

## **THE TREASURY'S LIVING STANDARDS FRAMEWORK**

February 2018

The Treasury has released new material on its Living Standards Framework, in particular a Treasury Paper and related discussion papers that describe the different components and dimensions of intergenerational wellbeing in the Living Standards Framework.

The Treasury continues to make the historical material in this document available to support researchers interested in the development of the Framework since 2012.

Please refer to the current Living Standards Framework material listed at <http://www.treasury.govt.nz/abouttreasury/higherlivingstandards>

Office of the Chief Economic Adviser  
The Treasury

# An Introduction to Using the Living Standards Framework

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## What is this guide about?

This introduction will tell you what the Living Standards Framework is, what the Treasury has learnt so far from using it, and show you some ways you could use it in your own work.

If you want to know more, we have a range of resources on our website, including the background thinking behind the framework, short guides to each of the “points” and a series of background papers.

<http://www.treasury.govt.nz/abouttreasury/higherlivingstandards>

## Background

The Treasury has developed and published the Living Standards framework

- ▶ **We developed it** as a way to help our own staff think widely about the most important things for lifting living standards for New Zealanders.
- ▶ **We published it** because we want feedback. Good policy tools should reflect what everyone thinks is important and we can only test that by getting the framework out there.

But we also knew that we were at the cutting edge of thinking

Other countries had Living Standards-type measurement tools, but no-one seemed to be thinking about how to use it for policy advice.

Being at the cutting edge is exciting ... but risky

You get noticed (for example, the OECD is very interested in our work) and that can feel good. But it is also risky. If you can't look at what has come before, you don't know the perils and pitfalls.

That is why we said to our staff:

"Try it, and see if it is useful. Use it however you think is best, and let us know what you think". We have now done that, and want to share what we've learnt.

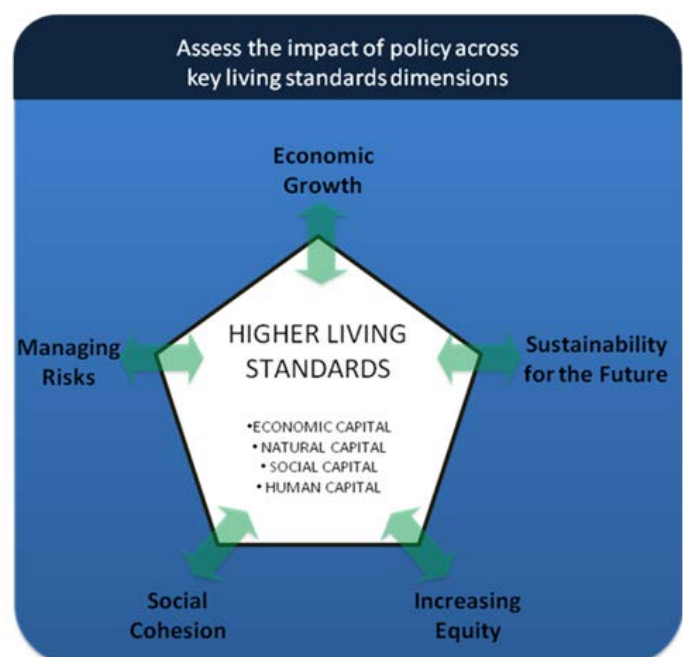
## Why have a Living Standards Framework?

Treasury's vision is "higher living standards for New Zealanders". By "living standards" we mean much more than just income. We mean people have greater opportunities, capabilities and incentives to live a life that they value, and that they face fewer obstacles to achieving their goals.

We have used the term "living standards" to describe this, but other people have used terms like wellbeing and happiness to mean the much same thing.

The Living Standards Framework does not try to cover everything that matters. It is an aide for policy advisors and to be useful to them it needed to be:

- ▶ **Focused** – on the few things that Government can have an impact on which make the most difference
- ▶ **Practical** – so that it can be used on a daily basis
- ▶ **Measurable** – so that we know if we are achieving change





## People focus on the “points” but the capitals are the ultimate goal

The four capitals in the middle are not just there for decoration. They are where the resources that lift living standards come from.

<b>NATURAL CAPITAL</b> <ul style="list-style-type: none"><li>▶ Extracted resources eg, oil and gas</li><li>▶ Renewal resources, eg, like water and fish</li><li>▶ Environmental services eg, climate, breathable air and soil</li></ul>	<b>FINANCIAL AND PHYSICAL CAPITAL</b> <ul style="list-style-type: none"><li>▶ Individual assets eg, homes, cars, factories and machinery</li><li>▶ Community assets eg, roads and hospitals</li><li>▶ Financial assets that could buy these things</li></ul>
<b>SOCIAL CAPITAL</b> <ul style="list-style-type: none"><li>▶ The cultural, philosophical and ethical norms of society</li><li>▶ The social and political institutions that organise society eg, laws, expectations</li><li>▶ The way people interact, eg, whether they trust each other</li></ul>	<b>HUMAN CAPITAL</b> <ul style="list-style-type: none"><li>▶ The stock of skills and qualifications that people have</li><li>▶ The level of health</li><li>▶ The systems used to organise people to create value</li></ul>

When you think of the different “points” think about their impact on each of the capitals. For instance

- ▶ **For Sustainability for the future** – is about the future of human, social and physical/ financial capital as well as natural capital.
- ▶ **Equity** – is not just about income distribution but the distribution of everything of value but also whether there are fair processes.
- ▶ **Risk** is not just about economic or natural hazard risk; it is also about risks to social outcomes and people.
- ▶ **Economic growth** is not just about lifting people’s incomes, but also the resources available to spend on community assets, like schools, hospitals, welfare, and roads.
- ▶ **Social cohesion** is not just about lifting social connectedness. It is also about the role of things like the rule of law in promoting economic growth, and the fairness of government’s processes in promoting equity.

Each “point” was chosen because of its wide impact on each of the capitals in the middle.

## Using the framework well means:

### Thinking about synergies as well as trade-offs

The Living Standards diagram tends to lead people into thinking about trade-offs, which is great. But it's just as important to think about synergies – thinking about how one aspect helps with another one. Sometimes the story is about how the different parts add up to the whole like the jigsaw approach on the next page.

### Thinking about the capitals as well as the “points”

If you read the background papers about the framework you will find that the points are important only because they build up the capitals in the middle. The “health” of the capitals drives many of the things that are important for lifting living standards.

### Using the framework with the normal evidence-based policy tools (not instead of)

The Living Standards Framework does not replace evidence-based and analytically-rigorous policy advice. Nor does it change our responsibility to give Ministers free and frank advice that is focused and practical. Instead, the framework helps identify what you should be analytically rigorous and frank and practical about.

There is a right way and a wrong way to use the Living Standards Framework

The **right way** is the way that leads to better policy advice

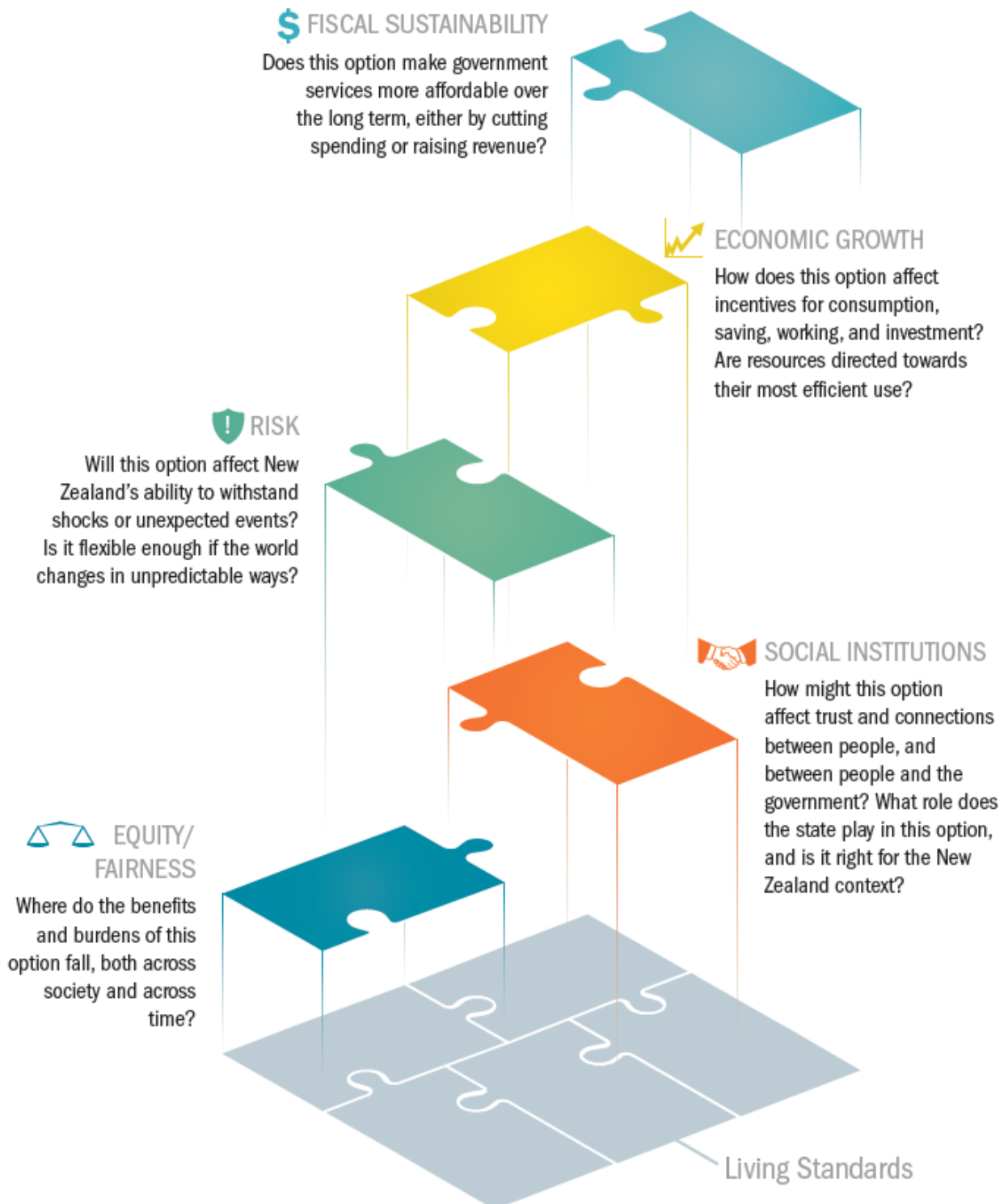
The **wrong way** is using the framework as a “tick box”

Other than that, there are no rules



## Managing wellbeing well

There are many different ways we can address New Zealand's long-term fiscal issues. How should we choose between the possible policy options? Treasury's approach is to assess each option using our Living Standards Framework. This looks at a range of criteria that cover different aspects of wellbeing:



## What we have learnt about the framework

### ▶ It is useful...

The consistent feedback we get is that the Living Standards Framework is useful. It makes people think about a wider range of things. For instance, it helped those who naturally thought about equity also think about economic growth; and those who thought about society also considered managing risk. Its flexibility means it is useful in many different situations.

### ▶ ...but it is not always useful ...

In particular, it works better on major policy decisions when a wide range of impacts need to be considered. It is less useful on small policies with a limited range of identified impacts.

### ▶ ...and how it is useful varies ...

We did not say to people “use it this way” and that means people have used it in lots of different ways – including some that we never would have thought of, as you will see in a few pages.

### ▶ ...because it turns out it is useful in different ways in different situations.

Sometimes it was most useful at the beginning of the work to think about the overall range of considerations involved; sometimes it was more useful at the end to show how the different options had different impacts. Other times it was most useful as a final check that nothing had been forgotten.

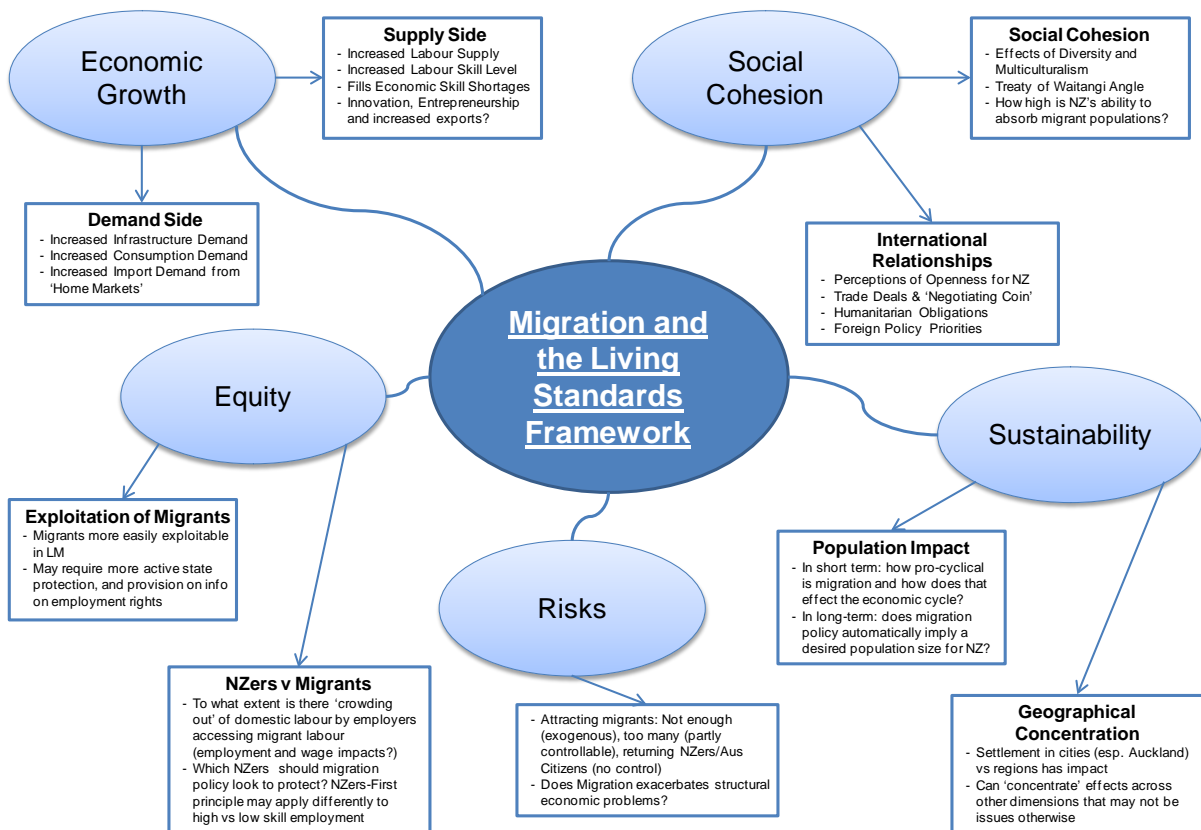


## Six ways we have used the framework

Here are a few ways we have seen the framework being used. We provide them as suggestions, not as a complete set. There may be other great ways of using it that no one has thought of, so don't let them limit you.

### 1 To brainstorm widely about a topic

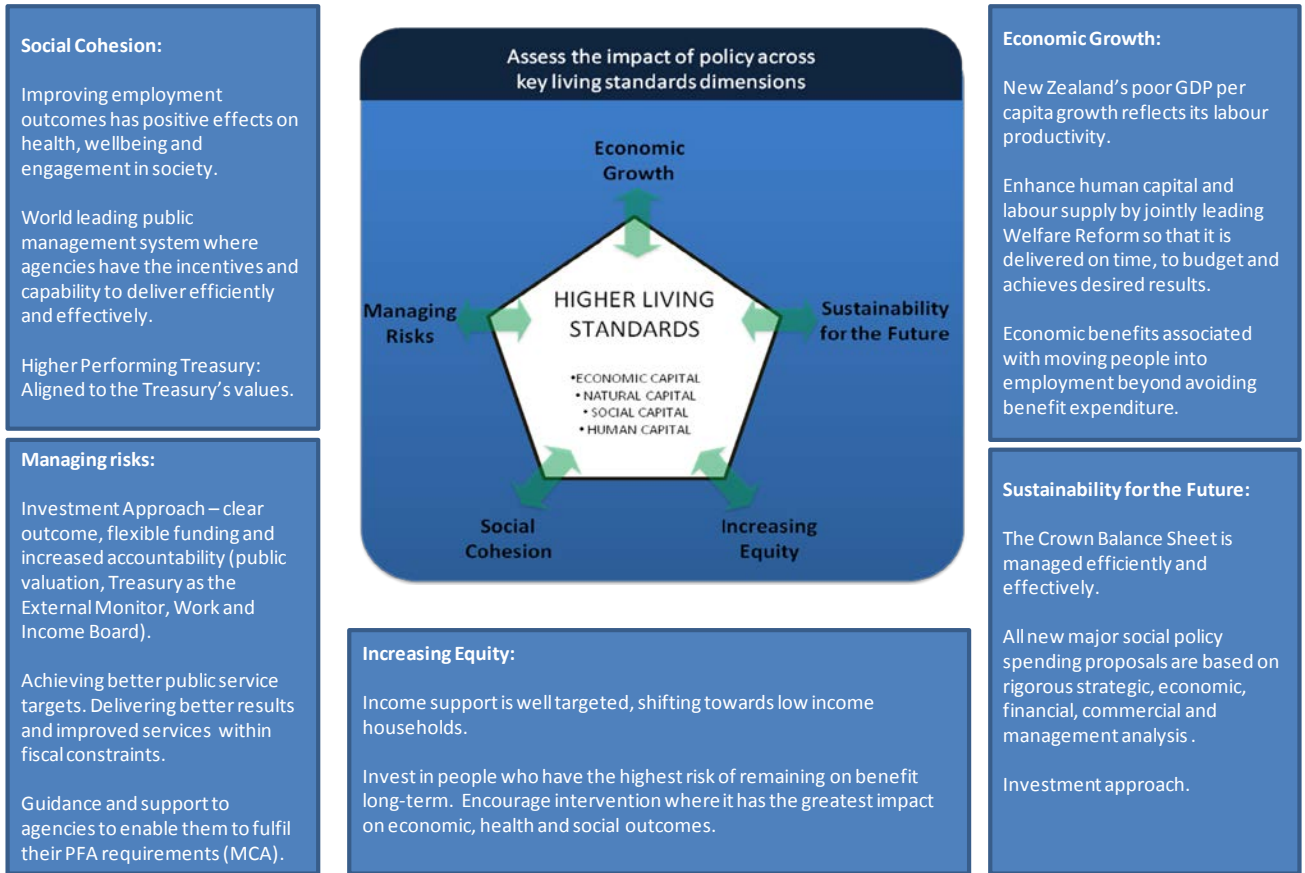
Using the Living Standard framework here ensured that all important aspects are being considered. This might be an initial brainstorm at the beginning of a project, or a considered diagram of all the effects backed by significant research and reading.



### 2 Making sure that "business as usual" policy advice focuses on what matters

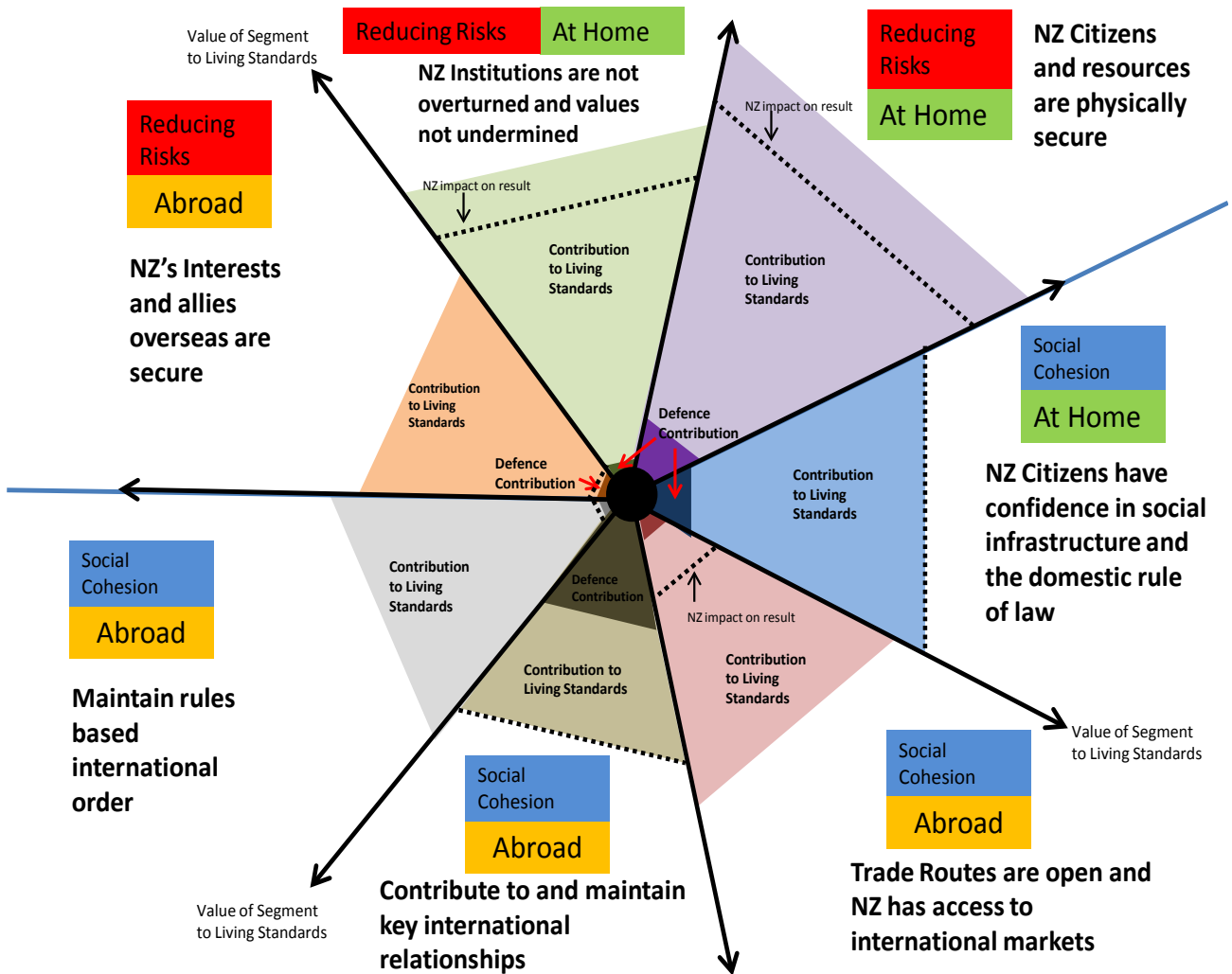
For instance, knowing the welfare system's contribution to New Zealand's living standards helps focus advice on achieving what really matters

## Applying the Living Standards Framework to the Investment Approach



3 To develop a fresh way of thinking about an old problem, by looking at it through a different lens

For instance, is our defence force primarily about managing risks (at home and abroad) or about “social cohesion” (where the society concerned could be New Zealand or the World Society that we influence through peace-keeping etc)? Thinking about the two different roles, helped us think through what is important.

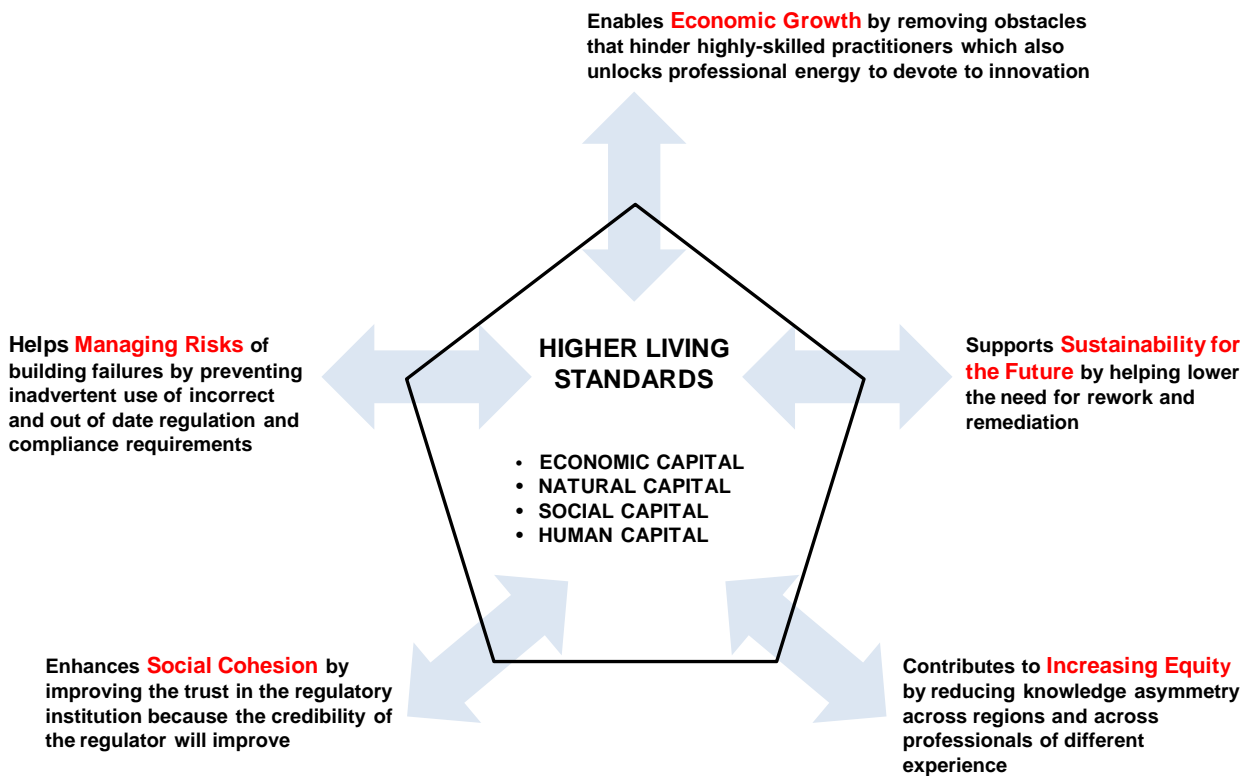


#### 4 To summarise “why do it?” from a holistic viewpoint

When projects have many different benefits, the Living Standards Framework can help you think through the different aspects, and illustrate the gains from doing it, and the synergies or trade-offs of the different options.

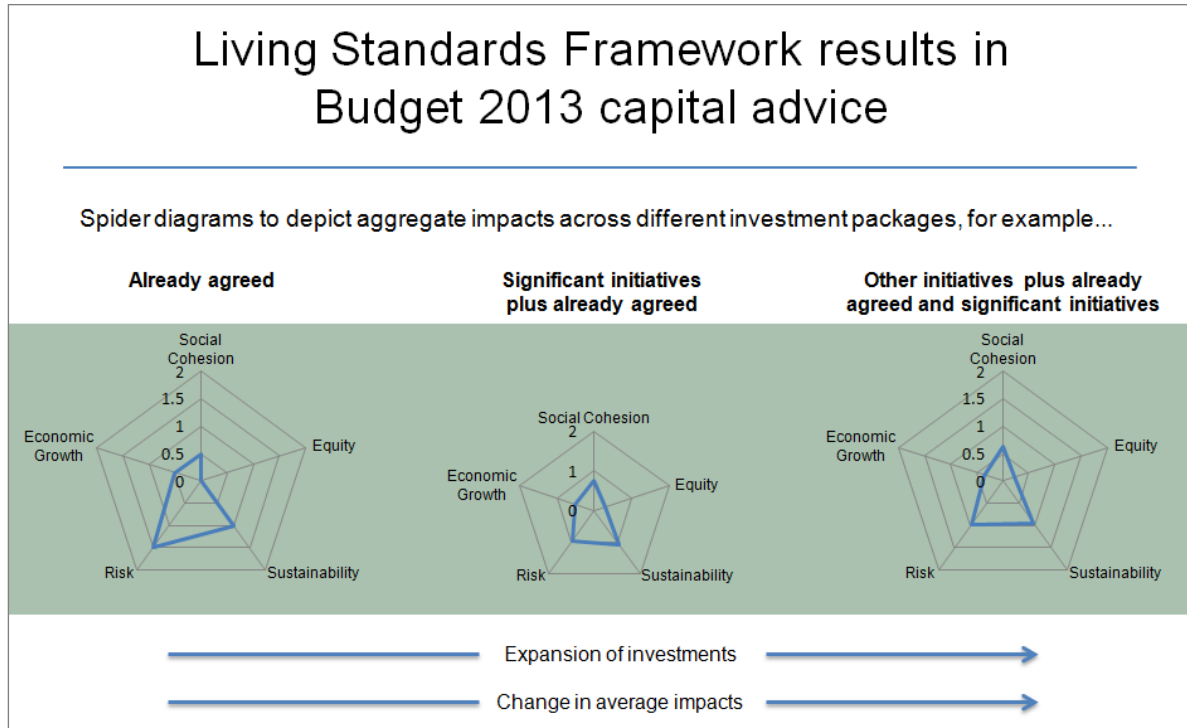
This, of course, needs to be accompanied by the assessment of the value of these gains and the costs involved.

For example, what might it look like if we change regulations...

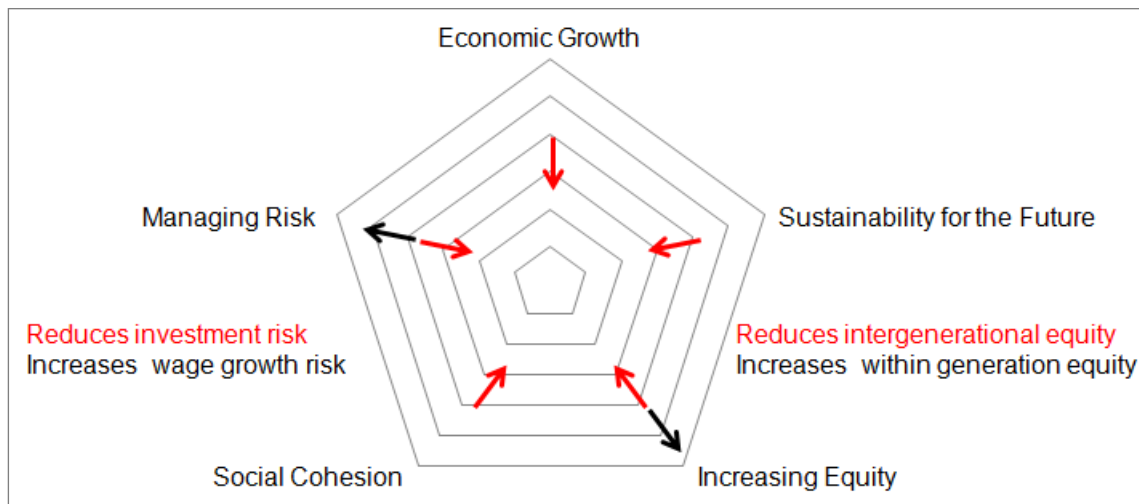


5 To summarise our findings, or to present the implications of different choices

This can clarify the consequences of the decision in front of them...



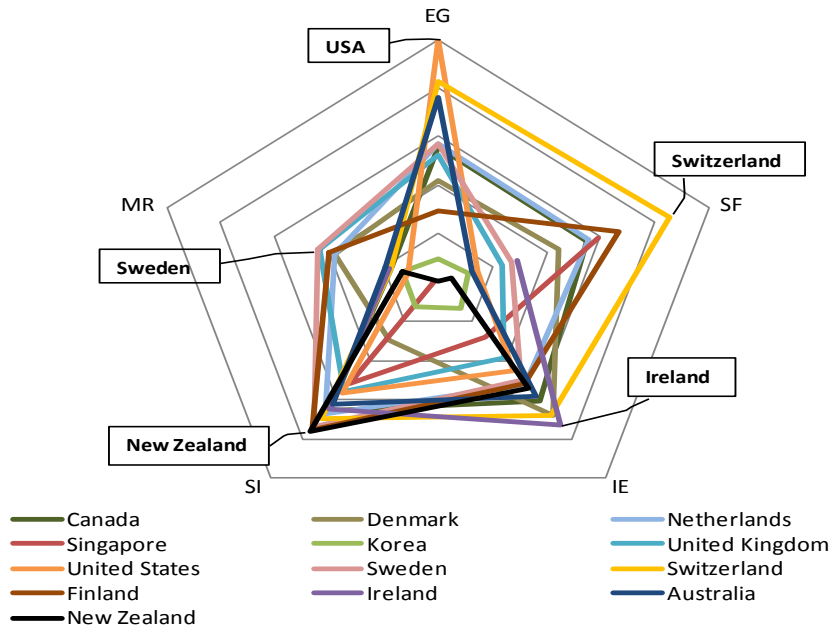
Or it can convey clearly the outcomes of our own research (such as this example of the impacts of a tax-funded pay-as-you-go expansion of NZ Super)



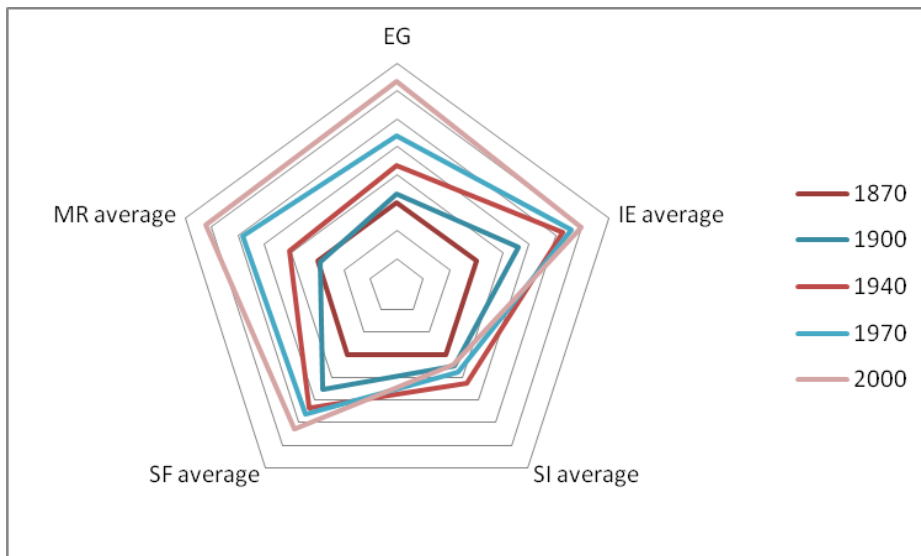
## 6 To measure progress

This can show how things are changing over time, across regions or population groups, or how New Zealand compares to other countries on the important aspects. With the help of Statistics New Zealand we have done some work on considering how this could be done for New Zealand, but it is still a work in progress.

### New Zealand compared to other countries



### New Zealand over time





## Finally, we are not precious about the framework

### 1 Sometimes not all of the five “points” are relevant

If you look at the defence example on page 13 you will see they only used two. This is not a “check list” that has to be completed. It is a framework to help you think things through.

### 2 Sometimes we have used the pentagon but other times we have simplified it

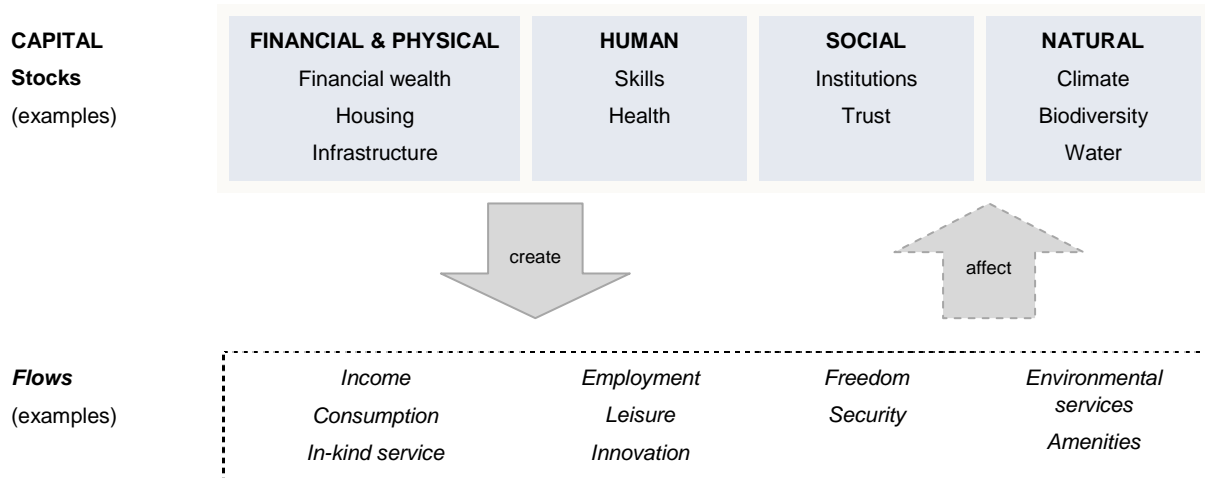
We simplified it for our Briefing to the Incoming Minister, “Holding on and Letting Go” as this highlighted the key messages we wanted to cover.



### 3 Sometimes we have found focusing on the capitals is more useful than the “points”

This is particularly likely to be the case when considering the areas that are naturally “capital” oriented – like long term investment and environmental issues.

#### Treasury’s Living Standards Framework



- 4 We put economic growth at the top (after all we are the Government's lead economic advisor) but other agencies have suggested that different "point" should be there or there should be a new point should be on the framework.

And we say go for it! And tell us how you get on. We want to hear new ideas as we want to make the Living Standards framework better.

#### Two final thoughts:

1. There may be other great ways of using it that no one has thought of ... so don't let our examples limit you. If you do find a new way, please share it with us as we want to spread good ideas.
2. We are interested in hearing your views. This is an ongoing project, not an endpoint, and we want to make it better.

## Where to look for further information

The Treasury website has:

- ▶ Material on the thinking behind the framework
- ▶ Analyst's notes for each "point" in the pentagon
- ▶ Background material to provide further information for those who want to know more

<http://www.treasury.govt.nz/abouttreasury/higherlivingstandards>

The Living Standards "hub" on the Government Economics Network site enables everyone to share useful material. (It requires a password, but anyone can get one. We use them to keep bots out – not people.)

[https://www.gen.org.nz/tiki-index.php?page=Welcome to the Living Standards Hub](https://www.gen.org.nz/tiki-index.php?page=Welcome%20to%20the%20Living%20Standards%20Hub)

#### Who to contact:

Overall framework	<a href="mailto:Margaret.Galt@treasury.govt.nz">Margaret.Galt@treasury.govt.nz</a>
Economic Growth	<a href="mailto:Dora.Livas@treasury.govt.nz">Dora.Livas@treasury.govt.nz</a>
Sustainability for the future	<a href="mailto:Hilary.Blake@treasury.govt.nz">Hilary.Blake@treasury.govt.nz</a>
Managing Risks	<a href="mailto:Ken.Warren@treasury.govt.nz">Ken.Warren@treasury.govt.nz</a>
Social Cohesion	<a href="mailto:Amy.Thomson@treasury.govt.nz">Amy.Thomson@treasury.govt.nz</a>
Increasing Equity	<a href="mailto:Kristie.Carter@treasury.govt.nz">Kristie.Carter@treasury.govt.nz</a>