

Forum Report No. 03/2014

AHPC policy discussion with Professor Joseph Stiglitz

Tuesday 24 June 2014

## Introduction

In June 2014, the Health Policy Program of the Mitchell Institute, now established as the Australian Health Policy Collaboration at Victoria University, in association with the Victoria Institute of Strategic Economic Studies (VISES) hosted a policy discussion with Nobel Laureate and Columbia University Professor, Joseph Stiglitz and twenty-five invited guests. Facilitated by Peter Mares, Adjunct Fellow at Swinburne Institute for Social Research, the event was chaired by Mark Burford, Executive Director at the Mitchell Institute and hosted by Grant McCabe at The Boston Consulting Group's Melbourne office. Speakers included Professor Stiglitz and Professor Bruce Rasmussen (VISES) and in attendance were senior representatives from government, corporate, business and research sectors.

The purpose of this private roundtable was to foster discussion across a range of sectors and disciplines with a view to informing AHPC's Health and Education Indicators Project. (the AHPC Indicators project). The aim of the indicators project is to influence and inform better public policy by developing a set of new indicators that measure the links between health and education pathways and barriers. The work of Professor Stiglitz and others for the French government's 2009 Commission on the Measurement of Economic Performance and Social Progress<sup>1</sup> (the Stiglitz-Sen-Fitoussi Commission) was used as a springboard for the discussion.

The following summary is a distillation of the main points expressed during the discussion, which will be used to shape the ongoing work of the Indicators project.

## What do we measure and why?

Professor Stiglitz has considered the issue of measuring social wellbeing for much of his career, starting with his role as Chairman of President Clinton's Council of Economic Advisors, continuing through his work as Chief Economist of the World Bank and most recently as chair of the Stiglitz-Sen-Fitoussi Commission for President Sarkozy. His opening presentation at the policy discussion comprised a brief overview of what we measure and why measurement is important. Measuring economic and social progress is an essential component in determining the health of economies and communities around the world. However, in Professor Stiglitz' view, current measurements such as gross domestic product (GDP) are extremely limited and capture only a narrow portion of what is important to societal wellbeing.

Professor Stiglitz' view is that for governments, societies and businesses, what we measure affects what we do. He acknowledged that, from a policy perspective, robust metrics are needed to determine whether a policy initiative is making progress or achieving the desired effect. However GDP is too frequently used to give an overall picture of the development and success of a country ignoring factors such as environmental degradation, resource depletion, wellbeing, and social exclusion. In the words of Robert Kennedy, "GDP measures everything except that which is important."

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<sup>1</sup> Stiglitz, J E, Sen, A, and Fitoussi, J (2009), *Report by the Commission on the Measurement of Economic Performance and Social Progress*, Commission on the Measurement of Economic Performance and Social Progress

The Stiglitz-Sen-Fitoussi Commission was tasked with examining existing measurements of wellbeing and suggesting improvements. Its work focussed on: the failures of existing metrics to adequately measure the market economy; the ways to measure wellbeing (taking account of recent advances in psychology); the importance of sustainability; and inequality. President Sarkozy was concerned that while existing measures like GDP generally showed continuing improvement, this was not generally acknowledged or reflected in the mood of the electorate. Similar effects have been noted in other countries, such as in China, where high rates of GDP growth have been associated with decreased quality of life as a result of increasing air pollution and poor access to safe food.

## **The problem with narrow measures**

Professor Stiglitz is of the view that societies should measure what they care about. GDP figures, he said, are static and do not measure sustainability of growth over time, both from an environmental and resource depletion perspective. GDP represents the average, and as such, does not account for disparities between groups or individuals (inequality). Furthermore, in the public sector, market prices often do not exist, so outputs tend to be measured by inputs. This is why, in health and education in particular, there is a tendency to be misled because we measure quantity at the expense of quality. For example, we measure school graduation rates rather than the quality of education provided or health spending rather than health outcomes. It would be preferable to measure the level of 'value add' (for example, how a health system contributes to increasing life expectancy) but GDP doesn't allow this, nor does it account for household production, or the value of leisure time.

Professor Stiglitz suggested that one of the problems with using GDP as a measurement is political – it is challenging to connect GDP movements with the mood or level of confidence of the electorate (the dilemma identified by President Sarkozy). Members of the public see increasing GDP figures and feel that this does not align with their own experience, so they feel either that the government is manufacturing or altering the numbers, or that the benefits of growth are flowing to other people. Thus, another inadequacy of GDP is revealed: its inability to measure 'agency' or 'individual voice', that is, the ability to change one's situation.

Despite the widespread use of GDP as a measurement for societal progress, Professor Stiglitz and others suggested that these shortcomings necessitate new metrics to measure the health, wellbeing and progress of nations and societies.

## **Opportunities**

The roundtable discussion highlighted that an attractive feature of GDP is its simplicity – the ease of identifying and understanding a single number and its changes over time. It was felt that, to be useful, any new metrics need to retain a level of simplicity while still capturing enough of what a society values. However, many of the factors we care about as a society are not easy to quantify and designing new metrics carries the challenge of developing indicators that relate to achievable policy outcomes. In Professor Stiglitz' view, the discussion about what to measure and how to measure provides an important departure point for national dialogues about what societies value and see as important.

It was generally acknowledged that health and education are intermediate measures of wellbeing, in that they affect an individual's work, ability to participate, and personal connectedness, which in turn contribute to overall wellbeing. However, given their importance as determinants of future happiness and prosperity, health and education were viewed by many of the participants as critical elements to measure. But in terms of selecting valid indicators, both health and education present significant challenges. Firstly, health and education are affected by

the non-market, quantity versus quality confounders as discussed above. Secondly, both have dynamic components that heavily impact future capabilities, and thirdly, it's difficult to balance the desire to measure ultimate outcomes of health and education (such as levels of adequate nutrition and healthy lifestyles) against the necessity of measuring easily quantifiable factors (such as hospital admissions).

A significant element that several participants viewed as not well captured by current measures such as GDP is the concept of 'misery' or levels of social exclusion. This concept produced a lively debate about whether the aim of metrics should be to determine a baseline level of wellbeing that should be guaranteed for all (that is, eliminating misery or extreme disadvantage) or a more descriptive measure of improving wellbeing. The political implications of this distinction were seen as important and key to determining the level of public support. This also relates to the concept of voice, and how to incorporate measurements relating to agency or the capacity one has to change one's personal circumstances. It was noted that these are largely subjective notions and again difficult to quantify. From a systems perspective, the importance of community and the role of institutions (and trust in those institutions) were seen as critical to this argument.

The concept of risk was raised as an additional important component to measure, particularly in relation to who bears risk (that is, individuals or society). This relates to perceived levels of security, and mechanisms to insure against social risk, such as public health systems and income contingent student loans. Mitigating risk, such as that presented by climate change, requires trusted institutions that can carry through policy continuity, and that discontinuity in policy approaches can be especially disruptive to effectively planning for risk.

## **Conclusion**

The AHPC Health and Education Indicators Project seeks to incorporate many of the concepts and issues raised during the discussion with Professor Stiglitz. The Health and Education Indicators project applies the Capability Framework, developed by Amartya Sen (Thomas W. Lamont University Professor, and Professor of Economics and Philosophy at Harvard University) to identify a range of circumstances and characteristics that are evident risks affecting individual health and education outcomes, and that, as risk factors capable of mediation, provide opportunities for prevention and early intervention in the best interests of individuals, communities and the national economy and society as a whole.

## **About the Australian Health Policy Collaboration**

The Australian Health Policy Collaboration at Victoria University is an independent think tank with a global perspective. Its mission is to identify and examine critical and complex health and health policy issues in Australia, and to inform public policy and its practice through relevant research, networked collaboration, and public debate. The AHPC is implementing an ambitious research and policy program which includes major projects aimed at preventing and reducing the impact of avertable chronic disease on individuals, the population and the economy of Australia. The AHPC has a focus on socially and economically disadvantaged communities and the long term benefits of place based approaches to improving health and reducing risk factors for development of chronic disease in at risk population groups and has a committed relationship with the Brimbank City Council in the west of Melbourne to enable a long term policy research collaboration to lift health and education outcomes for this community.



The AHPC sees itself as knowledge and network builder and discussions such as this one with people from a broad range of sectors and disciplines are part of our 'modus operandi'. We are a small organisation, and probably always will be – but we have big ambitions. Our model is to invest our efforts into creating networks and partnerships with and across organisations to stimulate connections, give voice to different perspectives, and link evidence to policy-making so that we can effectively influence and ultimately enhance, the public policy debate and the ongoing development of Australia as a socially and economically prosperous society.

## About the Health and Education Indicators Project

The Indicators project aims to develop a set of new indicators that measure the links between health and education pathways and barriers at both the national and local level. The relationship between the two is complex, changing over the life course, and dependent on other socioeconomic factors both influencing and being influenced by health and education. The AHPC has commissioned the Victoria Institute for Strategic Economic Studies (VISES) to look at the range of approaches that have been applied and are being developed globally to establish new measures of individual development and wellbeing. In developing our own approach, we have been grappling with a number of practical and intellectual challenges as we look at the many divergent views on the relationship between the individual and society. The Indicators will reflect evidence from the literature, as well as potentially, new modelling of a suite of risk factors to better inform and target policies relevant to improving health and education outcomes in Australia. Reflecting international trends, this work focuses on a local community, the western metropolitan area of Brimbank in Melbourne, and is based on the *Brimbank Health and Education Atlas* which presents and analyses nationally consistent data on health, education and relevant demographic and socioeconomic characteristics to provide the base data from which health and education indicators will be modelled and drawn to inform policy making and practice.

## Acknowledgements

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