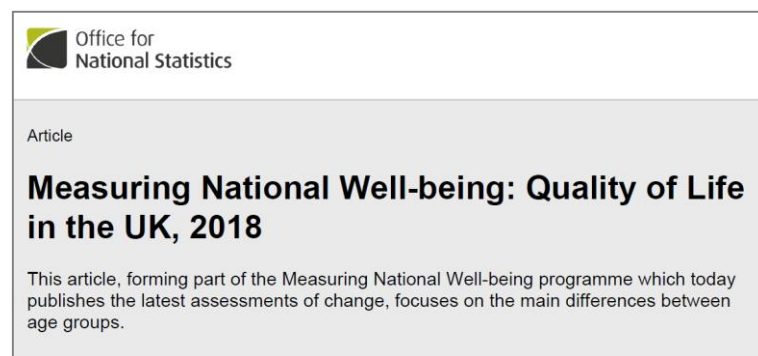
- [Measuring National Wellbeing](#) in the United Kingdom;
- [National Performance Framework](#) in Scotland; and
- [Twelve Dimensions of Wellbeing](#) in Germany.

The OECD in Paris has also created an influential wellbeing framework for its [Better Life](#) international comparisons.

After 2017, two public agencies in New Zealand consulted with the public to develop wellbeing frameworks.

Stats NZ developed [Ngā Tūtohu Aotearoa – Indicators Aotearoa New Zealand](#), which has more than 100 statistical indicators covering 22 topics.

Many of these align with the second framework, developed by the New Zealand Treasury.



Twelve Domains of Current Wellbeing

The 12 Domains of current wellbeing

reflect our current understanding of the things that contribute to how New Zealanders experience wellbeing

-  Civic engagement and governance
-  Cultural identity
-  Environment
-  Health
-  Housing
-  Income and consumption
-  Jobs and earnings
-  Knowledge and skills
-  Time use
-  Safety and security
-  Social connections
-  Subjective wellbeing

The New Zealand [Treasury](#) refreshed its already existing Living Standards Framework ([LSF](#)) to meet the needs of the Wellbeing Budget.

It commissioned independent reports, completed a public consultation, and worked with an advisory panel of external experts.

The LSF is based on the OECD wellbeing framework, with some local adaptation. It identifies 12 domains of current wellbeing that support the capabilities of people to lead lives they have reason to value.

The domains are monitored using a [dashboard of statistical indicators](#) to reveal wellbeing trends and changes in distribution across groups in the national population.



Our People Our Country Our Future

Living Standards Framework:
Background and Future Work

4 December 2018

New Zealand Government

Wellbeing and Cultural Diversity

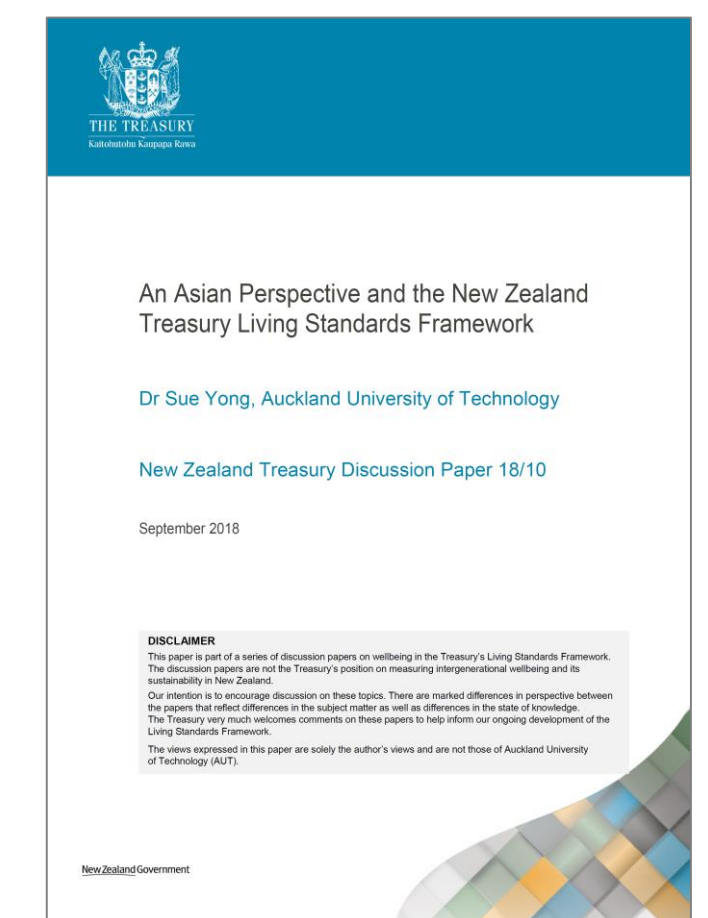
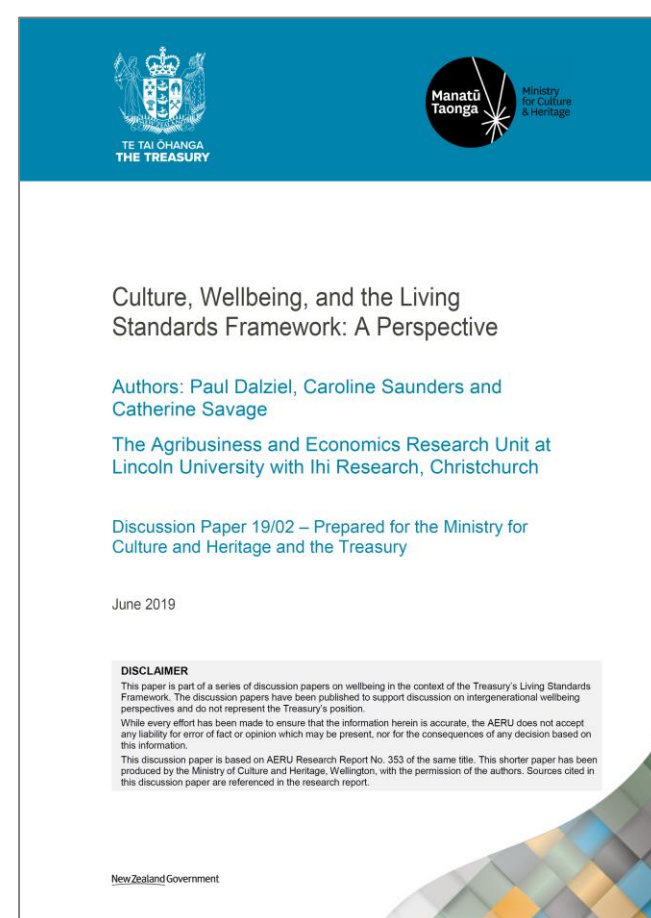
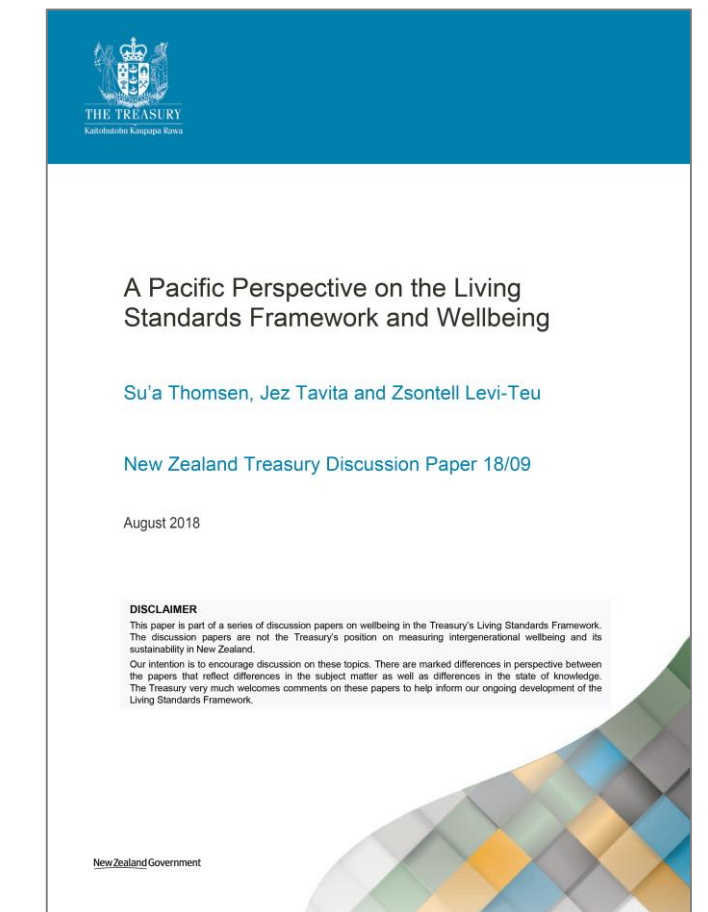
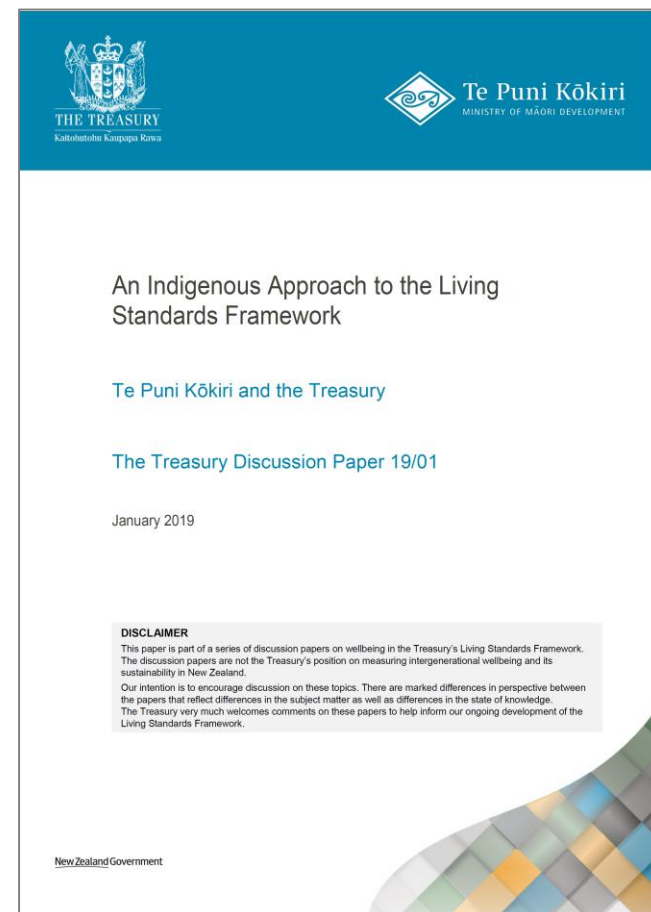
The 12 domains for current wellbeing in the LSF is one more than the 11 domains in the OECD framework.

The extra New Zealand domain is *cultural identity*.

This reflects the country's history of bi-culturalism between indigenous Māori and European settlers since the early 19th century, as well as experiences of multiculturalism after more recent migrations from the Pacific, Asia and further afield.

The Treasury recognises the need for ongoing work to develop the LSF and its dashboard of statistical indicators.

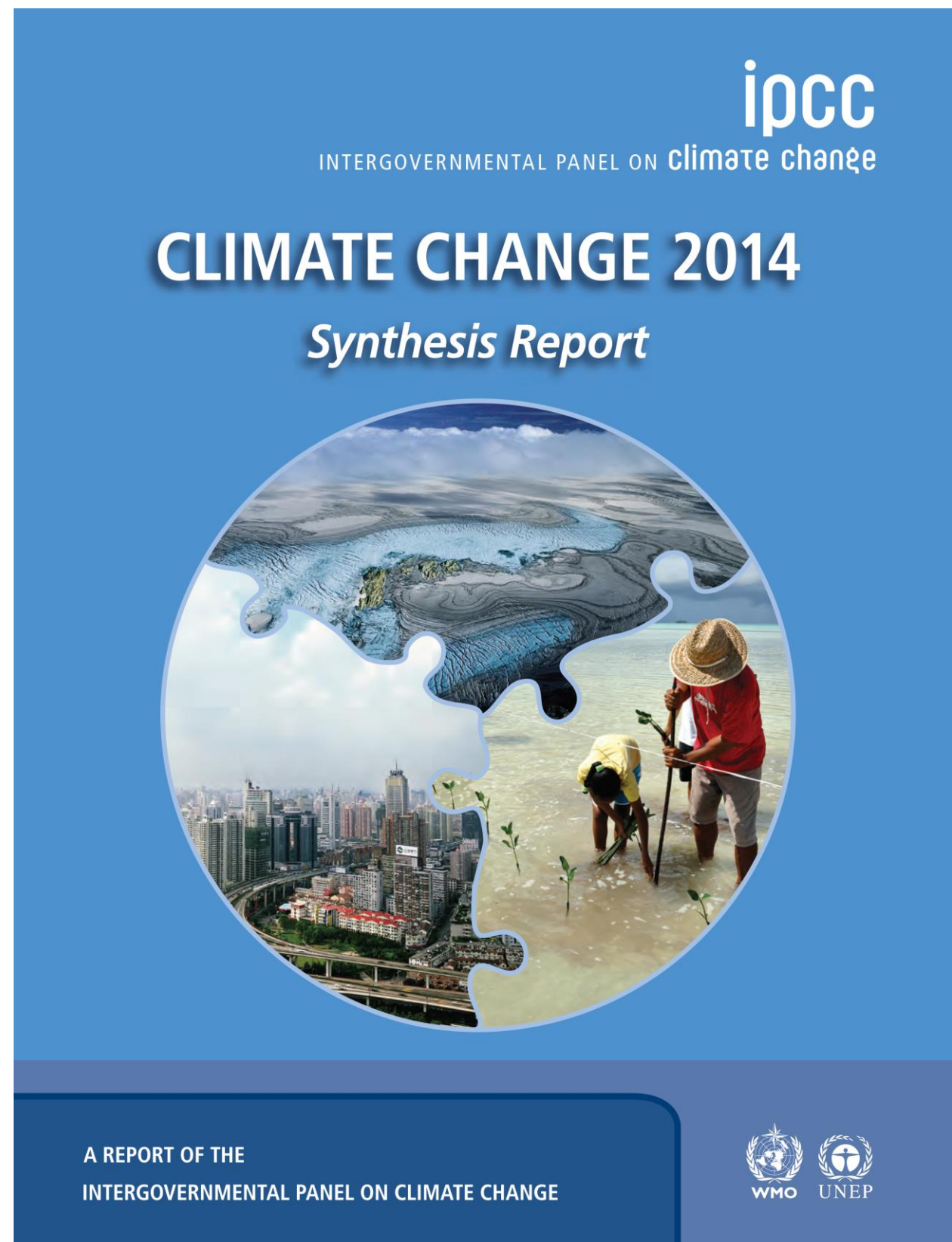
As part of that work, the Treasury has commissioned a series of papers exploring cultural perspectives on wellbeing.



Section III

Planetary Boundaries

Respecting Planetary Boundaries



“Anthropogenic greenhouse gas emissions have increased since the pre-industrial era, driven largely by economic and population growth, and are now higher than ever.”

(Climate Change 2014 Synthesis Report)

The global climate crisis is an urgent example of how human economic activities threaten the earth’s planetary boundaries.

The [Paris Agreement on Climate Change](#) came into force on 4 December 2016. It commits participating countries to undertake ambitious efforts to limit the global average temperature increase to 1.5°C above its pre-industrial levels.

This requires a major economic transformation.

New Zealand's Climate Change Programme

New Zealand has created a whole-of-government [climate change programme](#) to drive policy towards low greenhouse gas emissions and improve the country's climate resilience through:

- leadership at home and internationally;
- a productive, sustainable and climate-resilient economy; and
- a just and inclusive society.

Specific initiatives include:

- A new domestic [emissions reduction target](#) by 2050 set into law.
- An independent [Climate Change Commission](#) established.
- Reforms to New Zealand's [Emissions Trading Scheme](#) agreed.
- [New Zealand Agricultural Greenhouse Gas Research Centre](#) established.
- First [National Climate Change Risk Assessment](#) for the country completed.



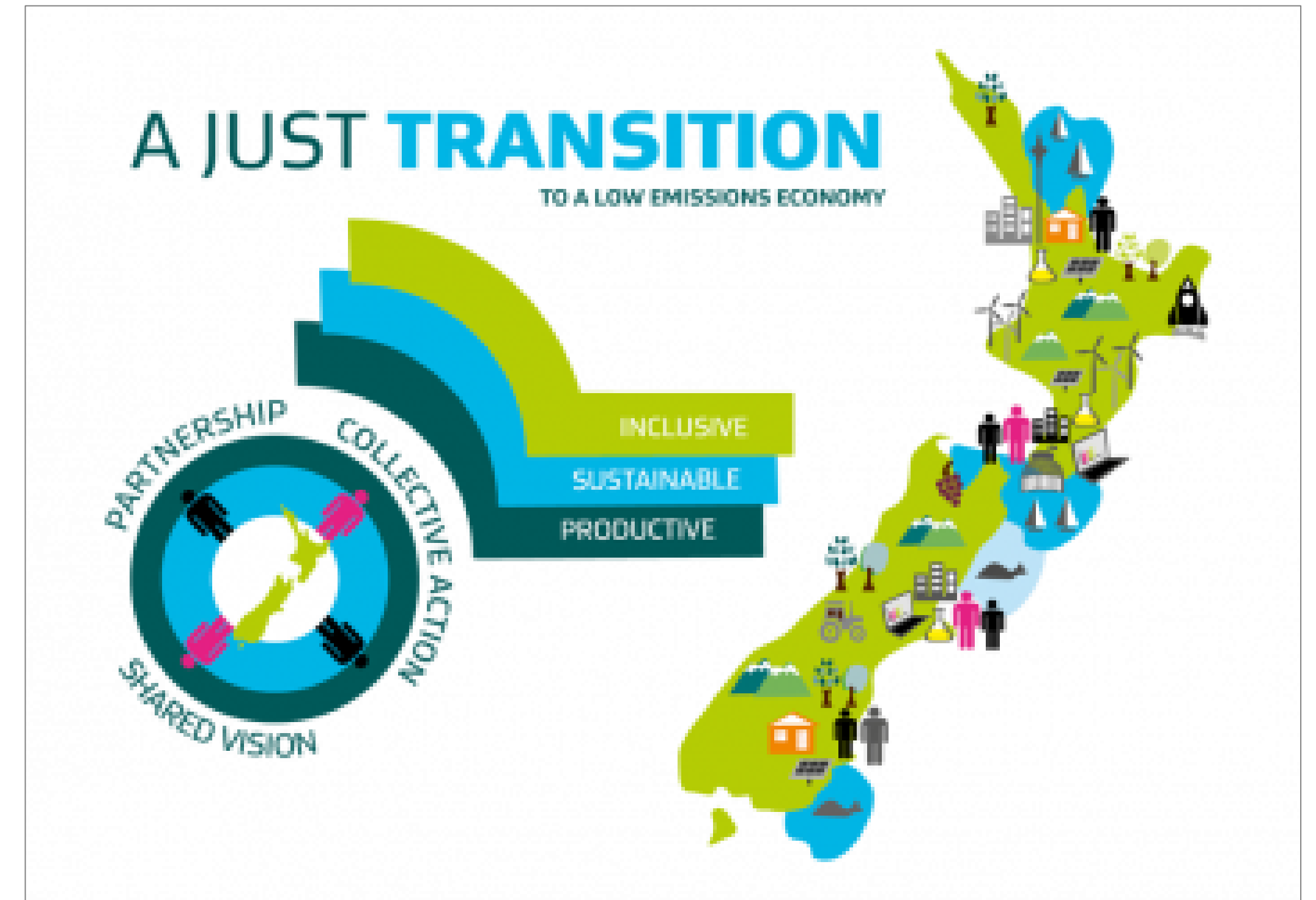
Photo: [Office of the Clerk](#),
[CC BY 4.0](#)

A Just Transition

New Zealand's move to a low emissions economy is legislated in the [Climate Change Response \(Zero Carbon\) Amendment Act 2019](#).

The government recognises this involves large economic impacts on industry, and has created a [Just Transition Unit](#) to work towards a just transition that is fair, equitable and inclusive.

In 2018, for example, the government stopped issuing offshore oil and gas exploration permits. A [Just Transition Summit](#) in May 2019 explored alternative pathways for the region most affected by the policy change, Taranaki.



Source: Ministry of Business Innovation and Employment, [Presentation by the Just Transition Unit](#), November 2018

New Zealand's Environmental Reporting



The [Environment Reporting Act of 2015](#) requires New Zealand's Ministry for the Environment and Stats NZ to produce reports on five environment domains, and a synthesis report, over a three-year cycle. The five domains are:

- Air
- Freshwater
- Marine
- Atmosphere and Climate
- Land

The reports aim to present a scientific diagnosis of the health of the environment as a stimulus to open and honest conversations about risks and opportunities for change.

Section IV

Future Generations



Investing for Future Generations



The Future Generations Report 2020



Let's create the future together

The [Well-being of Future Generations \(Wales\) Act 2015](#) made Wales the first country to impose a legal duty on public bodies to safeguard the wellbeing of future generations. The Act created the position of [Future Generations Commissioner](#) to hold public bodies to account. The Commissioner must publish a major assessment every five years, with the first [report](#) in May 2020.

New Zealand does not have the same statutory infrastructure, although the [Public Finance \(Wellbeing\) Amendment Act 2020](#) imposes requirements on the government to report annually on its wellbeing objectives. It also requires the Treasury to prepare a report on the country's wellbeing every four years, using its best professional judgements.

The Wellbeing of Children and Young People



Source: New Zealand Child and Youth Wellbeing Strategy: [The Strategy Framework](#), August 2019.

The emphasis on future generations means that the wellbeing of children and young people is an essential aspect of wellbeing economics.

New Zealand has created a [Child and Youth Wellbeing Strategy](#) that focuses on six outcomes shown in the diagram to the left.

For each outcome, there is a set of [indicators](#) to monitor progress.

Some of the indicators will come from a new [nationwide survey](#) of 14,000 young people about health and wellbeing, scheduled for 2021.

The Treasury's Capitals-based Approach



Our People Our Country Our Future

Living Standards Framework:
Background and Future Work

4 December 2018

New Zealand Government

The Living Standards Framework created by the New Zealand Treasury explicitly aims to support intergenerational wellbeing.

As the diagram on the following page illustrates, it does this by maintaining, nourishing and growing 'four capitals' presented in the diagram.

This capitals-based approach is a standard feature of many wellbeing frameworks; it is, for example, an integral aspect of the [OECD wellbeing framework](#).



The Treasury's Living Standards Framework

To help us achieve our vision of working towards higher living standards for New Zealanders, we developed the Living Standards Framework. Our Living Standards Framework provides us with a shared understanding of what helps achieve higher living standards to support intergenerational wellbeing.

Four Capitals in the Treasury's LSF

The Four Capitals (natural, human, social, and financial and physical) are the assets that generate wellbeing now and into the future

Looking after intergenerational wellbeing means maintaining, nourishing, and growing the capitals



Natural Capital



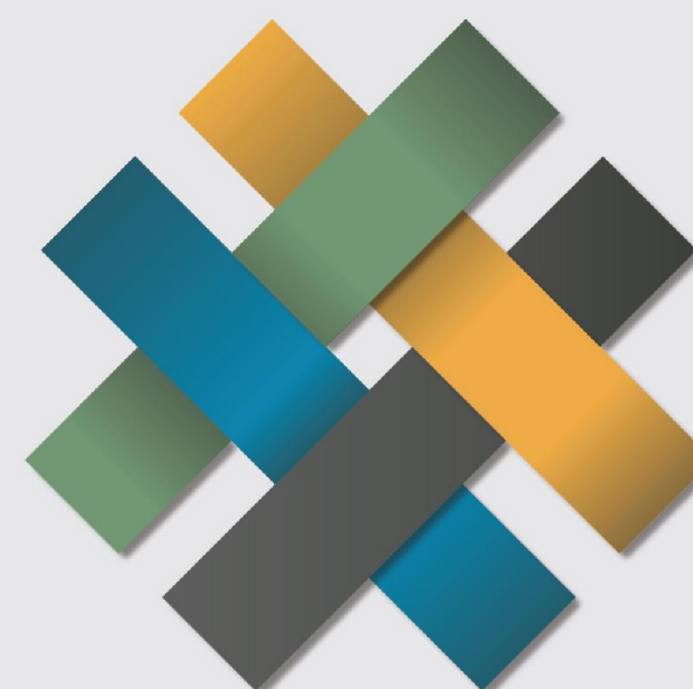
All aspects of the natural environment that support life and human activity. Includes land, soil, water, plants and animals, minerals and energy resources.



Social Capital



The norms, rules and institutions that influence the way in which people live and work together and experience a sense of belonging. Includes trust, reciprocity, the rule of law, cultural and community identity, traditions and customs, common values and interests.



Human Capital



The capabilities and capacities of people to engage in work, study, recreation, and social activities. Includes skills, knowledge, physical and mental health.



Financial and Physical Capital



Financial and human-made (produced) physical assets, usually closely associated with supporting material living conditions. Includes factories, equipment, houses, roads, buildings, hospitals, financial securities.

Two Extensions to the Living Standards Framework

The figure on the previous page states that the four capitals are “assets that generate wellbeing”. A key message of the capabilities approach (see [page 10](#)) emphasises that it is *human actions* (not assets) that create wellbeing.

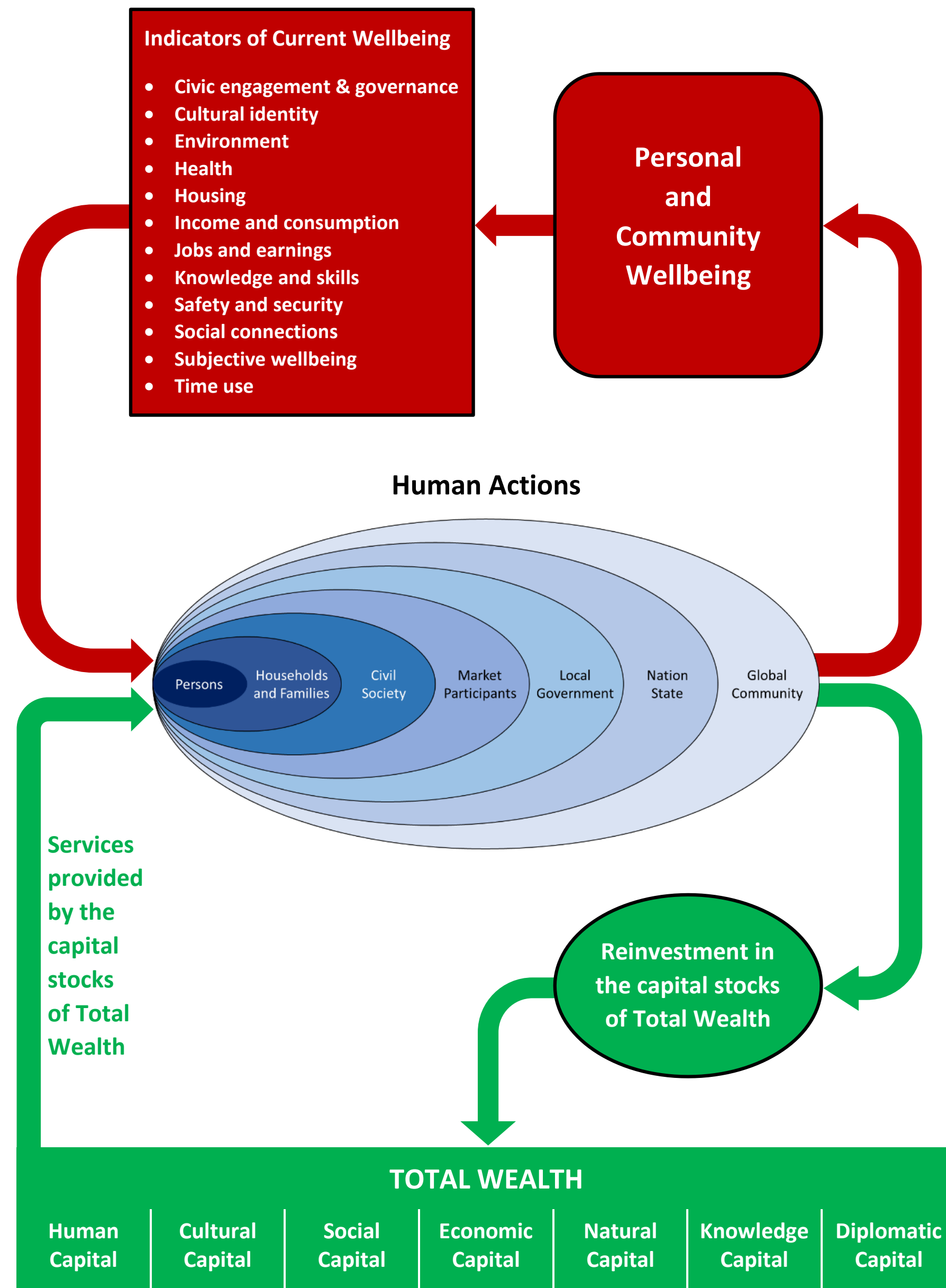
Hence, it is better to say that *the capitals generate services*, which people can then use in their human actions to create and sustain wellbeing.

All four capitals in the figure are important, but other important assets also provide services for wellbeing, including **cultural capital**, **knowledge capital** and **diplomatic capital**.

Public policy can make distinctive contributions to all seven types of capital to safeguard and expand the wellbeing of future generations.

The figure on the following page is a wellbeing framework created by the AERU at Lincoln University to represent these two extensions.

A Capitals-based Wellbeing and Economic Policy Framework



Personal and community wellbeing is created by human actions, and can be monitored using statistical indicators.

Higher levels in the various wellbeing indicators feed back into expanded human capabilities for action.

Human actions operate at different levels from choices of individual persons to collaboration by the global community.

Total wealth is made up of capital stocks providing services that human actions can use to create wellbeing.

To sustain the wellbeing of future generations, human actions must adequately reinvest in the capital stocks.

(Figure adapted from [Dalziel, 2019](#), Figure I, page 480).

Section V

The Seven Capitals

Public Policy and the Seven Capitals

The capital stocks are important for public policy that aims to expand people's capabilities for wellbeing.

- Differences in the abilities of people to access services provided by the nation's capital stocks influence the distribution of current wellbeing.
- Inadequate investment in any of the capital stocks will reduce the capabilities of future generations to create wellbeing.
- Public policy has *distinctive contributions* to make to investment in each of the types of capital that make up total wealth.

The Seven Capitals

Human Capital

Cultural Capital

Social Capital

Economic Capital

Natural Capital

Knowledge Capital

Diplomatic Capital

Human Capital

Human capital refers to the skills embodied in persons through education, training, work and life experience, and good health.

An individual's level of human capital is heavily influenced by education and health experiences during childhood and as a youth, with profound impacts on capabilities for wellbeing as an adult.

The quality of a country's education system, and the quality of its health system, are therefore foundational for wellbeing.

In New Zealand, the education and health systems are dominated by public sector funding and, in many cases, provision.

A distinctive contribution made by public policy is working to achieve equitable and effective **access** to education and health services by all members of the population.

This requires tracking statistical indicators on outcomes in education and health for different groups in the population, and then addressing evidence of disparities.

Cultural Capital

Cultural capital refers to a person's, a community's, a region's or a country's cultural heritages passed down from generation to generation.

Language is an example of essential cultural capital needed for wellbeing.

Cultural capital includes inherited values, norms, symbols and practices, as well as material objects such as works of art, literature, museums and sacred spaces.

A vibrant culture transforms itself in every generation.

Distinctive contributions to the preservation and transformation of cultural capital by public policy in New Zealand include:

- Protecting the human right to participate freely in the cultural life of the community.
- Embedding cultural values and respect for cultural diversity in the education system.
- Protecting material cultural heritage from previous generations.
- Maintaining safe public spaces for cultural expression and intercultural exchange.
- Supporting diverse artistry to foster vibrant domestic cultures in the present generation.

Social Capital

Social capital refers to shared values, formal institutions and informal networks that make it easier for people to work together for creating wellbeing.

Examples of social capital include:

- High levels of trust and trustworthiness.
- Respect for human rights and the rule of law.
- Democratic and transparent government.
- Strong participation in voluntary institutions of civil society.
- The ease with which anyone can create a new business or social enterprise.

The examples in the bullet points illustrate distinctive contributions made by public policy to social capital.

Social capital can be a negative force for general wellbeing when a dominant cultural group uses social norms, institutions and networks to protect its economic privilege.

Social capital in New Zealand has grown and deepened with the rise of popular movements such as feminism, Māori indigenous rights, multiculturalism and rainbow communities.

Economic Capital

Economic capital refers to human-made assets that contribute to production, or provide other services for wellbeing.

There are two broad categories.

Physical capital, or **produced capital**, includes assets such as roads, railways, buildings, homes, vehicles, machinery and some forms of intellectual property.

Financial capital includes nominal assets such as shares, stocks, debentures, loans, bank deposits and cash.

Public policy has distinctive contributions to investment in physical capital and to protection of financial capital.

For physical capital, public policy focuses on investment in **public infrastructure**. This involves assets such as the national road network where public investment is more efficient than private investment.

For financial capital, public policy focuses on duties such as **prudential supervision** of the financial system and maintaining **price stability**.

Natural Capital

Natural capital refers to aspects of the natural environment that humans draw upon for their wellbeing.

The *homo sapiens* species is part of nature, which has led to arguments that it is wrong to reduce the environment to a subset of the economic system created by humans.

The natural capital concept aims to ensure that humans do not ignore the impacts that our actions have on the environment's ability to provide sustainable ecosystem services for wellbeing.

In New Zealand's founding document ([Te Tiriti o Waitangi](#), 1840), the Crown promised to protect the unqualified exercise of Māori chieftainship over their lands, villages and all their treasures. That promise influences all public policy on natural resources.

Distinctive contributions by public policy include setting legal frameworks for natural resource governance and management, especially for natural resources that must be managed on behalf of citizens for the common good.

Knowledge Capital

Knowledge capital refers to the stock of universal human understanding that grows with research and development.

Economic models demonstrate that growth in knowledge is the *only* factor that can sustain ongoing growth in living standards, subject to planetary boundaries.

This is because knowledge has special properties: It is non-rival in consumption (more than one person can use the same understanding at the same time), and new knowledge builds on existing knowledge.

Public policy makes distinctive contributions to knowledge discovery and utilisation across several dimensions in New Zealand.

- The government protects intellectual property, and subsidises some private and public sector research activity.
- All universities in New Zealand are owned by the government, which also owns specialist Crown Research Institutions.
- Public policy can create mechanisms to make it easier for private enterprise to access and utilise understanding at the global knowledge frontier.
- The public service itself is a large user and disseminator of knowledge for the common good.

Diplomatic Capital

Diplomatic capital refers to international institutions and norms designed to foster cross-cultural collaboration at a global level. Intergovernmental organisations are an essential part of the human family's diplomatic capital, but non-governmental organisations and multinational enterprises are also important.

Goal 17 of the United Nations Sustainable Development Goals promotes Partnerships for the Goals, which is an attempt to foster diplomatic capital.

Public policy in New Zealand recognises the importance of diplomatic capital.

The Ministry of Foreign Affairs and Trade, for example, reports on its [website](#) that New Zealand is party to more than 1,900 international treaties between countries or international entities that are legally binding under international law.

An example of New Zealand's investment in international diplomatic capital is its collaboration in the [Wellbeing Economy Governments](#) partnership.

Section VI

The Wellbeing Budget, 2019

Wellbeing in the Wellbeing Budget



The Wellbeing Budget began by answering the question, “What is wellbeing?”.

“Wellbeing is when people are able to lead fulfilling lives with purpose, balance and meaning to them. Giving more New Zealanders capabilities to enjoy good wellbeing requires tackling the long-term challenges we face as a country, like the mental health crisis, child poverty and domestic violence. It means improving the state of our environment, the strength of our communities and the performance of our economy.”
(The Wellbeing Budget, 30 May 2019)

The influence of the capabilities approach to prosperity is clear (see [page 9](#) and [page 10](#) above).

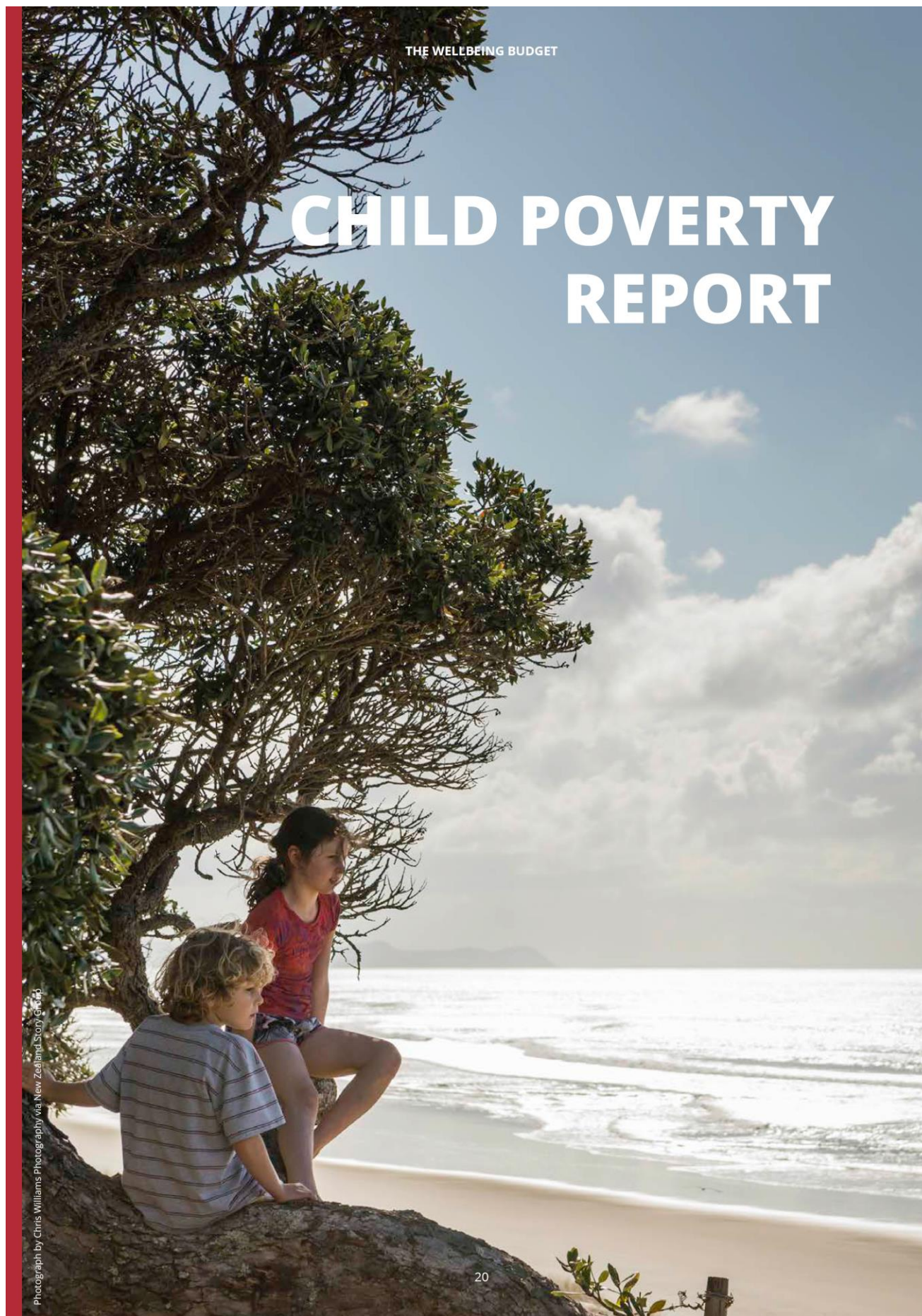
Policy Integration in the Wellbeing Budget



The Wellbeing Budget was the result of considering economic, environmental and social objectives together, in three ways.

1. Breaking down agency silos and working across government to assess, develop and implement policies that improve wellbeing.
2. Focusing on outcomes that meet the needs of present generations at the same time as thinking about the long-term impacts for future generations.
3. Tracking progress with broader measures of success, including the health of public finances, natural resources, people and communities.

Child Wellbeing in the Wellbeing Budget

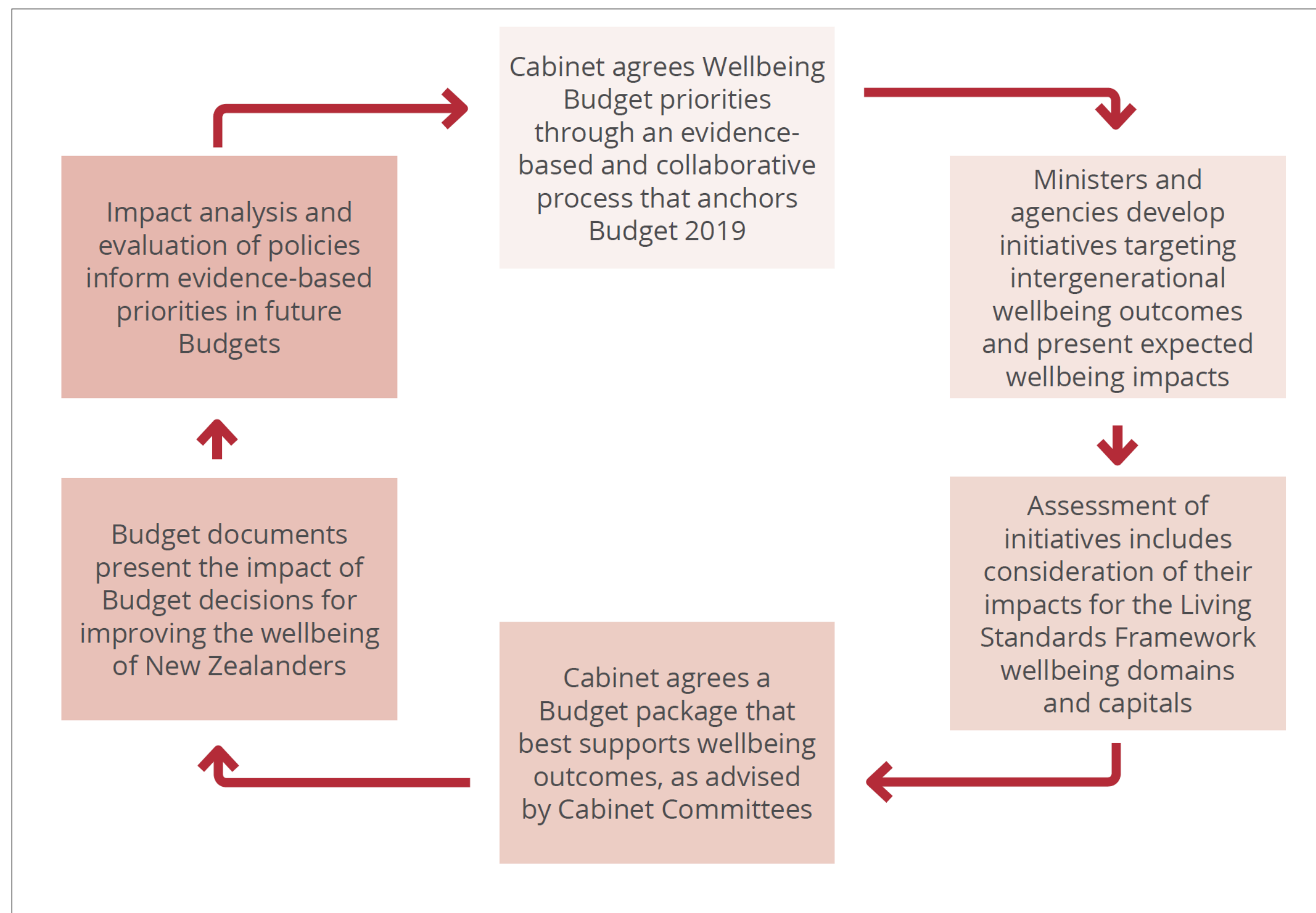


Improving child wellbeing was a major theme of the 2019 Wellbeing Budget, led by a dedicated [group](#) within the Department of the Prime Minister and Cabinet.

The [Child Poverty Reduction Act 2018](#) had created a new requirement for the government to set and report on child poverty reduction targets. The first Child Poverty Report was presented within the [Wellbeing Budget](#) document.

The Budget reported trends in three primary measures of child poverty, and explained how the integrated programme of policy initiatives announced in the Budget were expected to contribute to meeting the child poverty reduction targets.

Process in the Wellbeing Budget



The Wellbeing Budget represented a significant change from the way that previous budgets had been designed, developed and presented.

Budget allocations decisions were made using a wellbeing analysis beyond the fiscal and economic implications.

Government agencies were required to collaborate in their bids for new funds, to show how they were contributing to the identified priority areas.

Source: [The Wellbeing Budget](#), May 2018, p. 6.

Conclusion

On 8 November 2017, the Speech from the Throne presented a new wellbeing vision for economic policy.

On 30 May 2019, just over 18 months later, the world's first Wellbeing Budget was presented to Parliament.

Thus, the lesson from New Zealand is that it is possible for countries to design and implement economic policies to address wellbeing issues of our age:

- Expanding human capabilities to lead valued lives.
- Respecting planetary boundaries.
- Investing for the wellbeing of future generations.



Source: [*Te Ara - The Encyclopedia of New Zealand*](#).

Recent AERU Publications on Wellbeing

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Note: All hyperlinks in this document were valid on its publication date.
The AERU apologises for links that no longer operate at the time of reading.

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