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Social Investment (in Wellbeing?)

Abstract

This article outlines social investment and the wellbeing approach. It discusses how these frameworks have evolved and argues for a hybrid approach, one drawing on the insights of both a broad spectrum of indicators and detailed distributional evidence.

Keywords wellbeing approach, social investment

Over the past decade the Treasury has had a lead role in supporting two high-profile frameworks: social investment and the wellbeing approach. Through practical experience and principled critique (e.g., Boston and Gill, 2017), much has been learned about each. In this article I suggest that a hybrid approach between the two frameworks could hold promise, as each has strengths that can complement the other.

Social investment and the wellbeing approach: a brief overview

The precise content of both social investment and the wellbeing approach has evolved over time. Some of the enduring features of social investment include:

- using data and modelling to understand life-course trajectories of different cohorts and focus efforts on those most likely to face persistent and multiple disadvantage;
- dealing with the challenge of social service integration for people with multiple needs, colloquially referred to as the 'multiple cars up the driveway' problem;
- leveraging both local and central sources of knowledge and supporting local innovation, particularly by NGOs;
- identifying 'what works' and attempting to direct new investment towards options with a high return on investment.

Key aspects of the wellbeing approach include:

- emphasis on measurement and monitoring of a broad spectrum of indicators to understand progress in New Zealand;[2]
- using these indicators, alongside other evidence, to identify and communicate budget priorities;
- encouraging agencies to identify the impact of their policy and investment proposals on wellbeing, particularly as part of the budget process; and
- collaboration and dialogue with other 'wellbeing governments', such as Scotland, Canada, Iceland, Finland and Wales, and also with the OECD's Centre on Well-being, Inclusion, Sustainability and Equity (WISE).

A hybrid model

A hybrid of the two approaches could draw from the strengths of each in three areas – framing, analytics and budget management. Social investment's strengths relate in particular to analytics and

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Table 1: Use of data and analytics in the different frameworks

	Social Investment	Wellbeing Approach
Primary data source	Linked administrative data	Surveys and environmental monitoring series
Primary data type	Person-level panel (longitudinal)	Repeated cross section
Scope of data	Social	Social, environmental and economic
Primary analytical methods	Microsimulation	Indicators monitoring
Timeframe	Forward-facing (modelled projections)	Backwards-facing (trends to date, with a lag)
Dimensionality	Dimensions integrated into a single figure (liability or similar)	Dimensions mostly dealt with one at a time[3]
Units of analysis	Individual person or cohort	Individual person Population group Geographical location Nation
Type of policy response	Social services	Any

budget management, and the wellbeing approach's strengths relate in particular to the question of framing.

Conceptual framing

Each framework directs policy analysts to assemble certain kinds of information to help ministers decide whether government should invest funds on behalf of the general public for the benefit of private individuals.

Each framework has emphasised that there may be public benefits to investment in private individuals that may strengthen the case for investment beyond mere solidarity – i.e., our desire to see our fellow citizens do well. For example, the social investment framework has emphasised that people who are disadvantaged are often less able to contribute to the public purse, often require greater public support, and often create public expense via the benefit system, justice system, health system and so on. Investment today in disadvantaged people could produce a return for the government later in terms of reduced fiscal costs or increased revenue.

A hybrid approach would maintain a focus on opportunities to invest now for fiscal returns later, and continue to be open to the idea that because cumulative fiscal costs can be substantial over the life course, substantial public investment in the most disadvantaged children may be warranted even in narrowly fiscal terms. In the context of an ageing population and associated fiscal pressure, every opportunity to manage that fiscal pressure should be explored.

But focusing on fiscal returns alone risks underestimating the spillover effects of disadvantage, and thus underestimating the full economic return of public investment in people (Chapple, 2013, 2017). In some cases the fiscal return may be a reasonable proxy for wider economic return, but this will not always be the case. For example, the World Bank (2021) reports that human capital constitutes the majority of wealth in most countries across the world. Investing in this 'asset' could provide fiscal return by, for example, reducing rates of joblessness and benefit receipt. But the wider economic returns are likely to be much greater than the fiscal returns, and so the break-even level of investment in human capital is correspondingly higher.

For related reasons, Colin James (2015) has argued that the investment approach should focus on building assets rather than reducing liabilities. A hybrid approach would consider the full return associated with investment in human capital and also in other assets, such as social cohesion and the natural environment, that have been given greater prominence in the wellbeing approach.

Acknowledging the importance of maintaining our collective wealth, including environmental wealth, also invites consideration of the spillovers associated not with disadvantage, but with affluence. Higher-income households tend to exert greater environmental pressure than low-income households, through phenomena such as larger homes, greater energy use, greater international travel, greater consumption of meat, greater car use and so on (Allan, Kerr and Will, 2015). These private choices create public costs that may reduce collective wellbeing both now and in the future. A hybrid approach would encourage consideration not just of investment opportunities to improve the situation of the disadvantaged for the benefit of all, but also regulatory opportunities to manage the external costs imposed on current and future generations by the advantaged.

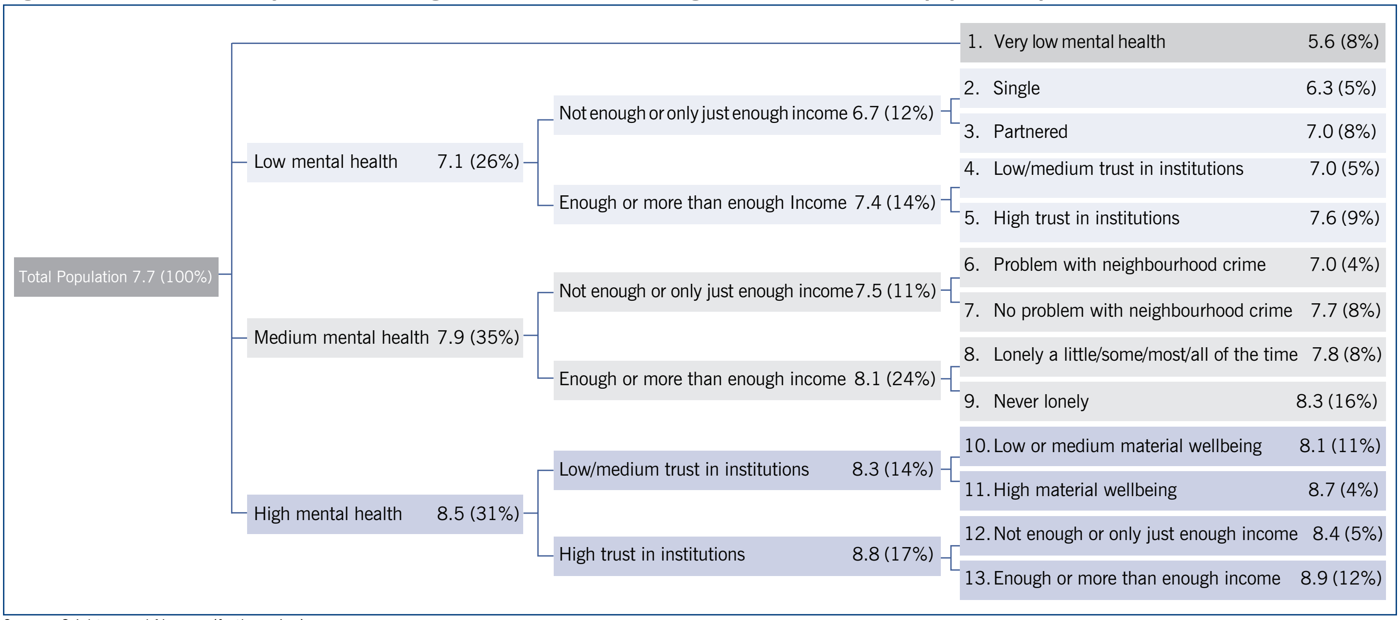
This brief discussion suggests that a hybrid framing would focus on investment in building and maintaining our individual and collective assets. But as Weijers and Morrison (2018) pointed out, the question of framing is one that Wellington analysts attempt to resolve ourselves at our peril.

With the wellbeing approach this has led to more than one framework being embraced. For example, the current government has emphasised both the Treasury's Living Standards Framework and He Ara Waiora as important complements to each other (Robertson, 2021). Others have pointed out the need to consider the particular circumstances and perspectives of, for example, disabled people (Murray and Loveless, 2021) and Pacific peoples (Thomsen, Tavita and Levi-Teu, 2018). Good engagement is also important to avoid accusations of paternalism, accusations that have been levelled at both social investment (Berentson-Shaw, 2018) and the Living Standards Framework that subsequently supported the wellbeing approach (Wilkinson, 2016). A hybrid approach would thus continue the engagement processes initiated under the wellbeing approach.

Data and analytics

Both social investment and the wellbeing approach have aimed to make better use of data and empirical analysis in the process of policy development. Some of the key

Figure 1: Correlates of subjective wellbeing – each box shows average life satisfaction and population percent



Source: Crichton and Nguyen (forthcoming)

differences in the use of data and analysis are highlighted in Table 1.

A major distinction between the two approaches is one between breadth and depth. In one sense the wellbeing approach has been more ambitious in that it attempts to integrate social, environmental and economic concerns into a single framework. This makes it theoretically applicable across all of government. However, social investment has been more ambitious in another sense, in that it makes greater use of advanced and multidimensional empirical methods to make the most of government's substantial data assets, particularly in making life-course patterns readily understandable and salient.

A hybrid approach would seek to achieve a balance between breadth and depth. There are at least two ways to think about how to achieve this: a top-down, unicentric approach, and a bottom-up, polycentric approach.

A top-down approach might start with a broad dashboard of simple indicators covering a range of concerns, supporting a triage process to identify concerning trends or issues that warrant more in-depth subsequent analysis. The Treasury's upcoming wellbeing report and accompanying background papers are a good example of this type of exercise (see, for example, Treasury, 2022). Depending on the types of issue being surfaced, different types of detailed analytical methods will be more or less relevant for understanding the drivers of the identified trends or issues to inform potential policy responses. Microsimulation based on administrative data is a powerful technique in some circumstances, but used by itself can be misleading. For example, as Jess Berentson-Shaw (2018) has noted, it can lead to overemphasis on individual-level drivers of persistent disadvantage and bracket out explanations that focus on structural features, such as the complexity of a highly targeted benefit system.

When it comes to measuring progress and identifying areas to focus on, there is much debate about the merits of a dashboard approach versus an index approach (such as that of the Human Development Index). People like Arthur Grimes (Tibshraeny, 2019) and Eric Crampton (2018) argue, in line with global figures such as Richard Layard (2020), that a multiplicity of indicators risks leaving the choice of what to focus on arbitrary or vulnerable to purely political contingencies. One strength of social investment in this light is its reliance on a single metric, the liability figure, which, for all its limitations, does at least provide a clear and consistent ordering across multiple dimensions. From a wellbeing perspective many of these economists propose using as an indexing metric the wellbeing-adjusted life-year, or WELLBY, which is founded on answers to survey questions about life satisfaction.

In these debates the options are sometimes presented as binary – either a dashboard approach, or an indexing approach. But there is no reason why a hybrid approach cannot use both. The dashboard approach has the advantage that it allows for, as pointed out by David Hall (2019), multiple interpretative possibilities. And the WELLBY approach is one useful way to interpret the indicators in the dashboard that can provide insight even without necessarily endorsing the value judgements implicit in that particular metric.

One important use of life satisfaction data and the WELLBY is to identify groups of people whose low wellbeing is driven by multiple factors that no one agency has responsibility for attending to. In some cases, a triaging exercise will identify an issue that is clearly in the remit of one agency. For example, a recent Treasury paper identified mental health as a major area of concern (Treasury, 2022), and the policy lead for this is clearly the health sector (even if others have a supporting role). But in other cases disadvantage may be compounded across multiple domains such that no one agency has responsibility for the whole. For example, sole parents as a group have notably low wellbeing and there is no obvious policy lead on this group. New Zealand's public sector is generally regarded as being weak at supporting people with multiple and complex needs (Productivity Commission, 2015). And because line agencies generally have an incentive to view their clients from the perspective of the services the agency offers rather than their overall needs, person-centred analysis by central agencies can be an important complement to analysis by line agencies.

The correlates of life satisfaction have been explored in New Zealand in a series of papers by Conal Smith and others, the most recent of which is Smith, Krassoi Peach and Cording (2019). Crichton and Nguyen (forthcoming) have recently extended this analysis, which has generally focused on main effects, to explore interactions between different domains of wellbeing using regression tree methods. This has resulted in a segmentation of the entire New Zealand population aged 15+ grouped by different levels of life satisfaction.

This analysis provides an intuitive way to understand how different combinations of variables are associated with life satisfaction. For example, Figure 1 illustrates that the total population has an average life satisfaction of 7.7 out of 10, whereas the 26% of people with low mental health have an average life satisfaction of 7.1. But among those with low mental health, there is a big difference between those with not enough or only just enough income and who are single (segment 2 – 5% of the population with an average life satisfaction of 6.3), for example, and those with enough or more than enough income and high trust in institutions (segment 5 – 9% of the population with an average life satisfaction of 7.6).

This is an example of hybrid social investment and wellbeing analysis. As with social investment, it identifies specific cohorts of people with distinct combinations of strengths and needs. These cohorts could form the basis for subsequent cross-agency policy work if desired by government, providing a way to cut across the much-maligned 'silos' of the public service. But, unlike social investment, these cohorts are identified on the basis of their life satisfaction, not their future fiscal cost.

These are examples of how top-down analysis can help direct government's attention in a systematic way towards major problems and cohorts in need of support. But an important criticism of the top-down approach is that the best investment options are not necessarily those that address the most salient high-level problems. Sole reliance on the top-down approach risks taking government towards the politician's syllogism (something must be done; this is something, therefore it must be done). It also risks government focusing on a small number of large problems rather than a large number of small problems which may, in aggregate, be more important. This is one reason to complement a top-down approach with a bottom-up approach, to encourage agencies to identify any high-return investment options in their areas even if they are not aligned with priorities set at the centre.

Another reason why polycentric analysis is necessary is that there is simply too much information to process centrally, and a lot of information, especially qualitative information, can only be processed in a decentralised way. Much of the analytical depth should therefore be provided by line agencies. It is nowhere near sufficient for Treasury analysts to track aggregate indicators of natural capital, for example. Across the wider system, many specialists with detailed knowledge of topics such as soil health and ocean systems are necessary, and who are likely to identify problems, risks or areas for improvement that could well be lost at the highest level of analysis.

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Budget management

An entire issue of *Policy Quarterly* could easily be dedicated to the topic of budget management, but I will have to limit myself to a few general remarks relating to the setting of budget strategy, the ex ante evaluation of funding proposals, and ex post monitoring of those proposals that are funded.

At the strategy stage, one perennial challenge is to ensure that long-term issues are given adequate consideration alongside the politically salient issues of the day. One strength of the future liability approach was that it provided a concrete mechanism by which to make at least one class of long-term issues salient in the minds of busy ministers. This type of modelling could help provide additional insight at the strategy-setting stage of a wellbeing budget. The parliamentary commissioner for the environment (2021) has recently argued that the wellbeing approach also needs better mechanisms to ensure that long-term environmental costs are kept salient as well, arguing that in practice the wellbeing approach has focused on the wellbeing of current over future generations.

A hybrid approach could make greater use of forecasts and projections to understand long-term costs (both economic and fiscal) in the setting of budget strategy. The dashboard triage methodology described above is one way to keep long-term trends salient, but this would ideally be supplemented by the ability to project future trends, not only in social and fiscal costs, but in economic and environmental costs as well. Mechanisms such as the long-term insights briefing and Treasury's new statutory wellbeing report provide vehicles to report on trends, and ideally in time the modelling capability will be developed to increase our sophistication in understanding the future implications of current trends.

At the initiative assessment stage, greater and more rigorous use of cost–benefit analysis would do much to support the aims of both social investment and the wellbeing approach, or a hybrid of the two.

That cost–benefit analysis is superior to a focus on reducing the Crown's liability is a point made by several commentators (Chapple, 2013; Rosenberg, 2015; Productivity Commission, 2015). Others have also suggested that the Living Standards Framework (and by extension the wellbeing approach) add nothing that cost–benefit analysis does not already provide, because good analysts are already alert to externalities and long-term impacts (Wilkinson, 2016).

I certainly agree that greater use of cost–benefit analysis to evaluate specific initiatives is a vital complement to the Living Standards Framework.[4] The Treasury has continued to update its CBAx tool and guidance to that effect. One important addition has been to add WELLBY-related metrics and guidance to support direct analysis of the wellbeing impacts of policy analysis. But it remains the case that demand for high-quality cost–benefit analysis remains generally low, as does capability. One innovation in the social investment approach that could be worth incorporating into a hybrid approach is greater involvement of the chief science advisor network in the formal evaluation of budget initiatives, to help increase demand for evidence-based proposals and provide further institutional support to ministers, who often lack the time and specialist knowledge to interrogate the evidence base sitting behind initiatives.

But even the best cost–benefit analysis in the world is still an estimate of what the impact of an initiative will be, and any number of reasons could lead the real-world impact to be very different. For this reason both social investment and the wellbeing approach have included aspirations to improve the monitoring of initiatives after they are funded, to create 'feedback loops' that result in initiatives improving their results, or being defunded if necessary. The need to improve ex post monitoring of impact and the ultimate connection to outcomes is a very old issue in New Zealand's public finance system (see, for example, Ussher and Kibblewhite, 2001) and there is not space in this article to properly address the topic. But I think it is fair to say that neither social investment nor the wellbeing approach have yet made very much progress in this area, so even a hybrid model would need to do better at strengthening the incentives and capability to evaluate and continuously improve the effectiveness of expenditure across the base, not just at the margin.

Conclusion

To summarise, I have suggested that there would be value in a hybrid approach between social investment and the wellbeing approach that:

- carefully considers both fiscal returns and wider economic returns associated with building and maintaining human and non-human assets;
- emphasises both life-course and intergenerational patterns of advantage and disadvantage;
- considers the spillover effects of both advantage and disadvantage;
- balances analytical breadth with depth, exploiting both survey and administrative data using both dashboard and indexing approaches, and both centralised and decentralised analysis; and
- encourages robust analysis at the strategic priority-setting stage and the initiative assessment stage, particularly through greater use of cost–benefit analysis.

Critics of social investment and the wellbeing approach might argue that it would be better to start again with a new framework. I have taken the approach of working with the strengths that we have and building on them, but it is important to acknowledge that the hybrid approach I outline would still have limitations and it is certainly nothing like a comprehensive blueprint for good government. As noted, neither approach has been very strong at ex post value management. Another limitation is that neither approach is very sensitive to rights-based arguments for government action. But as long as we are sensitive to these limitations, and seek to manage them as well, then a hybrid approach should have some promise in helping government and the public service improve the allocation of public resources.

1 The views, opinions, findings and conclusions or recommendations expressed in this article are strictly those of the author. They do not necessarily reflect the views of the Treasury or the New Zealand government. The Treasury and the New Zealand government take no responsibility for any errors or omissions in, or for the correctness of, the information contained in this article. The article is presented not as policy, but with a view to inform and stimulate wider debate.

2 In this, there is a lot of continuity with the social indicators work led by the fifth Labour government, particularly by the minister for social development, Steve Maharey.

3 With some notable exceptions, particularly a series of papers by Conal Smith and co-authors conducting multivariate analysis of the General Social Survey – e.g., Smith, Krassoi Peach and Cording, 2019.

4 The Living Standards Framework is more like the System of National Accounts than any other economic framework. Whereas the SNA systematically decomposes a big fuzzy concept (economic activity) to aid in measurement and analysis, so too does the LSF decompose a big fuzzy concept (wellbeing). And in the same way that the System of National Accounts is not sufficient by itself to support all types of economic policy analysis and needs to be supplemented by practical tools, like CBA, so too does the Living Standards Framework need to be supplemented with other tools. But the need for supplementation does not make the Living Standards Framework redundant any more than it makes the SNA redundant.

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