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The "investment approach" – liabilities or assets?

Some thoughts on its role in public policy and programmes

Colin James, Institute for Governance and Policy Studies, 17 June 2015

1. Introduction: what is the investment approach and what could it be?

In 2011 the government adopted from the Accident Compensation Corporation via the Welfare Working Group a programme of actuarially estimating the cost of someone staying long-term on a benefit and using that as the basis for defining the return from "investing" in action that deflected that person from a benefit into long-term work. The Ministry of Social Development (MSD) engaged an Australian firm, Taylor Fry, to do the actuarial estimates of long-term benefit costs. It applied programmes incorporating those estimates initially to 16-17-year-olds and sole teen mothers of 16-18 in the welfare system, groups known to have a high risk of long-term benefit-dependency.

This actuarial/investment technique is known as the "forward-liability investment approach" or just the "investment approach". Including the "forward-liability" qualifier underlines that in its initial application the technique is essentially insurance against a future liability. Leaving out the "forward liability" qualifier suggests an investment approach ***might logically be applied to building assets in addition to avoiding liabilities and applied more widely in policy development and government decision-making***.

The idea of "investment" as an element in government services was not new. Education has long been assumed to be an investment: individuals get a return in higher wages through investing in higher skills; society as a whole gets a return in higher productivity and greater prosperity and, some would add, a more cohesive society from the greater potential for full civic and social engagement education can enable and encourage. More recently, there has been some debate about the level of return on educational investment and the division of returns between individuals and society as a whole.

In 1997 a paper by two Department of Social Welfare analysts argued for investment against future costs, that is, against a contingent future liability. But it did so in fiscal, not economic, terms. In that sense it anticipated the forward liability investment approach.

Peter Hughes, MSD chief executive from 2001, argued unsuccessfully for investment concepts to be adopted.

The Minister of Finance, Bill English, has said on several occasions that he wants to apply investment thinking to some (unspecified) other social services. He has more recently boiled this down to the phrase "social investment" and talked specifically about at-risk children under 5. In the 2015 budget he acknowledged that income was a contributing factor to "child hardship" and introduced an up-to-$25-a-week increase in the benefit and income-related additions to Working For Families income tax rebates.

But is forward liability the most useful and appropriate measure?

For example, is the tight focus on forward liability, to the exclusion of investing to build assets, just a way of cutting "welfare" spending and services, as some suspect. Is it just a fiscal tool to "do more with less", Bill English's catchcry in the early years of fiscal consolidation from 2009 on. Are the actuarial calculations accurate and/or meaningful? Does a tight focus on forward liability distort priorities by plucking "low-hanging fruit" (English's phrase in an interview in October 2014, *see James 2014*) and leaving aside more complex but ultimately higher-return challenges/opportunities? Is the forward liability technique a superior management tool to that of refining benefit-cost analyses and does it lead ipso facto to better economic (and/or social) outcomes? Is it an optimal means of achieving specific "outcomes" or does it risk diverting resources on to shorter-term projects to demonstrate "results"?

There are also technical questions about the forward liability approach itself. What discount rates are used in calculating the return on investment from voiding a future liability? How often and how flexibly should the discount rate(s) be adjusted? How does the actuarial calculation accommodate unforeseeable changes and shocks in global and national social, economic and political and unforeseeable disruptive technological impacts? I

Looking to the future, to what other policy items can the "forward-liability investment approach" be applied? ***Can it be extended to calculate assets that an investment builds*** (which is the focus of firms in the private sector, from which the notion of investment is, in effect, drawn)? If so, could it be applied much more widely to social services, including health policy (notably preventive health policy) and environmental policy, including the maintenance of ecosystems and measures to counter climate change?

Most important, if the forward liability investment approach can be applied more widely and also to the building of assets, might that over time amount to a change policy analysts and decision-makers, focusing policy choice and development more tightly on effectiveness in addition to efficiency? Or is it, as some think, dumbing down policymaking?

The purpose of this note is to open up some of those questions. It will not address the technical questions nor attempt to assess the actual return on "forward liability" investments so far or the degree to which they result from the investment approach as distinct from changes in economic and social conditions as the officials assert in section 2 below. In any case, it is arguably too early to do so, only three and a-half years into a programme which is attempting to offset lifetime potential costs not just immediate savings.

2. A Ministry of Social Development perspective

Damian Edwards, who manages the application of the forward liability investment approach in the Ministry of Social Development's Service Delivery division (SD), and Eric Judd described its development and evolution in a paper presented to the New Zealand Society of Actuaries conference in November 2014. (*Edwards 2014*).

"Return-on-investment as a form of cost-benefit analysis is not new" in public sector policy development, they wrote. (*Edwards 2014, p7*) What was new, they said, was building it into operational decision-making. That took it beyond just covering the cost of the investment, requiring also "an ability to prospectively assess" the return and "a methodology that incorporates expected changes to future liability". (*p7*) This, they said, is not just the traditional cost-benefit of how-many, how-long-for, how-much-cost and cost-per-unit of impact to the target group but the impact on the lifetime cost of the target group.

The Edwards/Judd paper said introducing the future-liability investment approach involved a "reframing of the SD's service delivery model and a significant cultural shift within the organisation" plus "several new accountability structures", (*p3*) principally an advisory Work and Income Board of non-public-sector appointees, an external monitor within the Treasury (*p4*) and annual publication both of the "actuarial valuation of the benefit system" (*p3*) and "in-house actuarial assessment of management performance". (*p3*)

The paper said the actuarial valuation had given the SD "the ability to disaggregate impact of management performance and policy changes from wider economic impact" (*p4*) and thus the ability to measure the SD's performance in "improving client outcomes through employment" (*p4-5*) as distinct from the impact on those outcomes of changes in economic conditions. The transparency of actuarial modelling made a ***compelling case for interventions***: it told ministers "you will incur these costs should nothing change", (*p5*) with a bonus of a compelling case for frontline operational staff "who care less about saving money, but who care a great deal about improving their clients' lives". (*p5*)

The Edwards/Judd paper said actuarial modelling had also enhanced decisions on which case management service to stream clients to and which additional services and supports they should get and had prompted trials to find better ways to improve outcomes for particular groups (for example, what works for those with health conditions and disabilities). They said actuarial modelling enhanced understanding of "client dynamics" such as transitions across benefit types, durations on benefits, age of entry, qualification levels and other demographic drivers. (*p6*) Other data, such as past contact with Child Youth and Family (CYF) added insight: the largest share of those classified long-term beneficiaries were those who went on to a benefit as a teenager with no qualifications and after time in CYF care. "So at the highest level the actuarial valuation ***forms the basis of where investment needs to be focused*** and which client segments and cohorts require prioritisation and additional or different investments to reduce their liability." (*p7*)

Edwards and Judd said a critical part of the investment approach was a "deliberate shift ***from*** a primary focus on ***efficiency*** ... ***to effectiveness*** – ensuring the best possible outcomes for clients". (*p8*) The "fundamental premise" is that reduced liability ... will be best achieved through investment in improved client outcomes". (*p8*) Different delivery streams were developed from "light-touch" for low-liability clients through "one-to-many" and "one-to-one supports" and intensive case management for high-needs clients. (*p9*) Resources had shifted up this scale. (*p10*)

Trials had shown that the new approach had shortened times on benefits, they said in the paper. (*p9*) Implied but not specifically stated in the paper is that intensive case management also aims to help clients stay in work and not return to the benefit, that is, longer-term effectiveness, not short-term efficiencies.

Edwards and Judd acknowledged criticism of the actuarial modelling but "many of these arguments appear to relate more to the limit of scope applied rather than the merits or suitability of an actuarial approach to analytics of the data". (*p12*) "For example, the modelling does not include all the potential benefits (such as increased tax revenue, improved health status, reduction in crime etc)." (*p12*) [This edges towards the notion of "assets", as noted in *5 below*.] "Also, costs are currently only those within SD's direct influence and do not include tertiary education or health costs." (*p12*)

Edwards and Judd also said addition of data from other agencies would be useful. "Wider access to all-of-government data would create a significant opportunity to understand the drivers of not only welfare dependency but also of housing, educational and health needs." (*p12*) There was, they wrote, a high correlation, which they detailed in an appendix (*pp17ff*), of at-high-risk clients of other agencies and correlations with parents who were themselves high-risk. This suggested developing a targeted preventive approach in a child's early years, they said. (*p15*) (*Parliamentary Health Committee 2013*)

And it would be "far more powerful" if that preventive approach was "coordinated ... across all key agencies that interact with the family", including health and corrections, (*p15*) and "the benefits would likely accrue across multiple sectors". (*p15*) Accordingly, the ministry had started to investigate the feasibility of applying the forward liability investment approach to social housing. (*p11*)

In short, Edwards and Judd said the forward liability investment approach had enabled and required a focus on intensified case management for the highest-risk individuals, which promised a much better return on investment.

Edwards and Judd did not include detailed outlays and returns on the investments.

3. The Chapple critique – forward liability's liability

Simon Chapple wrote a sharp critique of the investment approach published in mid-2013 early in its life. (*Chapple 2013*). Chapple is a former Ministry of Social Development chief economist, now a senior research fellow at the Dunedin Multi-disciplinary Health and Development Research Unit. Chapple described his perspective as mainstream public economics and labour economics. (*Chapple 2013, p56*)

Chapple's 2013 paper argued that the forward liability approach employed "accounting rather than economic concepts of costs". (*p57*) The actuarial measurement was of future fiscal liability and Taylor Fry's discussion in its 2011 report "proceeds as if reducing the forward fiscal liability and maximising employment and social outcomes is simply taken to be minimisation of the forward liability". (*p57*)

Chapple argued that the true economic costs of raising money to fund welfare were not the fiscal costs. They were "the deadweight costs of taxation, typically in New Zealand taken to be 20 cents in the dollar". (*p57*) "In economic terms the fiscal costs of welfare benefits are simply distributional transfers from taxpayers to benefit receivers." (*p57*)

Chapple drew a parallel with private-sector firms' aim to build net equity, that is, more assets than liabilities. He asked "what would be the point of New Zealand as a society holding a forward liability in the welfare system if there was not a corresponding asset associated with it?" (*p58*) This intertemporal asset included a higher marginal utility in a dollar for a beneficiary than for a better-off taxpayer, the psychological gain of knowing there was a benefit to fall back on if things go wrong and the possible utility to all citizens of "living in a society they perceive as socially just". (*p58*) Chapple reckoned this forward asset would outweigh the forward liability, so net social equity would likely be positive.

Chapple worried that a singular focus on forward liability would risk judging reduction in the liability – getting people off benefits – to be successful management when the real measurement would be the effect on social equity. "Arguably, many of the recent problems bedevilling the ACC system have involved reductions in long-term liability – the performance target – achieved by running down the unobserved long-term asset of ACC income-related payments": the "removal of this asset" from "aggrieved former ACC clients" prompted media comment and "a significant political scandal". (*p58*)

Chapple also worried about uncertainty and error in the forward liability calculations and how to assess whether a change in forward liability is attributable to the welfare agency's actions, measurement error or the broader social and economic context. He argued that the forward liability focus "values all employment gains as equal to the dollar reduction in benefit payments" and all other positive or negative consequences at zero. (*p59*)

Thus, whereas a cost-benefit approach would value each reduction in welfare benefits at 20 cents (the deadweight cost of taxation) and each dollar of earnings at a dollar, the forward liability approach values the asset at zero. "Consequently," he argued," the forward liability model means a greater investment in reducing benefit payments and less investment in obtaining positive employment outcomes". (*p60*)

In summary, Chapple said: "Arguably, the welfare system does need much better, independent and regularly collected indicators of performance in terms of benefit take-up, underpayments and overpayments and compliance with benefit conditions, as well as cost-benefit indicators of the effectiveness of programmes in generating better employment and earnings outcomes. But forward liability – fundamentally, a measure of intertemporal income redistribution – is neither a relevant nor reliable indicator in that context." (*p62*)

4. Why not develop cost-benefit analysis instead?

Edwards and Judd argued that forward liability assessment was a refinement of cost-benefit analysis. Chapple argued that it was not a cost-benefit analysis and was less useful than a cost-benefit analysis.

The Treasury issued a draft new guide for cost-benefit analysis in March 2015. (*Treasury 2015*) The draft guide states, *paragraph 10*: "The evaluation of the impact on economic growth and/or community wellbeing and the evaluation of alternative options is essentially what a cost-benefit analysis is about." Earlier (*paragraph 2*) it says the purpose is to "evaluate all economic impacts of a decision on residents, including the social, environmental, cultural and financial impacts" which it explains (*paragraph 17*) as "impacts on the broader aspects of living standards". This ties it to the five-point "living standards framework" (*paragraph 16*) developed by the Treasury over the past half-decade. (*See section 10 below*.)

The draft guide does touch on "investment". That is in the context of a short discussion of the recommended discount rate (thought by some economists to be too high) used to assess the value of an investment or project. "The purpose of making investments is to generate future wealth or wellbeing" (*paragraph 231*) and "the government should be making investments where the value of the benefits is maximised" (*paragraph 232*).

The draft guide also does mention (*paragraph 13*) the "investment approach" (without the "forward liability" qualification) in the context of whether or not to apply a "better business cases" approach for "large or risky projects that don't involve significant capital expenditure". It thinks this "would be good practice" and adds: "For example, the 'investment approach' to social policy programmes encourages adoption of a business case approach." The draft guide also (*paragraph 35*) instructs those analysing the costs and benefits to take into account the counterfactual, "the situation that would exist if the project did not go ahead". This could be said to apply to the future liability if action is not taken to divert someone from starting long-term benefit dependency. "Avoided costs or benefits" (*paragraph 45*) do need to be identified in any cost-benefit analysis.

Dealing with welfare payments, the draft guide says (*paragraph 45*) they "transfer resources from one party to another" and "do not represent either an increase or decrease in real resources" (though taxation is assumed to have a 20% deadweight cost, which the draft guide says should be included in the analysis). That is, the gainers and losers cancel each other out – and a cost-benefit analysis is designed to "work out whether the expected benefits exceed the costs" (*paragraph 56*). "A project should be adopted if and only if those who gain could compensate those who lose out and still be better off" (*paragraph 72*) – that is, amount to a Pareto improvement (*paragraph 70*).

The draft guide is firm that "the current generation has the prerogative to determine the welfare of future generations", expressed through its "willingness to pay" (*paragraph 40*). It says that "in many cases prices that are set in competitive markets are reasonable indicators of their resource value, as they reflect the marginal value of the inputs or outputs in alternative uses" (*paragraph 53*). And it says (*paragraph 49*) analysts need to take into account "so-called market failures, such as externalities and imperfect competition" but notes that "government projects or decisions are also imperfect and will typically only reduce those 'failures' by less than 100%".

The draft guide is clear (*paragraph 61*) that "cost-benefit analysis is not well suited to assessing equity (fairness) issues and impacts on social infrastructure". Such matters should be in the non-quantified "narrative section" of the cost-benefit report, it says. This could be read as drawing an important distinction between cost-benefit analysis and an asset-targeted investment approach.

5. The "low-hanging fruit", or under-enthusiasm, risk

One early criticism of the forward liability investment approach was that it was just a more sophisticated-sounding way of cutting the numbers of those on social security benefits.

Critics and sceptics feared it was a justification for forcing beneficiaries out to work even when jobs were scarce or impermanent, or the conditions were questionable (as in zero-hour contracts) or became questionable once the transitional welfare subsidy to the employer ran out, or the jobs were very low-paid and dead-end and being required to take them closed off options to get higher skills. Others worried that for sole mothers forced out to work, child care options were variable and/or suboptimal and/or expensive and so parental investment in children was suboptimal, which in turn could generate another future cost.

In short, these critics and sceptics feared, the "investment" was designed not to generate a positive return but only avoid a future cost. That is, as Chapple argued (*see section 3 above*), it was a simple accounting device and not an economic instrument to increase total equity (in the sense of economic and social welfare, not "fairness").

Moreover, Bill English's focus on "low-hanging fruit" in future applications risks reinforcing this scepticism, or at least not allaying it.

The Edwards/Judd paper did argue (*section 2 above*) that the forward liability investment approach was not being used in a narrow "efficiency" sense but to make the interventions more "effective".

In one sense "effective" implies those moved off the benefit into work are capable of staying employed and over time improving their capabilities and earnings and not ping-ponging back and forth between work and the benefit which could not legitimately be termed an "investment" – as Edwards/Judd acknowledged when they wrote that "reduced liability ... will be best achieved through investment in improved client outcomes".

That focus in turn implies more accurate identification of "cohorts" (another Bill English favourite word) with the greatest need and/or potential to derive the greatest benefit and thus the highest return. One obvious application is in the various parts of the justice system.

Edwards/Judd said the forward liability tool had generated finer-grained data on "clients" and pointed to the need for cross-agency data sharing – a loose parallel is the use by private firms of data collected on consumers and their purchases and habits. Statistics New Zealand is charged with coordinating this but has a long way to go, according to some complaints that patch protection by agencies delays or denies access to data.

That leads to the challenge in "low-hanging fruit harvesting" in other parts of the government system and other agencies, including not-for-profits. Certainly, the "investment approach" phrase resonated in discussions I had with various agencies before and shortly after the 2014 election. But it will require cooperation on a scale that has eluded a generation of policymakers and the potential for failure may grow as it expands.

It also logically requires a longitudinal extension. Bill English has begun to talk up intervention in children's very early years, that is, on foundational factors rather than leaving corrective action to the point of entry on to a benefit stage. Intervening in the very early years is likely to prove complex in practice.

If there is not that broader conceptualisation and cross-agency action or if it is suboptimal or slow to develop, critics and sceptics may remain critical and sceptical. And, because included among those critics and sceptics are politicians in a likely alternative government, the next change of government might end the experiment – and with it potentially the whole idea that "investment" is an appropriate way to think about social assistance and other government intervention.

The Welfare Working Group report's title was "Reducing long-term welfare dependency". That is, the working group chose a narrow interpretation of its role and the scope of reform. That narrowness provided fuel for critics and sceptics and enhanced the risk that a future government may abandon the policy.

One logical option to reduce that risk is an incremental widening of the concept and practice of the "forward liability investment approach" into a more general "investment approach", focused on asset building as well as liability reduction, and the application of that approach, again incrementally, to other policy areas – thereby meeting the objections of some critics and sceptics and over time earning credence.

Edwards/Judd did edge in that direction in acknowledging that the modelling so far has not factored in returns in higher tax revenue, health status, lower crime and so on. But that terminology is essentially one of "co-benefits" rather than active investment in building assets – "externalities" rather than intrinsic elements of investment activity.

6. The potential for extending the investment concept

An alternative possibility is that critics and sceptics over time conclude there is value in applying and extending the investment approach and/or that before a change of government the investment approach becomes "normal" in policy and in social assistance programmes. This could be either through the elapse of time or through generating auditable positive results. In that event critics and sceptics may over time begin to look for positives to develop rather than negatives to remove.

They might, for example, see potential in presenting the investment approach or a version of it as legitimising the welfare state. Instead of the welfare state being a palliative for misfortune, associated with dependency and failure, they might present it as a way to improve overall economic welfare and social wellbeing. They might seek to do this by investing in improving individuals' capacity and consequently their earnings and thus to reap a return on the investment in the shape of those individuals' contribution to economic output and taxes and to social output in the form of improved upbringing of their children who in turn contribute more than they would have. They might argue the welfare state could become the "wellbeing state". (*Dalziel 2014*)

In that way the investment approach could be presented as investment in a prosperous and cohesive society. On this reasoning taxes used for realising the potential of as many people as practicable would not be a simple transfer but a ***capital investment for which the return is an increase in net economic and social wealth*** – in short, an asset.

Moreover, once adopted in this way, it could logically be extended to other policy areas. One obvious candidate is the complex of issues in ecosystem maintenance, in the integrity of the natural environment, in water management and in climate change. For example, one way of considering those matters, argued by Paul Reynolds when chief executive of the Ministry for the Environment, is that the natural environment is infrastructure, indispensable for humans' existence (including, as a subset, the economy) and that it is sensible to invest in and maintain infrastructure. That could, for example, encourage policymakers who now see climate change policy as a cost to look instead for opportunities for investing in climate change mitigation to generate an environmental and economic return.

Health policy is now essentially geared to defeating disease and repairing damage resulting from accidents and failure of body parts. If instead there was investment in young people, particularly at-risk cohorts, to reduce accidents and avoidable physical degeneration and prevent mental deterioration, that would reduce a future liability and also build an asset.

In a capitalist economic system the point of investment is to build assets that outweigh liabilities and thus build capital (equity). Is there a compelling reason why governments should not do likewise? Some would argue there is – that governments are notoriously poor investors (the "imperfect" "government projects or decisions" referred to in the draft cost-benefit guide). Others might argue that government decisions well-honed by sophisticated cost-benefit-type disciplines might match capitalists' success rate.

In that way applying a ***"forward assets investment approach"*** could change the mentality of policy advisers and decision-makers and that this would arguably, or at least possibly, be for the better. "Spending" has a wasteful connotation. "Investment" has a constructive connotation. The government could take its full place as a builder of a better and more sustainable society (and, within that, a stronger economy).

7. The over-enthusiasm risks

But that has an almost utopian ring if viewed in a short-term timeframe. There is a ***risk of over-reach*** if a new government advocates extensive social assistance based on rights and which sees a need for fast environmental policy reform based on sustainability. If that generated mistakes and controversy, it would devalue "investment" as the basis for policy.

There is also a ***risk of diversion of funds***, for example from attending to older people's health needs to "investing" in children, ostensibly or actually to reduce the prospect of non-communicable health disorders later in life. To avoid that would need clear differentiation of the investment activity so that it did not come from spending reductions elsewhere. This would be challenging, given the difficulty of quantifying the expected returns.

If either of those risks materialised, a differently composed and disposed subsequent government might well then ditch the whole concept of investment and retreat to a narrow, short-term cost-benefit approach.

8. Practical issues and the logic of incremental development

Even if a "forward asset investment approach" were adopted there would be practical issues.

One is selecting appropriate metrics for measurement of the assets invested in and, if quantification is difficult or near-impossible (as often with "externalities"), choosing the right "proxy" (if there is one) and then in ensuring the proxy has a justifiable correlation with the asset.

Associated with this is the discount rate used to calculate the net present value of a future asset (just as for an intended benefit in a cost-benefit analysis), which may be affected by economic factors and by the timescale of the investment, which may far exceed the 10 years assumed in cost-benefit analysis. What discount rate should be set and whether and how often should it be adjusted and on what criteria?

Judgment as to what is an asset may change over time. Likewise, the prioritisation of alternative investments.

Assembling evidence for major investments intended to extend over long timeframes may require expensive detailed research, including longitudinal studies of the quality and length of the continuing Dunedin Multi-disciplinary Health and Development Unit's study of a cohort born in 1972-73. A range of such studies, starting at different times with different cohorts and covering different factors, may be needed to monitor the assessment of the return on investments and reduce the potential for reckless use of tax revenue.

And there may be a need to establish the counterfactuals noted in the Treasury draft guide to cost-benefit analysis. For example, do some ways of treating criminal offenders add to future liability by hardening their criminality?

And, of course, there is the risk of perverse outcomes or straight-out failure – capitalism is predicated as much on some investors failing as on the many succeeding (creative destruction) and there is only one government.

None of those are easily resoluble. Bill English made the point by implication when he said in a speech on 1 May 2014 that social investment was not applicable to the majority of government policy decisions. "Spending" is much more straightforward.

The risks and difficulties point again to the logic of incremental development. In a long-term timeframe, approached incrementally and learning from mistakes but consistently focused on a strategic future, the "forward liability investment approach" could evolve into a general "forward asset investment approach" with wider application and wider acceptance.

9. The resilience challenge

An additional risk is that of systemic shocks. These can disrupt government programmes and may have special relevance for programmes with a long timeframe, as investments to build assets have.

As the global financial crisis and the government and central bank responses to it in major developed economies demonstrated, a systemic shock can bend trajectories and disjoin relationships (such as between production capacity constraints, inflation and interest rates) in ways that disrupt conventional wisdoms. So can rapid geo-economic, geo-social and geopolitical change, disruptive technologies, wars, famines, pandemics, mass movement of people and other changes in demographic trajectories.

These sorts of uncertainties call for policy resilience, described by Girol Karacaoglu, the Treasury's chief economist, in a recent discussion note as "the capability to withstand sudden shocks, adapt to changing contexts and recover to a desired state ... while preserving the continuity of its operations" (*Karacaoglu 2015, p16*).

Resilience is important for all policy but particularly policy that stretches over longer timeframes, as an "investment approach" necessarily does. Karacaoglu talks of "time-consistent policies" in which "any changes required by new circumstances are consistent with maintaining the original purposes of the policy". (*p8*)

10. Stocks versus flows

Incidentally, Karacaoglu uses the term "investment" in his paper (which presents a stylised model of the Treasury's living standards framework) and in the course of discussing investment he invites a different way of thinking about economic development.

Karacaoglu defines the "object of interest for public policy as intergenerational wellbeing"; describes the source of wellbeing as "comprehensive consumption" which includes "marketed consumption goods as well as others such as leisure, arts, health services and consumption services provided by nature"; and says consumption is sourced from "comprehensive wealth, which comprises stocks of capital assets" which include economic, human, natural and social capital. (*p2*)

The measure of success implied in this approach is not *flows* but the *stocks* that result from the flows: whether those stocks increase or decrease and the impact of stocks changes on potential future flows. Karacaoglu (*p2*) says the "purpose of public policy is to ensure that the wellbeing-generating capacity of capital assets is sustained or enhanced".

This way of thinking is gaining ground in the private sector. One is the International Integrated Reporting Council (IIRC), which has gained traction among global companies, pension funds and some stock exchanges: 750 were reported involved in April 2015. The IIRC issued in December 2013 a framework for companies to report – in their annual reports – their impact on six "capitals": financial, manufactured, intellectual, human, social and relationship, and natural. This built on earlier initiatives such as triple-bottom-line reporting and the 2009 Forum for the Future.

One way of thinking about this is that it is the quantification of externalities (positive and negative). There may be lessons for government policymakers both in traditional cost-benefit analyses and in their extension to an "investment approach".

Thinking in terms of stocks in addition to flows suggests there is a case for taking the "investment approach" beyond voiding a future liability to building assets. It also suggests the Treasury's cost-benefit guide might also be too narrow – not least, to mesh better with its own living standards framework as described by Karacaoglu. That and the IIRC example suggest this thinking could usefully be injected into the Treasury's development of the government balance sheet.

11. Conclusion: an opportunity to think differently

The "forward liability investment approach" has opened a way of thinking about policy and organising service delivery. But it is limited by excluding asset building from the formal calculations of costs (investment) and benefits.

There is therefore a case for enhancing cost-benefit analysis, which the investment approach is a form of, to inject a stronger focus on investing to generate and maintain assets, to develop it into a "forward asset investment approach", initially by paying more attention to co-benefits. There is a case to include among those assets a wider range of "capitals" than financial capital to reflect the full range of personal and social interests, needs, aspirations and objectives.

Most people order their lives around more than the flow of income. The rise or fall in the various "stocks" of personal "capitals" ultimately matter more. The government, as the instrument of people's collective interests, needs, aspirations and objectives, might therefore logically focus on those "capitals". A carefully, incrementally enhanced "investment approach" to a focus on assets could be one way to do that and, incidentally, change policy analysts' and decision-makers' mentality.

So far there is no indication the current government is likely to go that far. Whether a future government might will depend on careful development and expansion of the current limited approach, avoiding the risks of under-enthusiasm and over-enthusiasm.

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Parliamentary Health Committee 2013: The argument for early intervention was strongly and unanimously made by Parliament's Health Committee in "Inquiry into improving child health outcomes and preventing child abuse, with a focus from preconception until three years of age (Volumes 1 and 2) (I.6A)", 18 November 2013, which drew heavily on the rich, highly correlated data from the world-unique Dunedin Multi-disciplinary Health and Development Research Unit's ongoing longitudinal study, now in its 40th year, Inquiry into improving child health outcomes and preventing child abuse, with a focus from preconception until three years of age (Volumes 1 and 2) (I.6A). The committee also took the highly unusual step of commenting critically on 17 April 2014 on a lukewarm government response to its report. See: Briefing on matters relating to the Inquiry into improving child health outcomes and preventing child abuse with a focus from preconception until 3 years of age

Treasury 2015: The Treasury, "Guide to Social Cost benefit Analysis" (The Treasury, March 2015).