



Australian Government
The Treasury

Wellbeing, living standards, and their distribution

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9 September 2011

Australian Treasury's wellbeing framework



New Zealand Treasury's framework

Where normative approaches ask what the distribution of living standards should be, positive approaches ask what the distribution is. They also consider whether there is evidence to suggest that a particular distribution poses social or economic problems and the effect different policy interventions may have on how living standards are distributed.

Treasury takes a positive approach to distribution as opposed to a normative, value-based one. This approach is appropriate to Treasury's policy advisory role, as it allows the organisation to provide advice on the distributional priorities of the government of the day, while maintaining an apolitical position that is grounded in empirical economic analysis.

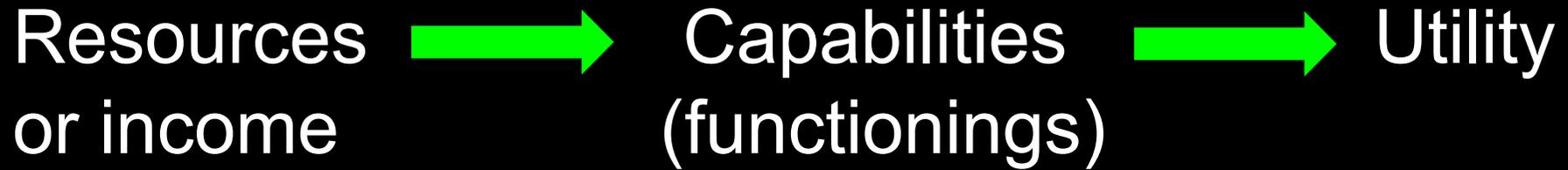
Implicit judgements in measures

- Distribution among *whom*
- Distribution of *what*
- Distributional *concern or rule*

Disconnect between measures and policy

- The *what* is measured too narrowly
- Disconnect between the measures and the reasons we are concerned about distribution
- Disconnect between the measures and common ideas of fairness

Sen's capability approach



What is fairer?

Jane has baked 6 pies to give to her two friends, Ann and Betty, who do not know each other. Betty enjoys pie twice as much as Ann. In distributing the pies, what is fairer:

- A. 2 pies to Ann and 4 to Betty, or
- B. 4 pies to Ann and 2 to Betty; or
- C. 3 pies each?

What is fairer?

Jane has baked 6 pies to give to her two friends, Ann and Betty, who do not know each other. Betty enjoys pie twice as much as Ann. In distributing the pies, what is fairer:

- A. 2 pies to Ann and 4 to Betty, or 40%
- B. 4 pies to Ann and 2 to Betty; or 4%
- C. 3 pies each? 56%

Konow's fairness principles

- *Need*, concerning basic needs
- *Equity* (or desert), concerning proportionality and individual responsibility
- *Efficiency*, concerning maximising outcomes

The Australian Treasury perspective on distribution

- The **distribution** of opportunities across the Australian people. In particular, that all Australians have the opportunity to lead a fulfilling life and participate meaningfully in society.



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Treasury's mission

- The Treasury's mission is *to improve the wellbeing of the Australian people* by providing sound and timely advice to the government, based on objective and *thorough analysis* of options, and by assisting the Treasury ministers in the administration of their responsibilities and the implementation of government decisions.

In undertaking its mission Treasury takes a broad view of wellbeing as primarily reflecting a person's substantive freedom to lead a life they have reason to value.

This perspective recognises that the wellbeing of Australians encompasses more than is directly captured by commonly used measures of economic activity. It gives prominence to respecting the informed preferences of individuals, while allowing scope for broader social actions and choices. It is open to both subjective and objective notions of wellbeing, and to concerns for outcomes and consequences as well as for rights and liberties.

Treasury brings a whole-of-economy approach to providing advice to government based on an objective and thorough analysis of options. To facilitate that analysis, we have identified five dimensions that directly or indirectly have important implications for wellbeing and are particularly relevant to Treasury. These dimensions are:

- The **set of opportunities** available to people. This includes not only the level of goods and services that can be consumed, but good health and environmental amenity, leisure and intangibles such as personal and social activities, community participation and political rights and freedoms.
- The **distribution** of opportunities across the Australian people. In particular, that all Australians have the opportunity to lead a fulfilling life and participate meaningfully in society.
- The **sustainability** of opportunities available over time. In particular, consideration of whether the productive base needed to generate opportunities (the total stock of society's capital, including human, physical, social and natural assets) is maintained or enhanced for current and future generations.
- The overall level and allocation of **risk** borne by individuals and, in aggregate, the community. This includes a concern for the ability, and inability, of individuals to manage the level and nature of the risks they face.
- The **complexity** of the choices facing people and the community. Of concern is not only the costs of dealing with unwanted complexity, but also transparency of government and the ability of individuals and the community to make choices and trade-offs that better match their preferences.

These dimensions reinforce our conviction that trade-offs matter deeply, both between and within dimensions. The dimensions do not provide a simple checklist: rather their consideration provides the broad context for the use of the best available economic and other analytical frameworks, evidence and measures.