

# Living Standards, Wellbeing, and Public Policy

New Zealand Treasury

Background Paper for He Tirohanga MokoPuna:  
2016 Statement on the Long-Term Fiscal Position

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THE 2016 STATEMENT ON  
THE LONG-TERM FISCAL  
POSITION**

Living Standards, Wellbeing, and Public Policy

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Any errors of fact or interpretation remain our own.

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# Living Standards, Wellbeing, and Public Policy

## 1 Introduction

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It has been five years since the publication of the Treasury paper that first set out its Living Standards Framework (LSF) (Treasury 2011). Since then, the LSF has become an increasingly central part of Treasury’s strategic direction. Treasury is now explicit about its aspiration to be “working towards higher living standards for New Zealanders” (Treasury 2015a), and the LSF itself has been used across a wide range of Treasury’s policy advising work (Treasury 2015c).

But after five years of implementation and development, there remain questions about what exactly the LSF is and how it ought to, or could be, used by Treasury. The aim of this paper is to provide answers to these sorts of questions. It is intended as an update of Treasury’s 2011 paper, drawing on the rapid developments in the academic and policy literature on wellbeing in the last five years. We argue that the LSF can be understood as a wellbeing framework that articulates, justifies and helps enable the provision of comprehensive economic policy advice that improves wellbeing. The remainder of this introduction clarifies the main claims we will be advancing in this paper.

### 1.1 The Living Standards Framework broadens the scope of Treasury’s economic policy advice

One of the core functions of the Treasury is the provision of economic policy advice to the government of the day, concentrating on areas that have a significant impact on economic performance (Treasury 2015a). Another core function is to evaluate the policies of other government departments. This work draws on a range of expertise in economics, finance, and policy evaluation to ensure that when assessing policy proposals the Treasury can assess the immediate and long-term social costs and benefits of the proposals and compare them to the social costs and benefits of other options, including not implementing a new policy (Treasury 2015b).

This suggests a broad conception of what is meant by ‘economic performance’ – one that is not confined to economic growth and income, but considers a wider array of the things that support New Zealand’s prosperity in a manner that is both sustainable and inclusive. Similarly, ‘economic policy advice’ is broader than just providing assessments of the financial or monetary impact of policies, but involves thinking about economic and social impacts in a wider sense. The LSF is a major part of Treasury’s effort to make this broad, sustainable, and equitable perspective systematic across its policy advice.

The LSF does not replace evidence-based and rigorous policy advice, and it doesn't change the responsibility to provide Ministers with free and frank advice that is both practical and immediate (Treasury 2015c). Rather, the LSF is intended to augment the way that Treasury's policy advice is developed, by encouraging a more structured and comprehensive approach.

Considering Treasury's history, this broadening is not unusual. In its early years, Treasury primarily handled the government's day-to-day financial transactions. In the 1920s it took on the supervision of other department's finances, and oversight of the government's debt. And, in the 1960s the department broadened its focus to economic policy advice.<sup>1</sup> Each of these role-expanding steps also expanded the range of considerations that Treasury had to take into account when formulating policy advice. The recent shift to the LSF fits well with this tradition.

## 1.2 Living standards should be conceptualised as wellbeing

The LSF is a normative framework, which means that it contributes to Treasury's view on which policies should and shouldn't be advanced. There is nothing unusual about this; the provision of policy advice always involves a normative perspective, whether or not that perspective is formally articulated. The core normative goal of Treasury and the LSF is 'higher living standards', and this paper argues that living standards should be understood as wellbeing.

As a concept, 'wellbeing' is meant to denote 'quality of life' and all the ways that life can be thought to go well for individuals and for society. We have chosen to use this term purposefully, although it is similar to other terms which can be interpreted to mean much the same thing. For example, 'wellbeing' has a similar meaning to the term 'social welfare' as it is defined in the sub-discipline of welfare economics. But it is very easy to confuse this meaning with the way 'social welfare' is used to describe policies involving government transfers to citizens (perhaps the more ordinary meaning of the phrase). Similarly, 'wellbeing' can be thought of as 'utility' in the way that it is understood in economics, but the downside of that term is that it tends to bring a very specific set of connotations about rational choice theory and utilitarian moral philosophy which don't cover the totality of the tools that public policy can draw on.

Another reason we choose to focus on the term 'wellbeing' is to provide a clear anchor for Treasury's focus on living standards in the vast array of research on wellbeing and how it relates to public policy. The idea that fiscal and other traditional economic indicators are not enough to evaluate public policies is not new – it is a product of a decades-old international recognition that more than just traditional economic indicators matter for wellbeing, and thereby for public policy.<sup>2</sup> These efforts have led to a proliferation of new ways to assess

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<sup>1</sup> McKinnon (2003) explains this shift, from clerks to accountants to economists, in his history of the NZ Treasury.

<sup>2</sup> This recognition of the limits of traditional economic indicators led to broadening and refining the existing range of economic measures to better capture individual's wellbeing and progress in the quality of life available in nations (Michalos, 2011; Stiglitz, Sen, & Fitoussi, 2009). For many years now, and particularly since the turn of the millennium, academics from several disciplines and various countries, and some civil servants, have been increasingly pushing for these new measures of wellbeing to play more prominent roles in policy creation and assessment (eg, Bok, 2010; Treasury, 2011; Helliwell, Layard, & Sachs, 2012; 2013; 2015; 2016; Kahneman, et al., 2004; Layard, 2005; Michaelson, Abdallah, Steuer, Thompson, & Marks, 2009; O'Donnell, et al., 2014; OECD, 2011; Stoll, Michaelson, & Seaford, 2012).

wellbeing for policy making,<sup>3</sup> some of which we discuss below. This international trend is also reflected in (and sometimes a reflection of) a range of work being done by researchers in New Zealand.<sup>4</sup>

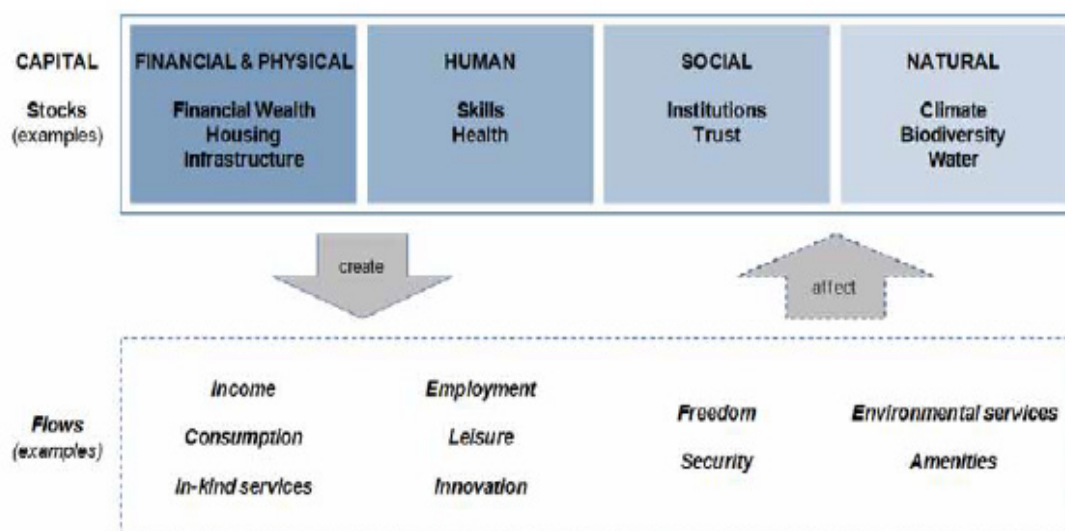
This conception of wellbeing emphasises that in addition to traditional economic measures, such as production, income, wealth, and employment, there exists a range of other important things that matter for individuals and societies. The purpose of the LSF is to help articulate what these are and how they can be actively considered in the development and assessment of public policy.

### 1.3 The Living Standards Framework provides a structure to think about how policy can enhance wellbeing

If 'living standards' are understood as 'wellbeing', then the 'Living Standards Framework' is naturally also understood as a 'wellbeing framework'. Moving beyond broadening the objectives of public policy, the LSF is intended to act as a structure which provides some analytical scaffolding to help bring more breadth and consistency to the difficult task of considering the social costs and benefits of policy proposals.

The specific model that underpins the LSF is that there are stocks of capitals, which produce flows of goods across different dimensions. The capitals affect the range and rate of possible flows, and many of the flows can be used to further increase the capitals. The flows represented in Figure 1 are a (non-exhaustive) sample of the array of instrumental goods that policies might affect. Instrumental goods are things that can be used to make individuals and societies flourish; resources that can provide people individually and collectively with the ability to pursue lives they value.

**Figure 1: Treasury's Living Standards Framework**



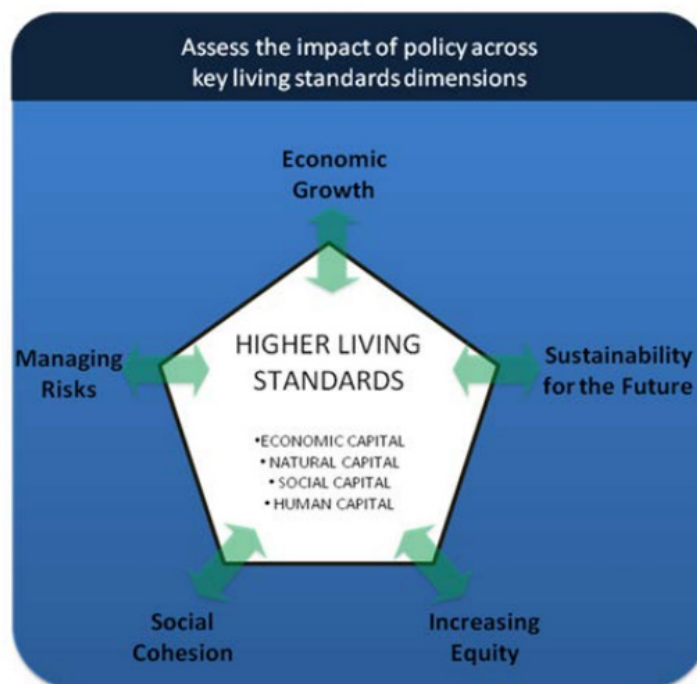
Treasury has also developed an interpretation of the LSF designed to provide more specific guidance to policy analysts. The Living Standards Policy Analysis Tool (LST) demonstrates how policy analysts could focus on dimensions that are amenable to policy influence and are important for the LSF capitals and the ongoing wellbeing of all New Zealanders

<sup>3</sup> Some of these have been devised by national governments (eg, Measures of National Wellbeing in the United Kingdom; Self, Thomas, & Randall, 2012). Others have been in international organisations (eg, the OECD's Better Life Initiative; OECD, 2011) and even not-for-profits (eg, the New Economics Foundations' wellbeing related policy advice; Stoll, Michaelson, & Seaford, 2012).

<sup>4</sup> See, for example, Dalziel and Saunders (2014), Grimes and colleagues (2016), and Jia and Smith (2016).

(Treasury, 2015c). The LST (see Figure 2) shows the LSF capitals and five dimensions of policy interest. The LST is designed to be augmented with specific measures for each of the dimensions (Treasury, 2012; Treasury, 2015c), which should be relevant to the policy being analysed. For example, equity measures for general economic policies could include the percentage of the population below 50% of the median income, and equity measures for educational policies could include the difference in the PISA score<sup>5</sup> between the top and bottom 10% of students.

**Figure 2: A Living Standards Policy Analysis Tool**



#### 1.4 The Living Standards Framework helps to articulate, justify, and enable the broadening of economic policy advice

The rest of the paper expands on the claims we have set out in this introduction. We argue that interpreting the LSF as a wellbeing framework can help to articulate, justify, and enable the kind of shift to a broader range of considerations that Treasury is intending to make in its approach to providing economic policy advice.

Section 2 is about how wellbeing frameworks can help to articulate the objectives of public policy. A concern about the LSF is whether its use for policy making is supported by academic research, and what other policy-based precedents there are for using these kinds of frameworks. In response to this, we outline the main kinds of wellbeing frameworks for public policy, indicating the academic support, strengths and weakness, and policy-based precedents for each. We then explain that the LSF is best understood as a wellbeing framework suitable for underpinning a dashboard approach to assessing national progress (as in the forthcoming Living Standards Dashboard) and a social cost-benefit analysis approach to evaluating specific kinds of public policies (augmented by the LST).

<sup>5</sup> PISA scores are based on the Programme for International Student Assessment, which is a worldwide study by the Organisation for Economic Co-operation and Development in member and non-member nations of 15-year-old school pupils' scholastic performance on mathematics, science, and reading. See: <https://www.oecd.org/pisa/>.



Section 3 is about how wellbeing frameworks help to justify the broadening of advice about economic performance and economic policy. One concern related to this is sometimes expressed as a dilemma; on the one hand, there are worries that the LSF is too vague, and that the refrain of ‘higher living standards’ is more a platitude than a substantive goal. On the other hand, there are worries that if the LSF is taken more seriously, then it may commit the Treasury to too much, leading the institution down an uncomfortable path toward determining social values. In Section 3, we explain why this is a false dilemma; a middle ground exists in which the LSF can be useful for guiding policy without directing it too forcefully. Even in its least detailed form, the LSF encourages the creation of more balanced policies by broadening the scope of cost and benefits usually considered and any useful policy evaluation tool requires some value judgements.

Section 4 is about how the LSF can help enable the shift to broader and more structured policy analysis by encouraging the creation and use of new policy tools that can be practically useful for policy makers. We explore two specific examples of these tools, show how they are consistent with the LSF, and gesture at how continued development of these sorts of policy tools could lead to future practical applications for policy advice in the New Zealand context.

## 2 Support for using wellbeing frameworks to articulate the goals of public policy

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In this section, we argue that there is considerable academic support and policy-based precedent for using conceptually broad wellbeing frameworks, like the LSF, as a way to more clearly articulate the goals of public policy.

### 2.1 Wellbeing frameworks for public policy: One goal or many goals?

It might be suggested that wellbeing frameworks narrow the range of policy goals to one: wellbeing. A simple wellbeing framework could indeed have this one goal, but more would need to be said about what wellbeing consists in before such a framework could guide policy advice. Without this extra detail, policy makers would be tasked with making people’s lives better, without any account of what actually would make people’s lives better. The wellbeing frameworks discussed in Section 2.2 all articulate, or at least imply, a multi-dimensional understanding of wellbeing. But, perhaps there is just one thing that makes our lives go well for us. And, if so, shouldn’t public policies all aim at that one thing? We’ll argue that, even if it’s true that there is only one ultimate good in life, a multi-dimensional wellbeing framework is the most appropriate for policy use.

Even within fairly homogenous cultures, intelligent people do not agree on the main importance of one good, let alone the sole importance of one good.<sup>6</sup> The example of happiness can help explain this. Happiness, understood as feeling good, is a possible candidate for being the one and only thing that makes our lives ultimately go well for us. On this view, money, freedom, relationships, and everything else that seems good for us is only good for us to the extent that they make us feel good. Many people, living in the West, and even more so in other places, do not value this kind of happiness much at all, viewing it as being of little worth, and sometimes even undesirable.<sup>7</sup> Many such people understand happiness to mean something completely different, such as correctly traversing a religious

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<sup>6</sup> See, for example, Carlquist and colleagues (2016).

<sup>7</sup> See Miyamoto and Ma (2011), Joshanloo and colleagues (2014), and Joshanloo and Weijers (2014).



path.<sup>8</sup> A wellbeing framework for public policy should stipulate goals that are widely accepted by the population that they will apply to. So, positing the ‘feeling good’ understanding of happiness as the sole ultimate goal of public policy would be problematic if introduced in the West, and much worse if introduced in many non-western nations.

But what if the vast majority of people in a nation did believe that feeling good was the one and only thing that makes their lives go well? Even in this case, a multi-dimensional wellbeing framework would be more useful for public policy than a uni-dimensional one. Public policies are not magic bullets that directly affect how people feel immediately after they are implemented. Policies require or encourage various actions to be taken in the physical world; health services may be extended, parks may be built, and so on. Using terminology from the LSF, public policies should aim at generating flows of instrumental goods while responsibly managing the stocks that enable those flows.

Given that the end goal – happiness – cannot be directly achieved, providing instrumental goods is the best that policy makers can do. It is also true that people are made happy by different things. As John Locke put it: “Cheese or lobsters . . . though very agreeable and delicious fare to some, are to others extremely nauseous and offensive”.<sup>9</sup> Even if cheese is generally preferred to lobsters, it would be a recipe for disaster if policy makers held only cheese as the goal of public policy. Many people appreciate having both on the menu, and a minority are allergic to cheese. Much better to have as the goals of public policy would be all of the instrumental goods that are amenable to use by people with a diverse range of tastes. Locke understood these instrumental goods as liberties – various freedoms that enable the pursuit of happiness.

Multi-dimensional wellbeing frameworks avoid the need for complete agreement on one good, and are better suited to guiding public policy even if the relevant people do happen to believe there is only one ultimate good (like happiness). Multi- and interdisciplinary research on wellbeing indicates several important dimensions, each of which contributes to most uni-dimensional conceptions of wellbeing (Taylor, 2015; Wren-Lewis, 2013). In diverse societies, not everyone will agree on every dimension of wellbeing, but most people will agree on most of them, and nearly everyone will think that at least one of the dimensions is relevant to their idiosyncratic view of the good life.<sup>10</sup>

Even with a most narrow conception of what ultimately makes our lives go well for us, multi-dimensional wellbeing frameworks are more appropriate for guiding public policy than uni-dimensional ones. Given a more inclusive understanding of the range of things that could ultimately make our lives go well for us, especially given the increasingly multicultural society of New Zealand, relatively broad multi-dimensional wellbeing frameworks are the most appropriate for guiding public policy.

The LSF is consistent with this multi-dimensional approach to wellbeing. The four broad capitals of the LSF can be understood as groups of stocks that tend to generate flows of different instrumental goods. The range of capitals helps to envisage a large range of flows, most of which will contribute to a wide range of good lives. For example, the flows of income and leisure time enable individuals to pursue a wide variety of endeavours in line with their

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<sup>8</sup> While not the dominant view in contemporary New Zealand, religious views of wellbeing are still dominant in many non-western cultures (Joshanloo, 2014) and were dominant throughout most of history in the west (Michalos & Weijers, 2017).

<sup>9</sup> (Locke, 1975: Book 2, Chapter 21, Section 55)

<sup>10</sup> For example, many academics agree on the importance of freedom (political and civil liberties), economic freedom (employment, income, and wealth), health (mental and physical, and life expectancy), education (skills and knowledge), relationships (interpersonal and community, including social trust), governance (government effectiveness, safety, and lack of corruption), and subjective wellbeing (satisfaction with life, net positive emotions, feelings of autonomy and meaning in life). See Helliwell, Layard, and Sachs (2016), Michaelson and colleagues (2009), OECD (2011), Self, Thomas, and Randall (2012), and Stoll, Michaelson, and Seaford (2012).

particular tastes and view of the good life. Some will pursue a part-time extramural degree while others will go fishing, presumably in line with what they think will be best for themselves.

The five dimensions of the LST (economic growth, sustainability for the future, increasing equity, social cohesion, and managing risks) can be understood as issues with high policy salience relevant to promoting wellbeing in an equitable and secure way for present and future New Zealanders. These five dimensions may not capture everything, but they serve as a useful framework for policy analysts considering some of the main ways in which policies might affect the wellbeing-related capitals of the LSF.

## 2.2 The range and strengths of multi-dimensional wellbeing frameworks for public policy

This part of the paper discusses the range of wellbeing frameworks that might be used by policymakers, and indicates some of the strengths and weakness of using them for measuring national progress and assessing specific policies. As mentioned, an increasingly dominant view of academics and policymakers is that economic growth and other traditional economic considerations are generally insufficient for assessing the wellbeing impact of public policies, and should not be the sole measures given increasingly viable alternatives. As such, the question is not whether there is a case to consider more than the traditional economic indicators, but how best to do so and what those additional indicators should be.

Even when a multidimensional conceptualisation of wellbeing is settled on, there exist several different general approaches regarding how to arrange the dimensions into a framework useful for guiding public policy. The most-discussed candidates for that task are: income equivalence methods, composite indices, dashboards, and subjective approaches.<sup>11</sup> Each method is explained and evaluated below.

### 2.2.1 Income equivalence

Income equivalence methods assume that income is a useful metric for evaluating different outcomes, and require the evaluation of all goods through a monetary lens. Overall aggregate measurements, like GDP, are often used, although the monetary metric is adjusted in some ways to account for non-market values. While it might be thought that income equivalence models assume that only income is ultimately good for us, the models can be viewed as being based on multi-dimensional wellbeing frameworks—with the value of many ultimate goods being approximated in the common currency of money.

As a measure of national progress, income equivalence suffers from nearly all of the problems that affect unadjusted measures of national production. Many aspects of people's lives, and goods and activities that contribute to those aspects, are difficult to monetise in a way that captures their general value, let alone the different values they might have for different individuals. Few doubt, for example, that freedom is vital for wellbeing, but the equivalent monetary values of various liberties are difficult to estimate. There are obvious economic costs to not permitting the education of girls and women. Income equivalence models can approximate the economic costs well, but the various mechanisms for approximating the dollar value of more abstract goods, such as feeling free, and not being the subject of oppression, require many assumptions, including some for which are fairly speculative.

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<sup>11</sup> Fleurbaey & Blanchet (2013) provide a useful historical overview of the development of these approaches.

As a day-to-day policy analysis tool, income equivalence models fare quite well. By translating as many of the relevant variables as possible into the common currency used in governmental budgets, policy assessments often result in clear evaluations that are also highly amenable to overall departmental and governmental planning. The useful simplicity of income equivalence models is the counterpart of ignoring the factors that are difficult to monetise. Not many day-to-day policy decisions could result in a substantial loss of freedom, but many decisions will include important potential effects on wellbeing that will be ignored by using a pure income equivalence method.

A common way to use income equivalence as a day-to-day policy assessment tool is via a traditional cost-benefit analysis. Traditional economic factors fit easily into such a cost-benefit analysis, and some other factors are included using ‘willingness to pay’ and other methods. Willingness to pay methods often use either the dollar value people seem to put on the variable in question or the dollar value people claim they would put on the variable, such as if they were asked how much they would pay to keep a national park open to visitors. Willingness to pay techniques have several problems (Adams, 1993; Fujiwara & Campbell, 2011), including the problem that many important factors cannot reasonably be evaluated in this way. In addition to the freedom example mentioned, consider also anything that people haven’t had direct experience with; people can guess, but predicting how much we will like something we know little about is not something that humans are good at.<sup>12</sup>

Even when people’s actual behaviour is used to determine willingness to pay, the results may not provide a reasonable estimate of the value of the good in question. Social psychologists and behavioural economists have documented dozens of ways in which weakness of will and irrationality plague human behaviour in a wide range of circumstances, from saving for retirement, to charitable giving, to evaluating public policies.<sup>13</sup> The simple truth is that one of the key assumptions underpinning the revealed preference method—that people behave rationally—is highly questionable.<sup>14</sup> Importantly, various psychological heuristics and environmental factors influence behaviour in a particular (as opposed to random) way, such that these structural biases make people predictably irrational (Ariely, 2008). For example, when surveyed, most people report understanding the importance to their own wellbeing of starting to save for retirement early. And yet, a large proportion of new employees fail to tick a box on a form to tell their employers to redirect a small portion of their wages to a retirement savings fund, even when employers will match that contribution. Thaler and Sunstein (2008) report that by simply changing the framing of the choice, by automatically signing new employees up for a retirement plan and allowing them to tick a box to withdraw from the plan, only a tiny fraction of new employees would choose to make no contribution to their retirement savings.

In summary, income equivalence wellbeing frameworks can incorporate multiple outcomes as end goals for public policy, but have the shortcoming of favouring outcomes which can be easily translated into a monetary value.

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<sup>12</sup> See: Ayton, Pott, and Elwakili (2007), Gilbert (2006), and Wilson and Gilbert (2003).

<sup>13</sup> See: Ariely (2008), Baumeister and Tierney (2011), Kahneman (2011), and Thaler and Sunstein (2008).

<sup>14</sup> This is true whether rationality is defined as making decisions that should be expected to satisfy one’s deepest desires or as making decisions that should be expected to improve one’s wellbeing.

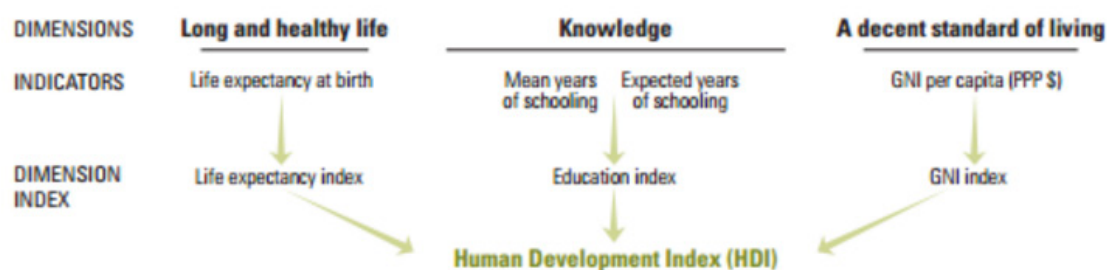
## 2.2.2 Composite indices

Composite indices aggregate different measurement dimensions into a single index, to serve as the main or only indicator. For example, Bhutan's Gross National Happiness (GNH) Index is a composite score derived from nine equally weighted domains, each of which contributes to the four 'pillars of happiness': political, economic, cultural, and environmental.

Much like income equivalence models, composite indices have the advantage of including many potentially important factors into one easy-to-use value. The main downside of composite indices is that their surface simplicity draws attention away from several important and potentially value-laden decisions. The choices about which domains and indicators to use, and how to weight them, can be accused of being arbitrary or as resulting from an effort to determine social values. A notable practical concern with composite indices occurs when the government can adjust weightings of domains and indicators as they see fit. One commentator has accused the Bhutanese government of doing just this; changing the weight of some indicators to ensure that GNH rose, rather than fell, between reports (Givel, 2012; c.f. Morrison & Weijers, 2012, p. 53).

The most well-known composite index that is based on a wellbeing framework and designed for use by policy makers is the United Nations Human Development Index (HDI).<sup>15</sup> The underlying wellbeing framework for the HDI is that three dimensions contribute equally to the capability to live well: A long and healthy life, knowledge, and a decent material standard of living. A sub-index, based on one or two indicators, is created for each dimension, and the mean of these sub-indices is used as the composite index (see Figure 3).<sup>16</sup>

**Figure 3: The United Nations Human Development Index<sup>17</sup>**



The HDI is not intended to be exhaustive of all of the dimensions that enable human flourishing, nor is it intended to capture all policy-relevant considerations, such as equality and sustainability. The simplicity of the HDI makes it possible to record data for nearly every nation. This wealth of data enables nations to compare their progress with others, potentially enabling discussions about why a particular nation improved its HDI score while another similarly situated nation did not. But this simplicity also has its costs. Freedom of speech, religion, and association might be considered vital for achieving our particular view of the good life, but they are not even indirectly represented in the HDI. Furthermore, the equal weighting afforded to each dimension seems arbitrary in a way that raises the question of why the dimensions are aggregated at all.

<sup>15</sup> See <http://hdr.undp.org/en/content/human-development-index-hdi>

<sup>16</sup> See the technical report for a more detailed explanation:  
[http://hdr.undp.org/sites/default/files/hdr2015\\_technical\\_notes.pdf](http://hdr.undp.org/sites/default/files/hdr2015_technical_notes.pdf)

<sup>17</sup> <http://hdr.undp.org/en/content/human-development-index-hdi>

Both the GNH Index and the HDI are broader measures of national progress than traditional income or production measures, which allows them to capture more of the goods that are instrumental to wellbeing. However, they both demonstrate an issue with composite indices; policymakers would face the dangerous dichotomy of weighing the dimensions arbitrarily, or by fiat—effectively determining social values. An interesting solution to this issue would be to have the public rank a broad range of policy goals (such as the range suggested by the Better Life Index<sup>18</sup>), and have the index weight each dimension accordingly.

For use in assessing specific policies, composite indices like the HDI will usually fail to offer any concrete advice because the measures used to populate the various dimensions will not be directly relevant to the policy issue in question. Nonetheless, if the composite index incorporates many dimensions and related indicators, then the range of potential impacts considered could broaden as policy analysts developed a habit of thinking through how each dimension might be affected.

So, as wellbeing frameworks, composite indices have multiple goods as the end goals of public policy, but stipulate the proportion of ultimate value that each of the goods provides for wellbeing. Furthermore, any goods left out of the framework are essentially stipulated to have no ultimate value for wellbeing.

### 2.2.3 Dashboards

Dashboard approaches to operationalising wellbeing are similar to composite indices, except that they do not try to aggregate across the dimensions of wellbeing. Instead dashboards present a score or set of scores for several dimensions of wellbeing. In the United Kingdom (UK), the Office for National Statistics (ONS) produces Measures of National Wellbeing and presents them following a dashboard approach. The most recent release of the Measures of National Wellbeing includes ten dimensions and reports on 43 indicators (UK ONS, 2016a).<sup>19</sup> Statistics New Zealand also produces a dashboard of national progress that has three main dimensions (social, economic, and environmental) and three cross-over dimensions (social-economic, economic-environmental, and social-environment) with sixteen sub-dimensions, and multiple indicators chosen from a bank of 85.<sup>20</sup> Similarly, the Organisation for Economic Cooperation and Development (OECD) wellbeing framework used in its How's Life report (shown in Figure 4) uses 11 outcome dimensions and four capital stocks derived from the 2009 report of the Stiglitz, Sen, and Fitoussi Commission.

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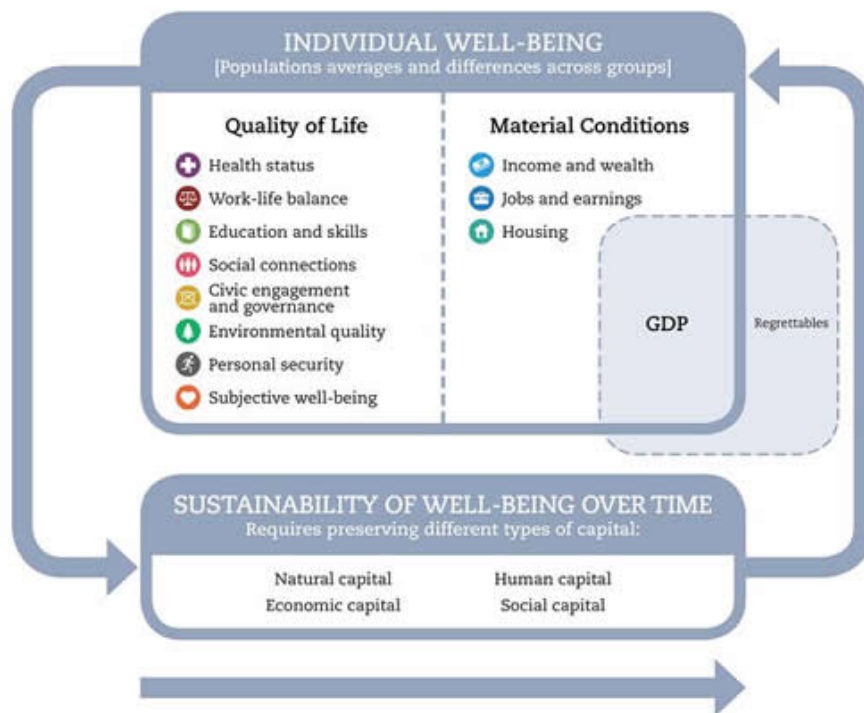
<sup>18</sup> The Organization for Economic Cooperation and Development's Better Life Index website allows users to adjust the weighting of several dimensions and compare which OECD nations perform the best on that specific index (<http://www.oecdbetterlifeindex.org/>).

<sup>19</sup> The indicators reported on in the most recent Measures of National Wellbeing have changed since the first report in 2012. Apparently, the differences are mainly based on which data are available in the relevant reporting years (UK ONS, 2016b). The New Zealand Social Report takes a similar approach, looking across 10 outcome domains that are largely the same as those used by the ONS (<http://socialreport.msd.govt.nz/documents/2016/msd-the-social-report-2016.pdf>).

<sup>20</sup> The progress indicators are described by Statistics New Zealand as "satisfy[ing] a growing demand for measures of societal progress that incorporate all areas of life." [http://www.stats.govt.nz/browse\\_for\\_stats/snapshots-of-nz/nz-progress-indicators/Home/About.aspx](http://www.stats.govt.nz/browse_for_stats/snapshots-of-nz/nz-progress-indicators/Home/About.aspx). The set of domains included, and the justifications given for the implementation of the indicators, suggest that this is not explicitly a wellbeing framework. Instead, it would be best described as a tool for assessing how New Zealand is progressing in a number of domains of interest to New Zealanders.



**Figure 4: The OECD Framework for Measuring Wellbeing and Progress**



Source: OECD, 2013

The LSF is similar to the OECD's wellbeing framework. Figure 4, shows that the OECD's framework uses nearly identical capitals to the LSF, and that many of the outcome dimensions are flows in the LSF.

Two key considerations for constructing a dashboard-based wellbeing model are: how much information to include on the specific indicators underpinning each domain, and whether to aggregate scores for each domain.<sup>21</sup> The UK ONS' Measures of National Wellbeing takes a very informative and non-aggregative approach; every indicator is listed individually with no attempt to provide scores at the domain level (UK ONS, 2016a). By taking this approach, the model becomes highly transparent, avoiding most of the concerns mentioned about composite indices above. The main drawback of a highly informative and non-aggregative dashboard approach is the final product could be highly complex and not easily accessible to non-specialists. Through clever graphic design, the UK ONS have managed to minimise this worry while also including an indication of whether each indicator has improved, remained the same, or worsened over the last period of measurement (UK ONS, 2016a).

<sup>21</sup> There are other important considerations. A third important consideration is whether to include one indicator from each domain to act as headline indicators. While headline indicators increase the ease with which the results of the model can be ascertained, the problems of losing information and deciding which indicators deserve to be headliners need to be seriously considered. For a defense of headline indicators by the New Economics Foundation in their Five Headline Indicators for National Success, see Jeffrey and Michaelson (2015). A fourth is whether to include subjective indicators, which is discussed in the next sub-section. A fifth is the extent to which the domains and measures allow comparison with other nations and previous years of the host nation. More detail on these issues can be found in these documents about Israel's effort to create a dashboard wellbeing framework for public policy: One published by the Israeli government (<http://www.sviva.gov.il/English/Indicators/Documents/Wellbeing-Indicators-for-Israel-April2014.pdf>) and the other by the OECD (2016).

Many wellbeing researchers argue that a dashboard approach fits best with theoretical conceptions of wellbeing, and is the most useful for policymakers.<sup>22</sup> It has been argued that some commonly discussed dimensions of wellbeing are statistically independent from each other, such that increases in one domain of wellbeing aren't always mirrored in the other domains.<sup>23</sup> For example, although health status and income are somewhat correlated, they are conceptually and empirically distinguishable. The likely existence of factors that will improve health but not income, and vice versa, means that some policies could have the effect of improving health but not income, and vice versa.<sup>24</sup> Furthermore, the fact that different people, even within the same nation, have different ideas about what makes their lives go better<sup>25</sup> highlights both the importance of multidimensional conceptions of wellbeing and the problem of giving weights to those domains in order to create a composite index. So, a dashboard approach to conceptualising and measuring wellbeing is preferable to a composite index because it is more transparent and does not face as many 'arbitrary vs. determining social values' dilemmas. This all makes dashboard wellbeing frameworks excellent for assessing national progress. However, as tools for assessing specific policies, it is not as clear cut how well they fare.

Dashboard approaches do not make the final step to an overall index, or a common currency, so they do not always produce clear evaluations when used to assess policies. As mentioned, income equivalence approaches attempt to put a dollar figure on all of the potential outcomes of the proposed policy. In this way, it is often clear whether the policy is good value for money. In defence of dashboards, it might be suggested that it is a virtue of the approach that it does not assign a monetary value to the various outcomes. We already suggested that the methods for assigning a dollar value to more abstract goods are problematic, not least because they can obscure important questions about what value these abstract goods have for various people. Dashboards highlight the range of important considerations, and assign values to indicators or sub-dimensions that can be compared to the equivalent values scored by other potential policies. At this stage, policy makers may be faced with making a choice between various goods, a choice that will effectively entail determining social values. To avoid this, there should be some politically established ordering or weighting of values. Fortunately, there are several options for achieving this.

Often, the government of the day dictates the ordering or weighting of the values relevant to particular policies. In a representative democracy, the government of the day is probably entitled to make these judgments on the basis that it was elected, presumably at least partially on the basis that some values would be given more weight than others. But, there are other methods available for establishing weights for different instrumental goods. Au, Coleman, and Sullivan (2015), presented multiple pairs of trade-offs to New Zealand citizens, all related to policy issues about retirement. The data can be used to make fairly precise orderings of preferences for each participant, and for larger groups. The method usefully avoids some of the issues with abstract stated preference approaches because the many individual decisions are about fairly specific trade-offs. Other methods include wholesale regular surveying of stated value preferences, and the subjective wellbeing

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<sup>22</sup> Recent examples include: (Forgeard, Jayawickreme, Kern, & Seligman, 2011; Hicks, Tinkler, & Allin, 2013).

<sup>23</sup> See: (Hone, Jarden, Schofield, & Duncan, 2014; Huppert & So, 2013; OECD, 2013; UK ONS, 2011).

<sup>24</sup> The same could be said for perceived meaning in life and happiness; they are somewhat correlated, but they are conceptually and empirically distinguishable, and appear to have many non-overlapping causes (Baumeister, Vohs, Aaker, & Garbinsky, 2013).

<sup>25</sup> See, for example, Carlquist and colleagues (2016).



approach, which is discussed in Section 4. With any of these augmentations, dashboard wellbeing framework approaches to assessing public policies could work fairly well.

So, as wellbeing frameworks, dashboard approaches have multiple goods as the end goals of public policy, but do not include a metric for calculating their relative contributions to wellbeing. Furthermore, any goods left out of the framework are essentially stipulated to have no ultimate value for wellbeing.

#### **2.2.4 Subjective approaches**

Some wellbeing researchers are enamoured of conceptions of wellbeing that focus on subjective indicators instead of, or alongside, more traditional objective measures of wellbeing. Richard Layard, one of the most prominent proponents of the use of measures of subjective wellbeing for public policy, recommends that “quality of life, as people experience it, ought to be a key measure of progress and a central objective for any government” (Layard, 2011). Similar views are held by Derek Bok (2010), Ed Diener (2011), Bruno Frey (2008), and the World Happiness Report team (Helliwell, Layard, & Sachs, 2016). At the heart of the case in favour of subjective measures of wellbeing is the worry that objective indicators may never fully capture how people’s lives feel to them on the inside; someone might be wealthy, well-educated, and physically healthy, but at the same time, she might be entirely miserable. While adding further domains to a dashboard might partially mitigate this worry, it seems possible to add a long list of non-objective policy goods to the previous list and for the person to still not be happy.

There is also considerable public support in some nations for what is perhaps the most salient subjective state<sup>26</sup> – happiness – to be a key goal of public policy. For example, in a 2005 BBC opinion poll, 1001 participants were asked whether the government’s main objective should be the “greatest happiness” or the “greatest wealth” with 81% reporting that happiness should be the main goal (Easton, 2006, np). This result resembles an unscientific poll taken on The Economist’s website during a debate between Richard Layard and Paul Ormerod, in which the motion “new measures of economic and social progress are needed for the 21st-century economy” (using happiness science to inform policymaking was the focus of the debate) received 83% of the support from the online audience (of unspecified size). In another poll, economic measures such as GDP were endorsed as a measure of national wellbeing by just 30% of respondents (n = 6,870), compared to 79% endorsing ‘life satisfaction’ as a measure of national wellbeing (UK ONS, 2011).

Subjective measures of wellbeing usually ask respondents to report on their life as they experience it, such as the frequency of positive feelings last week or an evaluative judgment about how their life as a whole is going. Life satisfaction questions, such as “All things considered, how satisfied are you with your life?”, are especially popular with economists and policy-makers, most likely because of their broad applicability and conceptual affinity with the ‘utility’ of welfare economics. Other measures of subjective wellbeing seem to have little or no direct connection to happiness—they may ask for evaluative judgements with particular domains of life, such as satisfaction with relationships, perceived ease of access to amenities, or the extent to which one’s life is being lived in line with one’s values.

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<sup>26</sup> Happiness is best understood as a subjective state, in the sense that we are the best judges of our own happiness (Layard, 2005; 2010; Lyubomirsky, 2008; Veenhoven, 2002).

There are several worries about subjective measures of wellbeing being used to guide public policy. Some worries about biased responses to subjective wellbeing surveys are relatively unfounded from the public policy perspective. Assuming large numbers are surveyed, the surveys are carefully crafted, and some surveys are longitudinal, the vast majority of bias will cancel itself out or be identified and corrected for. But, there is a more pressing worry. Even ardent supporters of measures of subjective wellbeing, such as Daniel Kahneman, have expressed concern that they may not be sensitive enough to the levers of policy, resulting in reports in which the signals are drowned out by the noise.<sup>27</sup> The short response here is that academics and policy makers have been hard at work dealing with these issues to the extent that many researchers and policy makers will endorse the use of subjective measures of wellbeing in at least some contexts.<sup>28</sup>

Of course, the usefulness of subjective wellbeing for guiding public policy does not entail that a fully subjective wellbeing framework would be a good guide for public policy. While how our life feels to us on the inside should have some importance, problems arise for policy making if we give it sole importance. Some people have very peculiar preferences. Others have very common preferences, but are very hard to please. Someone might be very satisfied with his life, but only because the crumbling economic and social infrastructure of our nation has not yet impacted on his reclusive lifestyle. Using Alex Michalos' terminology, when external conditions are bad, and people's mistaken perception of the conditions causes them to feel good, and act inappropriately, we can describe the situation as the Fool's Paradise.<sup>29</sup> Much better, would be a Real Paradise, in which accurate reflection on excellent external conditions creates positive subjective states in people.

Many philosophers have argued that considering a hypothetical scenario about an 'experience machine' clearly demonstrates that some things in life are more important than positive experiences.<sup>30</sup> Robert Nozick (1974; 1989) invites readers to imagine a machine that provides them with a life full of happiness in such a way that they never realise they are living a fake life. Disregard any responsibilities they might have to others in the real world. Should readers choose to permanently connect to such a machine, foregoing their real life for a life of machine-generated happiness? Nozick (1974; 1989) argues that people's reluctance to connect to such a machine for the rest of their lives reveals that more than our experiences (subjective states) matters to us; that there is something about a life lived in close contact with reality that is more valuable to us than how our experiences feel on the inside.<sup>31</sup>

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<sup>27</sup> See Jarden (2011) on Kahneman's view. See Johns and Ormerod (2008) for criticism of subjective measures of wellbeing based on this worry, and Turton (2009) in response.

<sup>28</sup> The OECD have produced a comprehensive manual on how and why to measure subjective wellbeing for policy and national progress purposes (OECD, 2013). The UK ONS have also published the results of their major investigation of measures of subjective wellbeing for public policy (UK ONS, 2011). Krueger and Stone (2014) provide a brief survey of the current state of the measures that are useful for assessing subjective wellbeing for policy. The science is now at the stage where although some concerns remain, using subjective measures of wellbeing for public policy is well-supported (eg, Bok, 2010; Diener, 2006; 2011; Diener & Scollon, 2003; Frey, 2008; Frey & Stutzer, 2007; Helliwell, Layard, & Sachs, 2016; OECD, 2011; Seligman, 2011; UK ONS, 2011).

<sup>29</sup> See, for example, Michalos and Weijers (2017).

<sup>30</sup> See, for example, Tiberius and Hall (2010), or, for a fuller list of those using the argument in this way, see: (Weijers, 2014; Weijers & Schouten, 2013).

<sup>31</sup> Recent empirical work on experience machine thought experiments reveals that many people actually would connect to a suitable machine, indicating a preference for fake but highly pleasurable experiences over average but real experiences (Weijers 2014). Further research is required, but there may be a cultural shift towards valuing experiences, regardless of their veracity. If this shift is occurring, virtual reality and augmented reality games may be both a symptom and a driver of it.

Subjective wellbeing frameworks seem somewhat problematic for guiding public policy, at least on their own. A much more useful approach would be to incorporate subjective measures of wellbeing into a dashboard wellbeing framework. Including subjective and objective wellbeing indicators in a dashboard framework is the clearest way to signal that a Real Paradise is the goal, and not just a Fool's Paradise.<sup>32</sup> Both the UK ONS' Measures of National Wellbeing and the OECD's Framework for Measuring Wellbeing and Progress combine objective and subjective measures. Hicks, Tinkler, and Allin (2013) also explain how to incorporate subjective wellbeing indicators into a dashboard wellbeing framework.

So, used to compliment dashboard wellbeing frameworks, subjective approaches include people's positive feelings and judgements as being among the end goals of public policy, but do not include a metric for calculating their relative contributions to wellbeing. If one of the subjective measures is global in nature, such as a life satisfaction indicator, then on the assumption that all potential goods will have some effect on life satisfaction, this method can take a broader range of wellbeing-related goods into account than the other methods mentioned in this section.

### 2.3 The LSF can underpin a dashboard wellbeing framework for national progress and a broad approach to social cost-benefit analysis

The four broad capitals of the LSF—economic (financial and physical), natural, social, and human—are best understood as groups of goods that tend to produce flows which contribute to various components of wellbeing. The LSF is not a dashboard because it doesn't include measures or indicators that are specific enough to infer the obvious measures to use. However, if the flows were fully enumerated, and both the flows and the capitals had associated measures, then the LSF would be a dashboard wellbeing framework. And, like the OECD's Framework for Measuring Wellbeing and Progress, it would be designed with guiding public policy specifically in mind.

In addition to not being a dashboard, the LSF is not currently a very useful model of national progress. However, further elaboration and operationalisation of the LSF, including the addition of more flows that are clear contributors to wellbeing, could make it very useful as a model of national progress.

The LST can be understood as a tool for encouraging policy assessors to consider a wide range of policy-related factors relevant to promoting wellbeing in an equitable and secure way for present and future people. In particular, the LST focusses on five policy-apt dimensions (economic growth, sustainability for the future, increasing equity, social cohesion, and managing risks) related to the four capitals of the LSF. The LST is also not a dashboard because it doesn't include stipulated measures. By design, the LST should be operationalised in each instance of policy assessment by including the most timely and relevant measures available.<sup>33</sup> While this might seem like a weakness, consider a fully specified dashboard wellbeing framework for day-to-day policy analysis. The UK ONS' 2016 Measures of National Wellbeing includes 43 indicators, but not one on water quality. So, if policy analysts were limited to those 43 indicators, an analysis of an inland waterways restoration project would report few, if any, tangible benefits.

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<sup>32</sup> Or a Real Hell (which is when people accurately assess and feel miserable about their objectively terrible living conditions).

<sup>33</sup> Treasury has also recommended that new dimensions be introduced as and where necessary (2015c).

The only possible weakness of not stipulating measures for day-to-day policy making is that stipulating measures at least inspires the collection of data for those indicators. In New Zealand, many policy analysis situations will be hampered by a lack of reliable data for indicators that are required for the kind of broad assessments that the LST attempts to encourage.

The LST is best understood as encouraging broader and more structured social cost-benefit analyses of public policies.<sup>34</sup> The nature of much of Treasury's day-to-day policy advice is assessing the relative merits of similar policy proposals against specific goals set out by the government and the general goal of sustainable and equitable wellbeing set out by the LSF. As such, it is not always necessary to use a common currency, as the income equivalence approach does. The values that cannot be monetised in a social cost-benefit analysis can instead be presented alongside the overall dollar value associated with each policy proposal, and the value-based decision that remains can be made politically.

So, assuming the required data are available, the LST could effectively encourage broad and rigorous policy assessments. The five dimensions are particularly useful for policy analysts at Treasury because economic growth, sustainability for the future, increasing equity, social cohesion, and managing risks are all topics that are essential in assessing the types of issues that make up much of Treasury's day-to-day work.

### 3 The Living Standards Framework can usefully guide public policy without determining social values

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Now that we have a clearer conception of what the LSF is, we can address a supposed dilemma it faces. On the one hand, there are concerns that the LSF is too vague, and that the capitals and dimensions of the LSF and the LST may be mentioned in the footnotes of policy proposals and assessments, but they will not substantively affect policy decisions. On the other hand, there are concerns that if the LSF is taken more seriously, then it may commit the Treasury to too much, leading the institution down an uncomfortable path toward determining social values.

#### 3.1 The LSF helps make the goal of 'higher living standards' more substantive and attainable

The first horn of the dilemma is that the LSF isn't sufficiently concrete and so is unlikely to substantively change policy assessments. On the understanding that the day-to-day policy analysis version of the LSF – the LST – has no stipulated measures, policy analysts may be reluctant to pay more than lip service to the less-traditional LST dimensions of sustainability, increasing equity, social cohesion, and managing risks. Lack of experience with, and tools for, these domains might mean that a more traditional cost-benefit analysis process is followed, except that phrases like 'possibly some equity concerns' might appear in a footnote alongside the verdict.

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<sup>34</sup> Social cost benefit analyses often assess the costs and benefits of policy proposals using a range of measures, including: traditional economic data, data on natural, human, or social capitals converted into monetary values using willingness to pay and related techniques, and perhaps some difficult-to-monetise indicators listed by, but not directly involved in, the cost benefit calculation (Treasury 2015b).

In many ways this paper is a step towards addressing this critique. Section 2 outlined a range of ways in which the LSF could be operationalised in order to make its use easier, on the basis of a range of international precedents. And the Treasury has already given some examples and general advice on how the LSF and LST could be used (Au & Karacaoglu 2015; Treasury 2012; 2015c), and we sketch out a couple more examples in Section 4 of this paper.

On the whole it is suffice to say that there is a role to be played by the Treasury in taking the lead to demonstrate how to include a broad range of considerations when creating and assessing public policy. Given enough continuous pressure and the availability of good tools and exemplars, the less-traditional LST dimensions could become far more than occasional footnotes in the record of policy analysis in New Zealand.

### 3.2 The LSF does not determine social values

Whether the LSF forces policymakers to ‘determine social values’, can be seen as a question of political philosophy. Given that frank policy assessment usually contains recommendations, the work of Treasury necessarily involves some normative commitments. If public policies are to be usefully compared, then various costs and benefits have to be given some value. Deciding how to attribute value to a diverse range of costs and benefits, and what costs and benefits to consider in a cost benefit analysis, also includes making value judgements about what deserves evaluation and how that evaluation should be performed. In this way, whenever Treasury’s analysts create policies, give policy advice, or assess policies, they are implying the endorsement of normative commitments, even if they are simply following the precedent set by some earlier normative commitment.

A related concern is that when various government departments do begin using the less-traditional dimensions of the LST, it will be because certain policy makers are attempting to make their favoured policies appear more viable than they should. Treasury already publishes a guideline on the reasonable use of social cost-benefit analyses (Treasury, 2015b), in which methods for dealing with high levels of uncertainty, and various methods to evaluate difficult-to-assess outcomes, are addressed. Abuses of the LST in this way are likely to violate those guidelines. Furthermore, such violations are likely to be identified during external assessment of policy, preventing the overzealous policy maker from determining social values.

On the other hand, a very detailed social cost benefit analysis, with carefully considered expected value ranges, might demonstrate that the government really should consider the policy proposal, and perhaps precisely because it is, on this broader view, in the best interests of all New Zealanders, now and in the future. So, there is no clear reason to think that broadening the scope of policy analysis, in the way that the LSF and the LST do, is likely to allow the personal values of policy makers more influence over policy than they have currently. The basic criteria for assessing policies will remain the same, there will just be some cases in which a broader set of dimensions will be assessed. More theoretical versions of the ‘determining social values’ critique are discussed below.

Nevertheless, as much as the LSF and any version of the LST are attempts to guide Treasury’s policy analysis, it might be suggested that policymakers will do *more* in the way of determining social values than they otherwise might. However, by assessing the LSF through the lens of an old debate in political philosophy, we can see how using the LSF to guide public policy seems *less* likely to determine social values than many other methods.



In the traditional debate between ‘resource-based’ and ‘welfare-based’ theories of justice, resource-based theories of justice are primarily concerned with the just distribution of the primary goods generally thought to be required for a broad range of conceptions of wellbeing, such as income and employment (Daniels, 1990). In contrast, welfare-based theories of justice are concerned with the just distribution of wellbeing itself, such as life satisfaction and net positive feelings. Wellbeing-based policy analysis tools inspired by resource-based theories of justice can be thought of as assessing the comparative value of public policies on the efficiency with which they produce *contributors to wellbeing*. We’ll call them ‘contributor tools’. Wellbeing-based policy analysis tools inspired by welfare-based theories of justice, on the other hand, can be thought of as assessing the comparative value of public policies on the efficiency with which they produce *components of wellbeing*. We’ll call them ‘component tools’.

Comparing wellbeing contributor tools with wellbeing component tools, contributor tools are less likely to have the effect of determining social values. Component tools stipulate the desired wellbeing outcome or outcomes in order to assess public policies. When the desired outcomes of public policy are set in this way, then the Government’s social spending is set on a particular conception of wellbeing. Determining social values in this way is only unproblematic if everyone agrees on the desired outcomes set in the component tools. As discussed above, widespread agreement on the main importance of one or a few components of wellbeing seems unlikely, even among intelligent and well-educated people.<sup>35</sup> For example, devoutly religious people, for whom wellbeing has little to do with earthly satisfactions, hold a very different view of what ultimately makes lives go well for the people living them compared to the completely earth-bound view of secular humanists. Rawls argues that, due to globalisation, and the attendant intermingling of various cultures and religions, these differences do not appear to be fading away over time (Rawls, 2005). So, stipulating the end goals of public policy, like component tools do, seems likely to determine social values in favour of the dominant group in a nation, quite possibly at the expense of minorities.<sup>36</sup>

As mentioned earlier, the LST is designed to encourage the consideration of a broader range of *contributors to wellbeing*, not components of wellbeing. The flows outlined in the LSF and the dimensions of the LST all plausibly contribute to a wide variety of candidate components of wellbeing for current and future New Zealanders.<sup>37</sup> The best way to understand the way in which the flows of the LSF, and the indicators that might be used for

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<sup>35</sup> Recent empirical studies show that despite some convergence on the importance of relationships and inner harmony, lay understandings of happiness, satisfaction, and wellbeing vary cross-culturally (Delle Fave et al., 2016; Joshanloo 2014; Joshanloo & Weijers 2014) and within cultures (Carlquist et al., 2016).

<sup>36</sup> One potential definition of wellbeing that many people could agree on is life satisfaction—the best life for me is the life that I judge to be most satisfactory. This may sound like a fairly empty definition; it doesn’t tell us much specifically about what policy makers can do to improve people’s lives. However, as mentioned above, it can be operationalised with simple survey questions. The main criticism of understanding wellbeing as being satisfied with life is that people’s standards for what counts as satisfactory seem to play too important a role for this to be the main goal of public policy (Haybron, 2011). Consider a happy slave; it is possible that some people are satisfied with their lives because they do not know how good their life could be if they lived in a different context. Referring again to Michalos’s terminology, someone could be satisfied with terrible external conditions, making their life a Fool’s Paradise, which seems much worse than a Real Paradise. Helping people to avoid a Fool’s Paradise is one of the main reasons for Sen including knowledge in the HDI. Knowledge helps us to evaluate our standards and choose our goals, as well as to more effectively pursue and achieve them.

<sup>37</sup> Some people may view some of the LSF flows, or some of the indicators specified in a particular version of the LST, as components of wellbeing, rather than contributors. This is not a problem because Treasury is still not stipulating that the contributors are components; people are deciding that for themselves. Therefore, this is not a way in which the LSF or the LST determine social values.

the LST, contribute to wellbeing is to understand them as enhancing people's capabilities. On Sen's view (1987; 1993; 1999), capabilities are real freedoms to function in ways that contribute to their wellbeing. Understanding the policy goals set out by the LSF and the LST as capabilities is the clearest way to demonstrate that the particular components of wellbeing are left to individuals to decide for themselves. Section 4 unpicks the capabilities approach in more detail and discusses a way in which this idea can find practical application.

While the relevance of economic growth to wellbeing oriented public policy might not be in dispute, the importance of some of the LST's dimensions might be less obvious. Social cohesion, for example, allows people to effectively participate in various kinds of interactions with other people, including economic, educational, and social interactions. The opportunity to participate in economic and educational interactions clearly promotes a broad range of potential contributors to wellbeing, but perhaps the value of (non-economically productive) social cohesion is less clear. Trusting the institutions that have power over you, and the intentions of the people that live around you can have important effects on the degree to which people judge their lives as going well (Helliwell, 2006). And, much philosophical<sup>38</sup> and psychological<sup>39</sup> research on wellbeing identifies friendship as an important contributor, or an important component, of what ultimately makes our lives go well for us. Governments can't force us to be friends or to trust one another, but they can take into account the effects on social cohesion that might result as a consequence of implementing a new policy.<sup>40</sup>

Perhaps the main misunderstanding of the LSF and the LST envisages them enforcing a greater number of substantive value commitments than other policy analysis tools. This is simply not the case. The LSF and LST merely encourage a methodological change, which amounts to a broader and more thorough analysis, one that considers a wide range of potential contributors to wellbeing and how they might interact to affect people's chances of being able to pursue their own view of the good life. It might be suggested that Treasury has always attempted to consider a wide range of potential contributors to wellbeing in its analyses.

The LSF and LST encourage analysts to be more systematic and evidence-based in considering the same range of issues that have often featured in policy analysis, but usually in an ad-hoc or anecdotal fashion. When the LSF recommends broadening the range of considerations when assessing public policy proposals, it is not attempting to determine social values by favouring any particular conception of wellbeing. This stands in contrast to component tools, which come much closer to determining social values by including some stipulated components of wellbeing, but not other potential components, in policy calculations. The capitals and dimensions of the LSF and LST are all direct contributors to many widely accepted components of wellbeing, and are plastic enough to be indirect contributors to most reasonable components of wellbeing.

The flexible approach embodied in the LSF also has the advantage of being able to support specific policy tools for which the dimensions of interest are set by political means. For example, the key policy assessment dimensions could be voted on by the public, either directly or through parliamentary representatives campaigning on a platform of promoting a particular set of dimensions. Policy tools that specify particular conceptions of wellbeing, such as component tools, may not be able to accommodate as wide a range of dimension

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<sup>38</sup> This holds whether they follow an Aristotelian conception of wellbeing as flourishing or not (Fletcher, 2013; Ryff, 1989).

<sup>39</sup> See Demir (2015), and for the opposite relationship—loneliness is a very strong predictor of low subjective wellbeing—see Vander Weele, Hawkey, and Cacioppo (2012).

<sup>40</sup> See Sachs (2015) for more detail on social capital and some policy-related suggestions for improving social capital.



choices as the LSF. Imagine that a new park is planned for a city. The new park could facilitate exercise, social interaction, nice views for city dwellers, and the development or protection of native plants and animal species, but not all of these things. As a contributor tool, the LSF could allow the public to decide the weightings or priority of those values, something component tools cannot do.<sup>41</sup>

All said, it is not clear how the LSF determines social values any more than other potential policy analysis tools that result in frank recommendations. Indeed, it seems that the LSF probably is, and certainly could be, a framework that is much more inclusive and less likely to determine social values than many other kinds of policy analysis tools.

## 4 Using the Living Standards Framework as a Wellbeing Framework for Guiding Public Policy

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This paper has explained how the LSF, understood as a wellbeing framework for guiding public policy, is well-supported by the academic literature, and can be useful without determining social values. Now we address the final concern about the practicality of the LSF for Treasury's day-to-day role of assessing policies. As already mentioned, one challenge that can be levelled against the LSF is that it is too vague, and that even if one grants its theoretical merits it doesn't help to advance the practice of policymaking in a pragmatic sense.

This part of the paper intends to show how some of the theoretical issues previously discussed can make a practical difference for policymaking. To do this, we demonstrate how two different wellbeing-related concepts can be incorporated into the LSF to develop pragmatic and innovative tools for guiding public policy. Both of these examples are illustrative, and further proliferation of these sorts of tools would be required to really demonstrate the practicality of wellbeing frameworks like the LSF. But hopefully these start to show how the theory can in fact influence practice.

The first example we focus on is the influence of the capabilities approach in the creation of multidimensional poverty indices for policy. The second example is on the potential use of subjective wellbeing data in social cost-benefit analyses. We stress that these two case studies are not exhaustive, nor unique, when it comes to the ways in which wellbeing concepts can yield practical policy tools.

### 4.1 The Capabilities Approach as an underpinning for material wellbeing indices

Although not explicit in the bare-bones model of the LSF, much of the supporting documentation has discussed the fit of the model with a capabilities approach (Au & Karacaoglu, 2015; Treasury, 2011; Karacaoglu, 2015). Inspired by Nobel-laureate Amartya Sen (1987; 1993; 1999), capabilities approaches focus on ensuring that individuals have the capability to live the lives they have reason to value.

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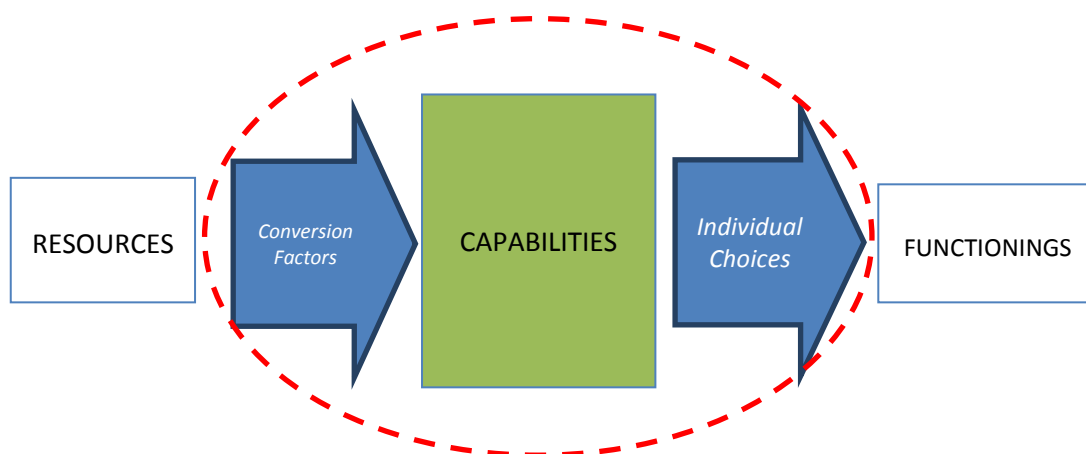
<sup>41</sup> Unless one of the stipulated components is free choice over the issue at hand.

### 4.1.1 Capabilities Approach: The basic concepts

There are a number of core concepts underpinning the capabilities approach. This schema and Figure 5 provide a stylised account of some key features of the Capabilities Approach.<sup>42</sup>

- **Functionings:** These are ‘beings and doings’, like being well-nourished or participating in social life. Various sets of functionings are what makes human lives valuable.
- **Capabilities:** These are opportunities to achieve functionings. They are the capacities which give people the ability to achieve the sets of functionings that they value.
- **Conversion Factors:** In making evaluations of social outcomes, the capabilities approach suggests focusing on the real capabilities of individuals. This means accounting for individual, social and environmental conversion factors that can affect the extent to which goods and services can be turned into functionings.

**Figure 4: Stylised Account of the Capabilities Approach**



One of the great advantages of understanding the LSF, with its broad range of capitals and flows, as a capabilities-based framework is that it encourages policy analysts to consider the important ways in which a variety of economic factors interact to create real opportunities for people to pursue their own vision of the good life. Understood in this way, the LSF accounts for individual choice, and doesn't need to prescribe a set of capabilities that must matter.<sup>43</sup> At the same time, the LSF provides a clear reason to focus on diverse barriers that prevent people from taking advantage of apparent opportunities—a focus on the conversion factors that are relevant for different individuals.

Access to money is clearly an important resource, and in many cases, is likely to contribute to an individual enjoying a range of capabilities. For example, the capacity to provide shelter for oneself and one's family is clearly influenced by one's ability to pay. But in some cases money only realises that potential when other enabling social and economic factors are in play. When accommodation is scarce because of local council zoning restrictions, or accommodation is unavailable to certain groups of people because of prejudice, then money alone may not be sufficient to acquire suitable shelter.

<sup>42</sup> These are based on theoretical and practical summaries of the capabilities approach by Ingrid Robeyns (2005; 2006).

<sup>43</sup> Sen himself has always explicitly resisted the desire to prescribe a single list of capabilities, although other theorists have attempted to articulate and defend such a list, most prominently Martha Nussbaum (eg, Nussbaum, 2006).

#### 4.1.2 How can the Capabilities Approach influence practical policymaking

The voluminous academic literature on the capabilities approach doesn't always make clear how the central concepts flow through to influence practical policymaking. But in many ways it already has, even in New Zealand. A specific example of this can be traced in the policy research and analysis that was used to advise the Government on its Budget 2015 child hardship package (Department of Prime Minister and Cabinet et al., 2015). The objective of this policy analysis was to identify options to implement the Government's overall objective to reduce material hardship amongst children. In order to identify the particular policy tools that could be used to most directly target assistance towards this group, it was necessary to identify households that live in significant deprivation.

Household income is often used as an indicator of material wellbeing, but it is widely acknowledged that this is not the only factor to consider when trying to construct useful measures of poverty in more economically developed countries. So instead of using only household income measures, this policy process drew extensively on work that is regularly published by the Ministry for Social Development (MSD) on a range of income and non-income measures related to wellbeing (most recently MSD, 2016a; 2016b).

In line with the LSF, incorporating data on non-income measures in this way represents a broad approach to considering the notion of poverty and the appropriate policy response. The MSD has implemented this approach with the MSD Material Deprivation Index—a 17-item list of particular deprivations that are designed to reflect different degrees of hardship. The items are particular outcomes, like 'postponed visits to the doctor' or 'being in arrears on rates, electricity, or water bills'.

The development of this index is an example of how some of the goals of the LSF – broadening and adding structure to the way policies are assessed – are already having a practical influence on the policy process in New Zealand. It is entirely concordant with the way in which recent scholarship has suggested that the Capabilities Approach can be made practical for policymaking.<sup>44</sup>

The strengths of this approach are that it draws attention to the non-income barriers that contribute to material deprivation – what might be thought of as conversion factors between income and capabilities in the conceptual schema of Figure 5. Looking at this specific approach through the lens of a capabilities understanding of the LSF, it might also be suggested that non-consumption-based conversion factors, such as health and education might also play a role in the assessment. A capabilities understanding of the LSF draws attention to these various indicators because they are part of the capitals and flows of the framework. Furthermore, a capabilities understanding of the LSF draws attention to these indicators without determining what weighting or value should be placed on them (which can remain a matter for the judgement of various political processes).

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<sup>44</sup> For example, Alkire (2015) outlines how the capabilities approach has powerful and ongoing relevance for constructing indices of poverty and wellbeing.

## 4.2 Using subjective wellbeing data to assess public policies

The LSF, or any other wellbeing framework, is not a necessary prerequisite of incorporating subjective wellbeing data into policy analysis. However, understanding the overarching goal of Treasury to be ‘sustainably improving the wellbeing of all New Zealanders,’ makes it appropriate to have an interest in how New Zealanders view their own quality of life, and to investigate the usefulness of those subjective assessments to public policy. In this section, we discuss two ways in which subjective wellbeing data might be used to guide public policy, and we summarise the existing sources of subjective wellbeing data gathered in the New Zealand context.

### 4.2.1 Using subjective wellbeing data to guide public policy

A potential policy-guiding role for research on subjective wellbeing is to act as a cross-check during policy analysis (Treasury, 2011). Social cost benefit analyses (SCBAs) often assess the costs and benefits of policy proposals using a range of measures, including: traditional economic data, data on natural, human, or social capitals converted into monetary values using willingness to pay and related techniques, and perhaps some difficult-to-monetise indicators listed by, but not directly involved in, the cost benefit calculation (Treasury 2015b). Since honest SCBAs usually involve probabilistic forecasts (Treasury 2015b), the outputs of most SCBAs display overlapping ranges of values.

When there exists a considerable overlap between an output benefit and an output cost in a SCBA, checking whether subjective wellbeing researchers have investigated how the outputs of the SCBA relate to subjective wellbeing outcomes might provide information with which to break the statistical stalemate. For example, a policy might have the outputs of lowering inflation and employment. Subjective wellbeing researchers have modelled, at least in some contexts, the impact on life satisfaction of changes in employment and inflation (eg, Di Tella, MacCulloch, & Oswald, 2001; Welsch, 2007).<sup>45</sup>

Assuming enough similarity in the contexts, the life satisfaction impact of the policy and its main alternative could be approximated, and then, if it provides a clear difference, enable a recommendation for one way to decide how to break the initial statistical stalemate. This subjective-wellbeing-based recommendation could be offered alongside an alternative recommendation to increase the specificity of part of the SCBA in order to break the tie on the basis of the indicators already included in the SCBA. A similar method might also be used to provide some kind of value to the costs or benefits of any hard-to-monetise impact of the proposed policy that currently sits by, but is not included in the calculation.

While not always required in order to provide robust and frank policy advice, SCBAs that incorporate a wide range of potential outcomes and unify them by translating them all into some commensurable value can help to simplify difficult policy decisions. We have already discussed that income equivalence approaches attempt to do this, but have difficulty monetising some kinds of goods. An exciting possibility for the future of SCBAs is making marginal effects on subjective wellbeing the commensurable value to which all of the goods are reduced. In the first instance, a standard SCBA, with the value of most outcomes monetised, and few other hard-to-monetise outcomes mentioned, but not included in the overall calculation. A subjective wellbeing approach would then translate the monetised and

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<sup>45</sup> More examples of subjective wellbeing data being used in policy analysis can be found in Di Tella and MacCulloch (2006).

hard-to-monetise outcomes into subjective wellbeing terms. These translations are only possible if considerable research has been conducted on the relationships between these outcomes and a measure of subjective wellbeing in various contexts. Although there is much more research that should be conducted, one particular measure of subjective wellbeing may already be sufficiently studied to be used in this way.

Measures of life satisfaction, which ask respondents to rate how satisfied they are with their lives on a scale, are the most commonly used measure of subjective wellbeing in happiness research (Helliwell, Layard, & Sachs, 2012). As such, we know a lot about the effects of income on life satisfaction. For example, average increases in reported life satisfaction caused by a set increase in income can be predicted by observing changes in income and life satisfaction within individuals over time.<sup>46</sup> The same method can be used with life satisfaction and non-market goods. When the impacts on life satisfaction of the increase in income and the non-market good are known, the value of the non-market good can be approximated in increase-in-income terms via the common currency of increase in life satisfaction.

As a result, some non-market good, such as a 10% reduction in crime, could be described as having the same impact on life satisfaction as, say, a \$2,000 increase in income. Or, more simply, that a 10% reduction in crime is worth as much as a \$2,000 increase in income to the population in question. It should be noted that it only makes sense to use life satisfaction as the common currency for SCBAs in this way if it is uncontroversial that it is a component of or important contributor to wellbeing (otherwise policy analysts would be using a commonality between the various goods that is not in itself valuable).<sup>47</sup>

#### **4.2.2 Subjective wellbeing data sources for public policy in New Zealand**

The suitability of subjective wellbeing data for policy making in New Zealand depends considerably on the availability of quality subjective wellbeing data gathered in New Zealand. Policymakers in New Zealand have several subjective wellbeing data sources available. Statistics New Zealand produces the high quality General Social Survey (GSS).<sup>48</sup> Every two years, 8,000 New Zealanders are asked a host of questions related to their quality of life. Amongst other questions, the GSS asked respondents about their perception of their health and material living standards, their trust in institutions, their relationships, their sense of purpose in life, and how satisfied they are with their life. The wide variety of subjective measures used in the GSS could be used to investigate how objective levels of the LSF capitals or flows are affecting New Zealanders' perceptions of their own lives. Such an investigation could provide information on the marginal rate of return on investments in economic, social, human, and natural capital respectively.

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<sup>46</sup> Other factors known to influence life satisfaction and the relationship between income and life satisfaction are held constant (including initial income).

<sup>47</sup> Clark and Oswald (2002) and Fujiwara and Campbell (2011) provide a more detailed explanation, and Powdthavee and van den Berg (2011) and van Praag and Baarsma (2005) provide examples of this method in action. For a discussion of the relative merits of this and related subjective wellbeing approaches compared to stated and revealed preference methods, see Fujiwara and Campbell (2011), Benjamin and colleagues (2013), and Benjamin and colleagues (2014).

<sup>48</sup> See: <http://www.stats.govt.nz/survey-participants/a-z-of-our-surveys/general-social-survey.aspx>

Other data sources that could be used to inform public policy in New Zealand include the World Values Survey<sup>49</sup>, the Gallup World Poll<sup>50</sup>, the New Zealand Attitudes and Values survey<sup>51</sup>, the New Zealand Values Survey<sup>52</sup>, the Sovereign Wellbeing Index<sup>53</sup>, and the New Zealand Quality of Life Survey<sup>54</sup>. Specific geographical positioning data (available from the New Zealand General Social Survey and some others) allows for a more nuanced understanding of the possible effects of wellbeing that various local or city-level policies might have. Given the recent governmental focus on Auckland, Treasury should investigate the literature on ‘happy cities’ to aid its policy advice on this issue.<sup>55</sup> Although a few academics in New Zealand are using local data to generate studies about the subjective wellbeing of New Zealanders, there is certainly scope for more academics to generate new datasets, use the existing data, and conduct more policy-relevant research.<sup>56</sup>

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<sup>49</sup> <http://www.worldvaluessurvey.org/wvs.jsp>

<sup>50</sup> <http://www.gallup.com/services/170945/world-poll.aspx>

<sup>51</sup> <https://www.psych.auckland.ac.nz/en/about/our-research/research-groups/new-zealand-attitudes-and-values-study.html>

<sup>52</sup> <http://www.shore.ac.nz/massey/learning/departments/centres-research/shore/projects/new-zealand-values-survey-2005.cfm>

<sup>53</sup> <http://www.mywellbeing.co.nz/mw/>

<sup>54</sup> <http://www.qualityoflifeproject.govt.nz/>

<sup>55</sup> For a review of “happy cities” research, see Ballas (2013), and for New Zealand specific studies, see Morrison (2011; 2014).

<sup>56</sup> Over 10,000 scholarly articles are published on subjective wellbeing per year (Diener & Scollon, 2014), but very few of these incorporate data from New Zealand, and even less focus on New Zealand data.



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