

# 9. The Wellbeing of the Australian People: Comments on the Treasury's Framework

Jonathan Pincus

The methodological principle at the basis of economic science and which distinguishes it from other sciences, is the reference which it makes to a measure, namely money.<sup>1</sup>

Productivity isn't everything, but in the long run it is almost everything.<sup>2</sup>

## Introduction

Treasury Secretary Martin Parkinson begins the 2011-12 Annual Report thus (Treasury 2012a): 'The Treasury has a long-standing commitment to improving the wellbeing of *all* Australians by delivering quality advice to government and by providing assistance in the implementation of key policy initiatives' [emphasis added]. Then follows the now-standard Treasury statement of 'the wellbeing of the Australian people' (or TWOTAP). This statement is front and centre of Treasury's presentation of self, including in its 'Strategic Framework'. TWOTAP consists of a short general discussion of wellbeing and its importance to Treasury, followed by a list of five 'dimensions' of wellbeing, said to be of special significance to Treasury in doing its work of 'providing advice to government based on an objective and thorough analysis of options'. The framework has been discussed in a series of supporting Treasury papers and speeches.

I argue that the 'wellbeing' statement is useless or worse than useless instrumentally. For those outside Treasury, the TWOTAP list does not facilitate interrogation of the appropriateness of any specific Treasury recommendation or series of recommendations. For those inside Treasury, the existence and standing of the list should be a source of confusion and dissention.

The 'wellbeing' framework can justify Treasury's advocacy of almost any plausible policy. In particular, because TWOTAP offers a list, pure and simple, it does not and cannot give any clues about trade-offs within and between the five 'dimensions'; and this despite Treasury's claiming that the five 'reinforce

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1 Ian Castles (1998: 141), quoting AC Pigou, with evident approval.

2 Paul Krugman (1994: 11).

our conviction that trade-offs matter deeply'. Moreover, TWOTAP is virtually useless for an assessment of whether in the wellbeing of the Australian people has improved, let alone whether the change has been large or small.

However, TWOTAP would have real significance, if it signals that Treasury no longer places heavy weight on improving the capacity of the economy to provide more of what Australians want and less of what they do not want. Does TWOTAP signal that Treasury is no longer the guardian of economic efficiency, broadly conceived; that Treasury is not the bulwark against the inefficient pleas of particular interests, including those represented by line departments? If not Treasury, then who?

## Background

The Australian Treasury has had a deservedly high reputation. In the past, it dominated the federal policy scene through the power, subtlety and consistency of its advice. Various governments split it in two, creating the subaltern Department of Finance and Administration; added the Productivity Commission and the Australian Consumer and Competition Commission to Treasury's army of supervisors of the private sector; but also greatly expanded and strengthened Prime Minister and Cabinet (PM&C), and swelled the ranks of ministerial advisers. 'The Treasury line' may never have existed but if it did it was the pursuit of what Treasury considered best for the Australian economy. Treasury, eschewing fads and scorning sectional pleadings, could be relied upon to recommend that which Treasury believed would improve the performance of the economy, in macroeconomic and microeconomic terms. In this task, nothing was presumptively excluded from the range of matters important to Treasury.

There was a libel put around in the late 1980s and early 1990s that major government departments had been taken over by an ideology called 'economic rationalism', allegedly in the hearts of those whose secret attitudes a skilful interviewer had uncovered (see Michael Pusey 1991). However, evidence of this canker is hard to find in public documents of Treasury, including two foundational papers relevant to the discussion of national wellbeing.

'The meaning and measurement of economic growth' (Treasury 1964) canvassed technical issues in the measurement of real Gross Domestic Product (GDP). Although 'wellbeing' is not specified as a national goal, the paper took a broad view of what mattered:

The object of all economic activity, in the long run at least, is the satisfaction of people's demands, whether for goods and services that can be purchased in the market or for other things, tangible or intangible, that cannot...Of course, while the maximum practical economic growth

is an objective which any government is likely to accept as desirable, it would be completely unrealistic to expect a government completely to subordinate all of its policies to that aim.<sup>3</sup>

The paper then used defence as an example; but it is reasonable to claim that the authors also had in mind other things discussed earlier in the paper, things that people clearly value, like household production and leisure, but which are not included in GDP.

In response to the Club of Rome, in 1973 Treasury was moved to produce *Is Economic Growth Worth Having?* (Ian Castles was among those responsible.) By 'growth' was meant per capita growth, and not expansion in the sheer size of the population and economy. Yes, was the answer: 'The paper [concludes] that if what 'economic growth' is all about is carefully explained, it seems to contribute the key to achieving many of the things going to make up national wellbeing' (Foreword). Calling GDP a 'statistical shadow' of a comprehensive measure of changes in wellbeing,<sup>4</sup> the paper asserted that

...economic and social policies should not be directed towards achieving any particular statistical rate of growth [of GDP per capita] in the longer-run, but rather to the efficient use of available resources to establish and maintain those patterns of production and distribution which conform most closely to the preferences of the community...The criteria for decision-making must be related not to the achievement of a pre-ordained statistical result but to the desires of the community, as expressed by people in their capacities as consumers, workers and electors.<sup>5</sup>

A Treasury publication on TWOTAP, released just prior to the workshop (Gorecki and Kelly 2012: 30-31), remarked that:

Despite these antecedents, prior to the early 2000s there had been no explicit articulation of what wellbeing meant, and in particular, how an institution such as the Treasury should be incorporating consideration of wellbeing in its policy advice.

Treasury's mission statement prior to the current one focused on improving living standards, and emphasised economic policies and developments. The mission statement changed to its current form in October 1997, containing for the first time a direct reference to wellbeing as the primary objective. But with divergent internal views as to how

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3 Treasury (1964: 5, 19).

4 However, maybe having 'two-bob each way', the claim was made (Treasury, 1973: 6) that policies aimed at furthering national welfare are likely to lead to increases in output of the economic system per head, that is, to conventionally defined economic growth.

5 Treasury (1973: 5).

to interpret wellbeing, the Department initiated a process of internal discussion and debate on its meaning and application to policy analysis and advice.

These discussions and debates culminated in ‘The wellbeing of the Australian people’, which by 2004 had become a central element of Australian Treasury’s Strategic Framework (Treasury 2004; Henry 2004); it has not changed greatly since.

Meanwhile, however, Treasury seems intent on not limiting its purview:

We have not yet developed any single measure to summarise all that wellbeing and progress encompass, and it is fair to say that we are unlikely to. It follows, that we – policy makers, commentators and the public – ought not to rely on any single measure to provide us with an assessment of the quality of individual lives or the cohesion of society (Gruen et al 2011: 31).<sup>6</sup>

As will be seen, ‘the cohesion of society’ is not in TWOTAP.

## Methodological deficiencies: A list for confusion and inconsistency

For convenience, I will first reproduce TWOTAP from the Treasury website (2012b; italics and footnote added), then discuss the content. I will argue that TWOTAP confuses categories; that it is too un-constraining to be useful; and that its efficacy seems never to have been reviewed.

### The wellbeing of the Australian people

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 view 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.

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<sup>6</sup> Presumably the first ‘We’ refers to the Treasury, which seems to compromise the disclaimer about these being “the views of the authors and not necessarily those of Treasury.”

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 those 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 those opportunities available over time. In particular, consideration of whether the productive base needed to generate opportunities (the total stock of 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 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 individuals and the community. Our concerns include the costs of dealing with unwanted complexity, the 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.<sup>7</sup>

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<sup>7</sup> For comparison, the five 2004 dimensions were: '(i) the level of opportunity and freedom that people enjoy; (ii) the level of consumption possibilities; (iii) the distribution of those consumption possibilities; (iv) the level of risk that people are required to bear; and (v) the level of complexity that people are required to deal with'. The order was later changed, with distribution coming into second place; the reference to 'consumption possibilities' was replaced with 'opportunities'; 'sustainability' was one element in the original (ii).

## Political but not necessarily partisan

A department is expected to assist a government in the pursuit of its legitimate objectives. In assessing policy, Treasury has long (and appropriately) taken account of several dimensions of likely impact. However, Treasury's definition of 'the wellbeing of the Australian people' is just that, Treasury's own definition: worth serious consideration, but hardly likely to receive the Rolf Schock prize in philosophy. Amartya Sen, whose capabilities framework is said to have influenced the Treasury mightily, refused to subscribe to Martha Nussbaum's list of 10 items; presumably, the same may well be the case for Treasury's five dimensions.

No philosopher has come up with a definition of 'the wellbeing' of a nation that would obtain the agreement of all those included in the nation. Even the strict Pareto criterion – make someone better off and no one worse off – would not please the envious. Envy aside, no one can devise a non-trivial policy to do what Secretary Parkinson proposed, which is to improve the wellbeing of *all* Australians. Besides, tax policy is a key matter for Treasury, and doubtless Secretary Parkinson does not believe the Mineral Resource Rent Tax improves the wellbeing of all the Australians who had invested heavily in mining stocks, either directly or through their superannuation funds.

Therefore, any Treasury definition of 'wellbeing' is doubly political: imposed on Australians by a government authority (but not a minister); and with distributional implications – some will gain, some lose from its application.

Any Treasury-initiated formulation of national wellbeing would be expected to satisfy the non-partisan test, at least notionally – neither self-serving, nor appealing to one side of politics but not the other. Maybe it does, despite the absence of the word 'productivity', one of then-Treasurer Costello's three 'Ps' (the others being population and workforce participation).

However, notional concurrence of the Government and Opposition is insufficient; the definition also has to be useful. Unfortunately, the Treasury's framework offers scant practical guidance to assist insiders or outsiders to know if, and how well, Treasury has pursued its avowed mission.

## Categories

In economics, it has been usual and useful to distinguish two kinds of effects: on efficiency and on distribution – the size of the 'pie' and the shares of the 'pie'. TWOTAP has a separate 'dimension' for distribution; all the other TWOTAP 'dimensions' relate to efficiency, but in a confusing way.

The phrase, 'the set of opportunities,' would be sufficient to cover all aspects of economic efficiency, including sustainability, risk and complexity. Sustainability

is the dynamic aspect of efficiency, and not a separate 'dimension'. Risk is an element in the 'set of opportunities'; it is a cost of pursuing things that people value. Accepting risk or complexity can enlarge (or reduce) the set of opportunities; similarly, working at a job that one does not especially enjoy, in order to have income that more than compensates; similarly, saving for old age involves sacrifice now for the expectation of greater benefit later. The acceptance of an appropriate level of risk (or work or saving) expands the opportunity set, and is done best when it involves making the efficient trade-offs.

That is, risk and complexity are merely two of the very many aspects of efficiency, broadly conceived: listing them separately could give the impression that they have the same significance as 'the set of opportunities available to people', whereas they are merely components of that set.

## Wellbeing and trade-offs

My fundamental criticism is that, despite what is claimed by Treasury, TWOTAP as presented is incapable of providing 'a consistent basis' for Treasury advice about trade-offs. In fact, it provides no basis at all for the consideration of trade-offs. By offering a list in TWOTAP and a list only, with no clues how to deal with trade-offs, Treasury has abrogated its responsibility to provide a useful guide to its decisions and advice. Treasury signalled this dereliction of duty, back in 2004 and repeated since:

Consistent with being primarily a descriptive tool, rather than a framework for more formal analysis, the set of dimensions are not designed to meet more formal analytic criteria, such as being comprehensive, unique or independent.

A simple checklist can guide consistent and rigorous decision-making in some instances. For example, an airplane remains on the ground unless the pilot is assured that every item on the pre-flight checklist has been ticked off: no trade-offs are permitted amongst the items. But generally, something more than a checklist is required. Businesses, for example, are urged to use the triple bottom line of people, planet, and profit, yet everyone knows that if profits are persistently absent or low, the business may be taken over or go kaput. Thus profit ranks above the other two, in a lexicographical ordering. Also, viable businesses must be willing to consider trade-offs between the items in the 3P checklist for business; and that requires placing some relative valuations or 'weights' on the various items, when designing business strategy or when forming an index of performance.

Neither ordering nor weights is found in TWOTAP. Two defects follow. Firstly, it is impossible to show that wellbeing has improved, unless there is

an improvement in every single dimension. Otherwise, no summary statement about wellbeing can be made: when some items improve and some worsen, then TWOTAP offers a description, but no resolution.

Secondly, TWOTAP provides no basis upon which to choose between alternatives that both show improvements over the status quo in every dimension, but different improvements. It is not enough to say that consideration of the dimensions ‘provides the broad context for the use of the best available economic and other analytical frameworks, evidence and measures,’ without indicating what evidence, what measures, and how the overall judgement is made.

Moreover, the same comments apply to each of the five items in the TWOTAP list: without a rank ordering (or a set of weights), there is no way to tell if wellbeing has improved in any one of the five ‘dimensions’.

When an agency is charged with dealing with a series of complex decisions, it is common (and good practice) for a set of criteria or guidelines to be enunciated. Such guidelines are most valuable when they constrain otherwise unbridled and possibly capricious discretion.<sup>8</sup> Good guidelines provide the principles that inform decisions and, especially, establish presumptions that clearly place the onus of proof. Take, for example, the (old) ACCC guidelines on mergers. The impact on competition was considered first, with the presumption that more competition was to be preferred over less. Thus, the onus of proof for approval of an anti-competitive merger rested with the applicants – to show that the merger was in the ‘public interest’, even though competition would be reduced.

TWOTAP provides no such presumptions. ‘Opportunities’ comes first: but there is no indication that, if a proposal does not satisfy that criterion, then it is presumptively ruled out – unless a very strong or special case is made in some other dimension. More generally: there is no indication that we should place any significance on the order in which the dimensions are listed in TWOTAP. If a trivial ‘improvement’ in GDP requires an arbitrary set of huge redistributions, surely Treasury would never recommend it; if a modest ‘improvement’ in distribution requires a significant reduction in GDP, surely Treasury would not recommend it. Surely Treasury uses filters of some kind, to sort proposals into the plausible and the implausible. No hint of that in TWOTAP – is it a case of ‘We do it, but we keep it to ourselves’?

Both the OECD and ABS publish welfare indicators that are numerical or quantitative. Both agencies leave it to the user to choose whether or not to apply a rank-order or a set of weights. However, unlike the OECD and ABS, Treasury is a public policy department; and so, by offering a list of effects to consider,

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<sup>8</sup> Phillip Pettit (2003 and elsewhere) has argued for the possibility of ‘group agency’, of collectives that can reasonably be attributed with minds of their own, discontinuous with the mentality of the members.

and saying, in effect, 'Choose your own ordering or weights', Treasury seems to me to be abrogating its responsibility. Because TWOTAP offers no ranking or weighting system, it cannot guide Treasury consistently across time and across policy decisions.

I assume that Treasury presents the Treasurer with a recommendation with explanation, and not a summary of the completed TWOTAP list. Therefore, in order to give Treasury credit for consistency, it is necessary to assume that Treasury does have some ordering of the five dimensions (and within each), or that Treasury does have a set of weights (or range of weights) for the five dimensions (and within each) – but chooses not to reveal these to the world.

It is one thing to assert about TWOTAP that 'These dimensions reinforce our conviction that trade-offs matter deeply, both between and within dimensions'. It is quite another to make those trade-offs without any kind of ordering, or without using weights, explicitly or implicitly.

Gorecki and Kelly (2012) state that the wellbeing framework is not meant to guide day-to-day decisions. Just as well: any decision made by Treasury can be justified by TWOTAP, unless it can be shown to worsen wellbeing in all five dimensions: narrower opportunities, worse distribution, less sustainable, more risk, and more unwelcome complexity.

It must be splendid within Treasury for those with bees in bonnets: you may lose many a battle, but never mind – eventually you will win the day, under TWOTAP. I can imagine the conversation now: 'For today's policy issue, the most important question is unwanted complexity of choice – in which I happen to be expert. For yesterday's policy issue, you argued that distributional considerations were trumps; the day before, it was sustainability; and before that, it was distribution. Well, today it is complexity.'

Senior Treasury officials may reasonably plead that they exercise their informed and experienced judgement, not only in the assessment of matters that are difficult to measure (like sustainability, or unwanted complexity), but also when making an overall assessment. I have no doubt that senior Treasury officials, when making informed and impartial judgements, are not bound (and should not be bound) by the results of quantitative estimates of the effects of policy proposals. The opening quotation from Pigou via Ian Castles does not imply the contrary. A reasonable judgement about whether a specific policy would improve economic efficiency may be partly based on qualitative economic reasoning (like: a tax at a particular rate imposed on a broad base will raise revenue at lower economic cost per dollar raised than if the base were narrower); and partly based on quantitative estimates (like: our modelling indicates a sizeable increase in economic efficiency, without much churning); and partly (maybe mostly) based on insights from experience. However, it is hard for me

to see how TWOTAP improves upon this necessary process, which has involved applying unannounced, unarticulated and *ad hoc* weights or ordering to the various items on and off the TWOTAP list.<sup>9</sup> In this regard, TWOTAP does not increase the transparency of Treasury reasoning about matters on which it gives advice – only more and timely access to Treasury and Cabinet documents would seem to offer that prospect.

## Review

It is all very well to say that TWOTAP should not be used, day-to-day; but when?

Well-functioning agencies periodically review their guidelines (or have them reviewed). How have they worked in practice? Have they been followed? Consequently, how should they be changed? I found no evidence of such inquiries about TWOTAP. For what it is worth, I note that an internal ‘Strategic Review of the Treasury’ (Treasury 2011) suggested that the wellbeing framework was not being applied consistently throughout the department; and that SES staff thought that allocation of scarce Treasury resources between competing ends was ‘one of our weakest capabilities’.<sup>10</sup> Moreover, the Independent Review of the Australian Government’s Regulatory Impact Analysis Process (Finance 2012) noted that Treasury has a long list of items requiring Post Implementation Reviews (because no RIA was conducted), which suggests that TWOTAP may have been used extensively, instead of a RIA.

## The TWOTAP dimensions themselves

What follow are comments on each of the five dimensions of TWOTAP, focusing on measurability and trade-offs.

### Set of opportunities

The set of opportunities available to people. This includes not only the level of goods and services that can be consumed, but good health

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9 Treasury says that TWOTAP is not a simple checklist, which I interpret to mean that Treasury considerations are not restricted to items on the list.

10 The ‘Strategic Review’ was conducted internally with an external reference group. Apart from an Appendix reproducing the wellbeing framework, the only relevant discussion I could find is in the Executive Summary: ‘Stakeholders generally consider that Treasury is a leader in applying rigorous economic and analytic frameworks to a variety of public and policy issues. A broad understanding of the Wellbeing Framework is an important part of Treasury culture and identity. In their responses to a survey conducted during the Review, SES considered that, although the Wellbeing Framework is valued by staff, it may not be consistently applied across the department (v)... While the effective allocation of resources between competing priorities is seen by SES staff as one of the most important capabilities for the organisation, they regard it as currently one of our weakest capabilities’ (vii).

and environmental amenity, leisure and intangibles such as personal and social activities, community participation and political rights and freedoms.

Let me assume that, for this dimension, Treasury mostly relies on an index or set of indicators; otherwise, I cannot guess how Treasury goes about its assessment of whether or not the set of opportunities available to people has expanded or contracted.<sup>11</sup>

Conventionally, changes in the 'set of opportunities' are measured using an economic aggregate like Consumption, with the components valued at willingness-to-pay or willingness-to-supply (or cost); and with the valued bundle encompassing non-marketed as well as marketed goods and services. Every item mentioned in the second sentence quoted above, except 'political rights and freedoms',<sup>12</sup> can readily be accommodated within the extension of the national accounting framework offered, for example, by Nordhaus and Tobin's (1972) 'Measure of Economic Welfare': supplement the usual national aggregate for consumption, by accounting for leisure, for non-market activities, for health and longevity, and for externalities, including environmental damage. It is well known there are serious difficulties of valuation of un-marketed goods and services.<sup>13</sup> Nonetheless, the approach is well understood and transparent. Unfortunately, the same cannot be said about the Treasury's TWOTAP.

In its 1973 paper, Treasury made a different point, concerning policies to improve the capacity of the economy to serve the needs of the Australian people. If pollution was in excess of the 'preferences of the community', the solution lay in micro-economic reforms (e.g. making the polluter pay; or ensuring that non-renewable resources were priced properly). However, even with these in place, the trend in GDP at constant prices is not 'a comprehensive measure of changes in the national wellbeing, or in the progress (if any) towards the "good life"' (27). Two statistical remedies were briefly canvassed: supplement GDP along the lines suggested by Nordhaus and Tobin (1972); or develop a set of 'social indicators' (like the ABS's much later effort, *Measuring Australian Progress*).

In the Nordhaus-Tobin tradition, the weights given to the various items are the valuations of the individuals concerned, whether revealed in market transactions

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11 In a series of Treasury papers on TWOTAP, David Gruen and others (2009, 2011) have sensible things to say about the limitations of GDP (or NNI or national consumption) as a summary measure of aggregate or average wellbeing; but so did the 1973 paper. However, my impression from reading recent Treasury papers is that some national accounts aggregate – NNI or Consumption – plays a prominent part; but details are lacking.

12 Note the absence of reference to economic rights and freedoms: politics is all?

13 Atkinson (2005) reported extensively on this issue for the British government. His main suggestion was to use (inferred) willingness to pay. But for goods and services rationed by entitlement and quantity, not price, there is no common marginal willingness to pay among consumers (as there is for those sold in ordinary markets).

or inferred from other objective evidence about subjective valuations. If there is 'market failure' – for example, if pollutants are being poured into the atmosphere without adequate charge – then the Nordhaus-Tobin approach is to include the cost of the under-priced pollution as a deduction from the aggregate of goods and services consumed. In arriving at the cost of pollution, the Nordhaus-Tobin approach is to use estimates of the values that individuals place on clearer air or on the cost of abatement. The essential aspect is that the valuations of the individuals affected are taken at face value.

In contrast, in TWOTAP, Treasury indicates that it will be 'respecting the informed preferences of individuals' and, presumably, Treasury will not be respecting what it takes to be uninformed preferences. TWOTAP refers to things that Australians have 'reason to value' – this is to distinguish them, presumably, from things that Treasury officials believe Australians value for no good reason. Clearly, behavioural economics has had its effect on Treasury. Thaler and Sunstein (2008) used the Orwellian phrase, 'libertarian paternalism', to justify subliminal manipulation of individual choices. That would be a case of 'Treasury knows better than you what is good for you, and so knows what you would choose if only you did not suffer from weakness of will or defective time preference or whatever'. Here, in contrast, TWOTAP is a case of 'Treasury knows your mind better than you do'.

However, Treasury is to be complimented for one aspect: TWOTAP makes no pretence that it is engaged in more than straight, unvarnished paternalism, with no need for a deceptive weasel word as modifier.

Treasury is the premier public service department, staffed by top-rate people, experienced in making difficult judgements on behalf of others. In this respect, the language of TWOTAP is revealing – 'informed preferences'; 'reason to value'. Who better to pass judgement on the reasons of ordinary Australians – most of whom, it must be said, lack the education and experience of senior Treasury officials – who better, than senior Treasury officials? Who better to know which preferences deserve respect, because they are informed preferences – not to be mistaken for the uninformed, presumably uninformed preferences of ordinary Australians – who better to know than senior Treasury officials?

Is there not a tone of patrician superiority in TWOTAP? Public servants may well have crafted these words, but not, it seems, as servants of ordinary Australians, whose preferences are to be judged by Treasury and, if found wanting, discounted or completely disregarded as un-informed and un-reasoned. No, these are words crafted by the masters, not the servants.

## Distribution

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

The second sentence is cant (that is, a 'pious, sanctimonious platitude') and, in particular, political cant. It goes well beyond Bob Hawke's famous promise that 'By 1990, no Australian child will be living in poverty'.

Gorecki and Kelly (2012) and other recent Treasury documents stressed the significance of Amartya Sen's 'capabilities' approach. However, it is not at all clear where this interest in Sen's work manifests itself in TWOTAP. Is this sentence it?

The first TWOTAP sentence on distribution implies that Treasury will modify its policy advice according to some estimate of the effects on the distribution of income or wealth or 'opportunities' (however these are measured).<sup>14</sup>

Surely redistribution is a matter for politicians, not Treasury. Politics involves the exercise of power over others, and elected politicians take from some and give to others. (The exercise of this power can be justified in a number of ways, including using the contractarian approach to politics favoured by James M Buchanan.) What roles does Treasury have here, beyond informing the politicians about the likely distributional consequences and offering advice as to what would counter them?

In a speech focusing on how to take distribution into account, David Gruen (2011: 6) chided the NZ Treasury for eschewing normative advice on distribution: this, he said, was an instance of 'reticence proclaimed a virtue...[It] does not seem possible to me to simply communicate "what the distribution is" without engaging in normative issues'.

Gruen's speech had valuable things to say about distribution, but he manages never to outline what indicators he used to measure 'improvements' in the distribution. He said that Gini coefficients and the like seem to have a smaller impact on policy than do 'measures of adequacy' – but he fails to tell us what measures of adequacy should be used. He lauds the addition of subsistence levels of consumption into the famous Atkinson-Stiglitz 1976 'separation' theorem on taxation – but fails to tell us how 'subsistence' is measured. However, I suspect that the default is that more equal is better: after telling us that Konow argued

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<sup>14</sup> For the economists, I should state that I think that the following is an empty set: policy choices that benefit all individuals. Nonetheless, I think that the concept has its normative uses (Pincus 2009).

that equality or egalitarianism is itself not an underlying principle, Gruen uses an example – involving a reduction in labour market regulation – in which movements away from earnings equality seem to be a negative.<sup>15</sup>

Many economists believe that efficiency and equality can clash; or, in terms of TWOTAP, that a trade-off exists between expanding the set of opportunities and making the distribution of wellbeing more ... well, more something – maybe more of what Treasury approves. Without some clear indication of what Treasury has in mind for the trade-off between these two goals, then if one goes north and the other goes south, of what use is TWOTAP?<sup>16</sup>

Australians have preferences about distribution of opportunities, income, wealth and power. While they may want improved wellbeing for themselves, and for their families, friends and communities, most Australians do not want to live in a country in which some people have no opportunity to enjoy a reasonable standard of wellbeing; or worse, a country in which some people have a miserable level of wellbeing. Many Australians are offended by extremes of income and wealth and power and opportunities. In a Nordhaus-Tobin-like approach to index numbers for aggregate wellbeing, the values that ordinary Australians place on these matters can be taken into account (with difficulty). Otherwise, leave distribution to the politicians.

A final remark: the Australian Constitution has a Lockean clause (51xxxii) requiring compensation on 'just terms' for property acquired by the Commonwealth 'from any State or person'. This requirement – absent or ignored in non-democratic countries – reflects a concern with the arbitrary use of power, and a respect for private property rights – that is, respect for the distributional *status quo ante*. Max Corden coined the memorable phrase, 'conservative social welfare function', to capture this latter aspect. It clashes with the assumption – seemingly pervasive at Treasury – that all incomes and assets are 'the community's', so that, if something is left in private hands, then it is only by the grace and favour of government or through government's incapacity to devise mechanisms that better achieve its goals while leaving less as private income. In his NZ speech, David Gruen (2011) remarked that 'We [Treasury] of course see rewarding effort and risk as important from an efficiency perspective, but for that reason only'. Maybe there is a typo, and the last phrase should read '...but *not* for that reason only'.<sup>17</sup>

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15 '... [M]ore deregulated labour markets...reduced income inequality by improving employment outcomes [but] widened wage inequalities at the same time...[I]f work has benefits separate from income, the calculus is much more likely to be positive' (Gruen 2011). Gruen's chiding of NZ Treasury for sticking with positive description is hard to reconcile with the Australian Treasury's insistence in 2004 that TWOTAP is 'primarily a descriptive tool'.

16 Sen (1992) proposed a measure of national welfare equal to average income times one minus the Gini coefficient of inequality.

17 See Haidt (2012) for a discussion of the 'fairness/cheating foundation' in moral reasoning.

## Sustainability

The sustainability of those opportunities available over time. In particular, consideration of whether the productive base needed to generate opportunities (the total stock of capital, including human, physical, social and natural assets) is maintained or enhanced for current and future generations.

There is an old saying, with some truth-value: if you cannot measure it, you cannot manage it.

Specific attention was given to sustainability in Gorecki, Gruen and Johnson (2011):

[F]or many stocks, particularly environmental and social capital, placing a monetary value ... is very difficult. Stiglitz et al (2009) ... recommended that a monetary index of sustainability be complemented by a limited set of physical indicators to monitor the environment – particularly in the case of irreversible or discontinuous alterations. Such an approach seems entirely sensible as we determine better ways to value the environment (27).<sup>18</sup>

Say that the 'productive base' is enhanced for future generations, but damaged for current. When does that enhance wellbeing, or damage it? Once again, trade-offs come into play – but once again, a checklist does not encourage consistency and transparency.<sup>19</sup>

## Overall level of risk

The overall level and allocation of risk borne by individuals and the community. This includes a concern for the ability, and inability, of individuals to manage the level and nature of the risks they face.

A worthy matter: but how to make it operational? And I do note the post-modernist touch – 'concern for the ability, and inability...' At least Treasury did not disavow the law of the excluded middle.

## Complexity of choices

The complexity of the choices facing individuals and the community. Our concerns include the costs of dealing with unwanted complexity,

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18 On such valuations, see Wagner (1997).

19 Presumably, one reason for reticence about implementing the Stiglitz approach is that Treasury knows that even when markets for assets do exist, market prices may well be distorted by defective time preferences and the like: shadow prices everywhere, cast by the behaviourist's lamp.

the transparency of government and the ability of individuals and the community to make choices and trade-offs that better match their preferences.

How many are there, in the behavioural economics group in Treasury, that they can not only delineate unwanted complexity in the world of choice, but also estimate the costs of dealing with it. Thaler and Sunstein should be envious.<sup>20</sup>

## Conclusion

After the workshop, it was put to me that a main purpose of TWOTAP was internal to Treasury: to remind recent Treasury appointees of the wide range of matters that Treasury has long considered important (as the 1964 and 1973 papers attest); matters that those with great technical skills, but narrow focus, may overlook or dismiss. Certainly, in Gorecki and Kelly (2012) four of the five roles to be played by TWOTAP are internal, including, at the top of the list, ‘educating staff’. Presumably, an internal document may not nudge the new recruits as effectively as a public document. But once made public, then it should be suitable for the external readership also.

The second role mentioned in the 2012 paper is ‘signalling to those outside of the Treasury – individuals, organisations, other government agencies, and the Government – that our approach to public policy does not conform to simplistic stereotypes about Treasury’. If the ‘simplistic stereotype’ is that Treasury is seriously concerned about increasing the size of the economic pie, then TWOTAP may have satisfied that aim.

Treasury’s 2012 Annual Report informs readers that the Fiscal Branch ‘...aims to ensure government spending arrangements are effective and that key social and economic reforms are supported. This is crucial to facilitating strong, sustainable economic growth and the improved wellbeing of Australians’.

It is a pity that Treasury does not tell us how it assesses whether policy changes would likely produce ‘sustainable economic growth’, let alone improve ‘the wellbeing of the Australian people’; or how growth and wellbeing inter-relate.

It was reported that the experts at the symposium agreed that ‘economic growth should not be constrained, so long as growth is defined not just in terms of GDP but as “expanding opportunities” (Podger 2013). For many decades, no respectable economist and certainly no senior Treasury official has advocated

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20 At the workshop, it was suggested that TWOTAP should be read as referring to the complexity imposed by government (e.g. the mountains of regulation and tax code), and not to complexity of choice generally. Even after redrafting along these lines, the questions would still remain: how can Treasury delineate *unwanted* complexity, and how can Treasury measure the costs of such? Are complex BAS requirements wanted or unwanted, and by whom?

single-minded pursuit of GDP. Moreover, decades ago (as reported above) Treasury discussed how to adjust national economic aggregates for many of the items mentioned in TWOTAP, to gain a better idea of the direction and magnitude of changes in the sustainable capacity of the economy to provide what Australians value.

In earlier times, the expression commonly used in this regard was not 'expanding the set of opportunities' but 'improving economic efficiency' or 'increasing economic growth'. It was chiefly on that ground that Treasury, for example, supported a tax package involving the introduction of the GST, removal of wholesale taxes, cuts in income tax rates and compensation for some who would lose out. Economic efficiency, economic growth, improved productivity: formerly, these were given special but not overwhelming emphasis by Treasury.

In contrast, TWOTAP conspicuously avoids lexicographically ranking the items in the checklist, and eschews announcing the relative importance or weights of the various items, which normally would guide decisions about trade-offs. It is easy to find philosophical and ideological objections to ranking one dimension of wellbeing higher than another, or to using summary indices of wellbeing. But whatever reservations one may reasonably hold about these, they do not provide sufficient justification for choosing something worse.

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