

National Accounts that Make Governments More Efficient by Making Them More Accountable

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This is a proposal for improving the way national progress is assessed and new policies are devised. I hope that many influential national governments work towards implementing a new version of national accounts that will make them more accountable and thereby more efficient at producing positive outcomes from scarce resources. I also hope that these national governments set an example that will eventually influence all national governments and supranational organisations. Why is it important for governments to be efficient? Many natural and other resources are at least moderately scarce and so consuming them inefficiently seems unfair to those who could have benefited (or could have benefited more) if the resources were consumed efficiently. The long-term goals of this proposal are simply better processes and better outcomes for all people. This proposal is certainly not a quick fix to all of the world's problems, and neither is it particularly novel. Nevertheless, I discuss it here because I believe it is a vital step in the right direction that only Bhutan has come close to taking.

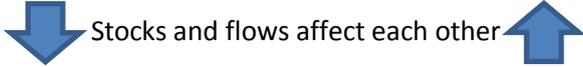
Imagine that you are choosing the foundational principles upon which all of a society's institutions would be based. Imagine further that you have to live in this state, although you do not know what kind of personal characteristics you would have, what your family would be like, or even at what time in the future you would join this society. John Rawls suggested that in such a situation self-interested rational people would choose foundational principles that ensured basic liberties for everyone and would only allow unequal outcomes if they improved the absolute outcomes for everyone in that society, especially the worst off.¹ According to Rawls, this preference for egalitarian foundational principles over purely merit-based or utility maximising principles is self-interested because the choosers' do not know if they will be born with the characteristics to benefit from living in a meritocracy or if they will be born into a group whose liberties are being suppressed for the greater good. So, your lack of knowledge about what position you would enter this society in and what characteristics you would have give you strong reason to ensure that the worst off in society have both their basic liberties protected and equal access to opportunities for more positive outcomes. Furthermore, not knowing *when* you would join this society would make you aware of the importance of choosing foundational principles that ensure a fair share of basic liberties and opportunities for positive outcomes for *all future members* of the society.

For future members of this society to have their fair share of opportunities for positive outcomes, the foundational principles of the society must ensure that the total stocks of natural and other resources are at least as good as those of the current society. There needn't be the same amount (or more) of any one specific resource left over, such as oil, but any decrease in the society's stock of oil should be offset by an increase in some other useful stock, say societal knowledge about energy-generation technologies. Of course, some irreplaceable natural stock, such as the last pristine nature reserve, should not be consumed and offset by any other stocks, except in the most extreme of circumstances. An offset of stock is complete if everyone in the next generation will have at least as much opportunity to achieve positive outcomes as the current generation has.

The positive outcomes I have in mind can be referred to as determinants of wellbeing. Determinants of wellbeing are the components of a good life, the things that make our lives go well for us, the aspects of life that contribute to our welfare or wellbeing. It is a matter of widespread contention exactly what the determinants of wellbeing are. For the purposes of guiding the policies of the ideal society, the determinants of wellbeing should be able to be influenced by policies, and be as mutually exclusive and exhaustive as possible. Discerning whether certain determinants of wellbeing are mutually exclusive of each other is a difficult conceptual task that can be made easier by effectively measuring the potential determinants (as discussed below). It is better if the list of determinants includes more items than fewer since, even if only a small proportion of people currently consider an item to be a component of the good life, that component may be of utmost importance to a minority and it may become more important to a greater proportion of people in the future. So, in the interest of avoiding the marginalisation of minorities and of gathering knowledge that may be useful to guide policy as the values of society develop over time, lists of determinants of wellbeing should be longer rather than shorter. Lists of determinants of wellbeing should include at least the following: basic liberties (political freedoms, freedom of conscience, association, and movement, freedom from arbitrary arrest, etc.), healthcare, education, income, safety, and happiness.

Figure 1: An example of a full national account of stocks and flowsⁱⁱ

STOCKS	Financial & Physical	Human	Social & Cultural	Natural
Examples	Financial wealth	Population	Institutions	Usable land
	Housing	Mental health	Harmony	Climate
	Transport	Physical health	Cultural identity	Air & water
	Systems for economic exchange	Skills	Art	Pristine environment
	Technological infrastructure	Knowledge	Permanent accessible knowledge	Raw materials (timber, oil, etc.)



 Stocks and flows affect each other

FLOWS	Financial & Physical	Human	Social & Cultural	Natural
Examples	Income	Employment	Freedom	Amenities
	Consumption	Leisure	Security	Environmental services
	Production	Education	Crime	
	In-kind services	Subjective wellbeing	Trust	

If I were choosing the foundational principles for my society under the aforementioned conditions, I would require that a body should be responsible for measuring the stocks of resources and the flows of determinants of wellbeing to all members of the society, especially the worst off. Figure 1 (above) shows what a national account of stocks and flows might look like. This kind of accounting would allow members of the society to see how efficient their institutions are. They can observe whether

new institutions have the effect of depleting some stocks without offsetting the loss with gains in other stocks. Members of society can also gain insight into whether institutional changes produce changes in the flows of determinants of wellbeing. Teasing out the effects of specific policies will be very difficult, but staggered roll-outs of policies, continuous and comprehensive measuring of determinants of wellbeing, and careful statistical analysis should produce useful enough information to assess general institutional efficiency and sometimes the efficiency of individual or small groups of policies. This kind of accounting will also help researchers to resolve questions of mutual exclusivity between potential determinants of wellbeing by observing areas of overlap between the potential determinants and recommending refinements of the list of flows to measure in the future.

I would also require that special attention be paid to the flow of determinants of wellbeing to the worst off because the basket of determinants of wellbeing that individuals end up with is at least partly due to circumstances beyond their control (genetics, early environmental influences, etc.). Recall that I would be choosing this principle without the knowledge of whether I would be born into a poor or rich family, or whether I would be strong or have a disability. For this reason, self-interest encourages me to ensure that the progress of a society should be at least partially measured by the access to determinants of wellbeing it provides to its worst off members.

Furthermore, I would require that the measurements of stocks and flows and any information gained about the efficiency of particular institutional regimes or policies be disseminated to a public with extensive political liberties. Only a thorough process such as this this can make a government fully accountable to its citizens. Citizens will finally have a fairly complete idea of how their government is performing in most of the domains of interest to current and future citizens. Not only will the transparency of this process help inform the public, it will also help inform and motivate the government, which in turn will make the government more efficient. Furthermore, academics could improve this process by independently assessing the efficiency of certain policies and by suggesting new stocks or determinants of wellbeing that should be measured.

Finally, I would also stress the importance of measuring subjective wellbeing—how well people think their own lives are going. Some countries have begun to implement widespread measurement of subjective wellbeing, but many others are hesitant. History has shown that measures of subjective wellbeing do not always move with traditional objective measures of progress. So, if we care about how people value their own lives, we could be missing out on important information if we do not collect data on subjective wellbeing. And we should care about how people value their own lives. After all, very few people would join a society if they thought that doing so would cause them to value their lives less. Those who think that it is not their government's role to increase subjective wellbeing should nonetheless permit the measurement of subjective wellbeing for the same reason that flows of natural capital should be measured—many people do care about how efficiently their government manages these resources and they should be able to access information about the effectiveness of this management so that they can be better informed when exercising their political liberties.

How exactly should subjective wellbeing be measured? Just as with the other stocks and flows that need to be measured, academics and policymakers should work together to devise the most robust and cost-effective measurement tools. Academic debates about the best measures of wellbeing still need a few years to mature, but it appears most likely that at least three aspects of subjective

wellbeing should be measured: happiness or satisfaction with life as a whole, the experience of positive and negative emotions, and perceived purpose or meaning in life.

So, the new economic paradigm that we need is full and transparent national accounting, including the provision of information on subjective wellbeing and the worst off in society. If implemented, this kind of national accounting would lead to governments that are more accountable, more efficient, and more just.

ⁱ John Rawls (1971). *A Theory of Justice*. Cambridge, MA: Harvard University Press.

ⁱⁱ Figure 1 partially based on the New Zealand Treasury's Living Standards Framework. Available from: <http://www.treasury.govt.nz/publications/research-policy/tp/higherlivingstandards>.