

THE TREASURY'S LIVING STANDARDS FRAMEWORK

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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>

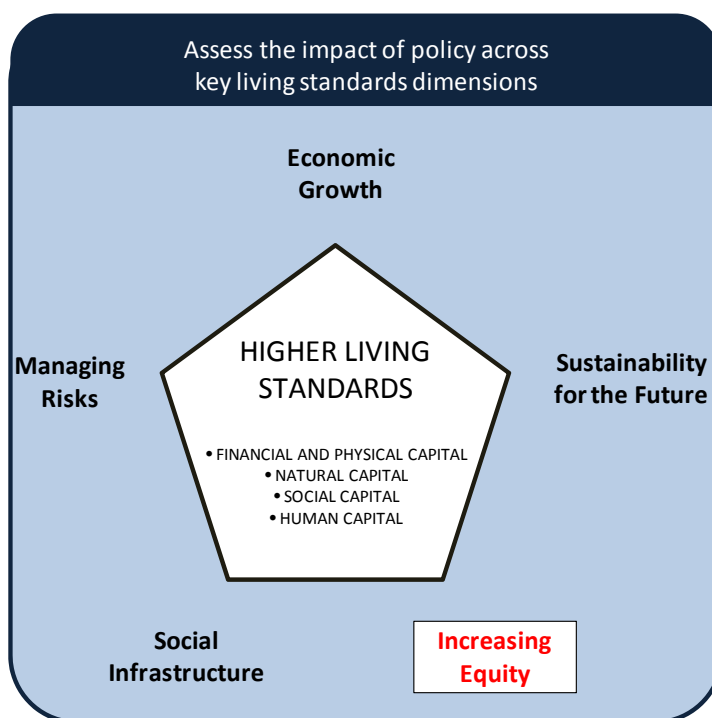
Office of the Chief Economic Adviser
The Treasury

Living Standards: A Short Guide to 'Increasing Equity'

What does 'equity' mean?

Equity can mean different things in different contexts, and to different people.

- ▶ It sometimes implies an idea of giving people what they deserve, with some kind of reward for effort.
- ▶ It can also sometimes mean protecting the most vulnerable members in society.
- ▶ It can mean directing resources to where they will produce the most 'good', however measured.
- ▶ Sometimes it means procedural fairness, or being even-handed.



All these elements of equity are important, and the Treasury thinks about all of them and how they interact in the context of the 'equity' corner of the Living Standards Framework.

While the meaning of 'equity' has been the subject of debate for centuries (and is often seen as being very political), there has been a significant level of consistency in the way the New Zealand public and successive governments have thought about equity and the distribution of economic and social rights, although these views continue to develop over time. For instance:

- ▶ This is reflected in the role that social welfare plays as a safety net, along with an expectation that many of those receiving it will actively seek to increase their skills or seek to re-enter the workforce. This has underpinned the social security system since it was introduced in 1938, and has been reaffirmed in the Royal Commissions on Social Welfare of 1972 and 1988, and is currently reflected in the principles section of the Social Security Act 1964.
- ▶ There has been a consistent commitment to redistribution through the tax and benefit system, and levels have remained fairly constant over the last few decades, although each new government makes changes.

- ▶ In recent decades, successive governments have recognised Maori rights under the Treaty of Waitangi.
- ▶ New Zealand's views about equity are also reflected in the decisions our country has made internationally to adopt United Nations declarations and covenants which commit the government to treat our citizens in ways that uphold their rights and meets various needs. The most recent examples of this are the Convention on the Rights of the Child and the Declaration on the Rights of Indigenous Peoples.

In New Zealand, equity has been defined by our commitment to equal rights, a safety net that protects the vulnerable, and the opportunity to participate in society.

The decisions we have collectively made as a country show a commitment to pursuing a level of equality of opportunity that allows all members of society to participate in a way that they value. (Colloquially this is often spoken of as giving people a 'fair go'.)

This is a useful starting point when considering equity; however good policy analysis should illustrate how a policy option performs on all relevant aspects of equity and, where possible, officials should seek to design policy options that improve all dimensions of equity.

Measuring equity

Measures of inequality can help us answer some of the questions we pose when thinking about different facets of equity. Do we live in a society where people have opportunities to work hard and be rewarded for that effort? Are the most vulnerable members of our society protected? Inequality measures don't give us all the answers, but they help us understand the factual context we are working within.

When measuring equity, it is important to:

- ▶ think beyond simply static measures of disposable income and consider the dynamic impacts over time
- ▶ use relative and absolute measures of inequality, poverty and deprivation
- ▶ think beyond income and consider other factors like wealth, education and health
- ▶ consider the final income that households receive, which includes in-kind services such as education, and
- ▶ consider barriers that might limit the equity in key areas (such as access to the law, to health institutions, or educational opportunities).

What 'increasing equity' means

The Treasury's advice emphasises that living standards are enhanced if everyone has the opportunity to participate in society. This is less about establishing a 'right' level of income inequality (or education, or health or any other key variable) and more about providing each individual with the opportunity to fully live a life in accordance with their own values, subject to the limits of the law and the rights of

Increasing equity means building the capabilities and opportunities of individuals to participate in society in a way that they value.

others. This makes a dynamic understanding of how policies impact on people, regions, subgroups and the population as a whole important. In particular, we focus on:

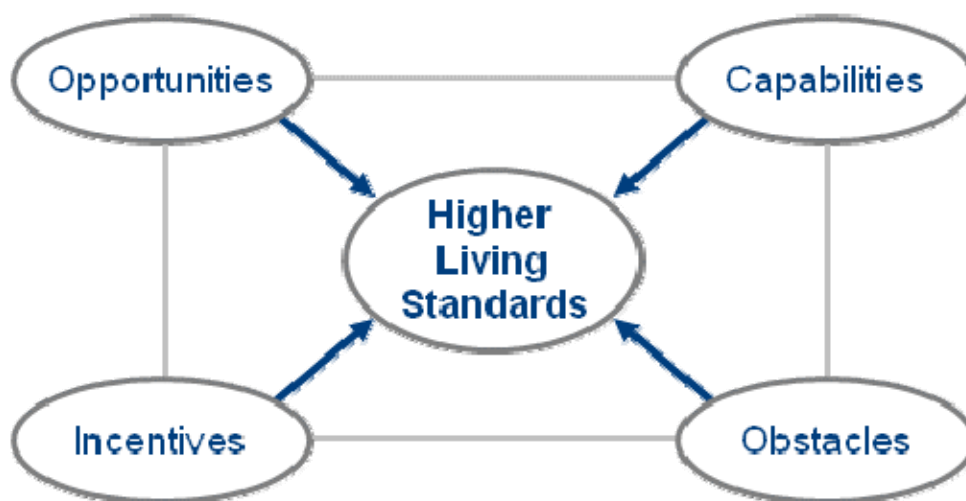
- ▶ reducing the barriers that prevent people from making the most of their life chances, such as long term income immobility, persistent deprivation, and, because of its long-term implications, inequitable educational outcomes
- ▶ extending the opportunities and choices available, and
- ▶ increasing the capabilities and incentives on people to make the most of the chances available to them.

Some ways in which the Treasury applies this framework

The Treasury's role is to provide advice on raising living standards, including advice on the impact of economic trends and policy changes on equity. For example, the Treasury provides advice on the structure of the tax and benefit system, which has an important impact on the distribution of income across society. Likewise, the Treasury provides advice on long term trends, such as an ageing population, which raises equity concerns because of the impact on the distribution of government spending between age-groups. It the Treasury's job to highlight the impact of policy changes and trends on equity for the government to assist them in making well informed decisions.

Key questions when thinking about equity

This diagram illustrates questions that are useful for analysts to consider when evaluating the impact of policy changes and trends on equity. If a policy increases opportunities and builds capability for participation in society, then this is a policy that increases equity. Similarly, if a policy ensures incentives for participation and removes obstacles that stand in the way, it increases the chance for people to live a life they choose to value.



When evaluating the impact of policy, policymakers might want to ask:

- ▶ Will a policy improve the opportunity of individuals to participate in society?
- ▶ Within the groups which will be affected by a particular proposed policy change, what are the important dimensions of equity and how are they likely to be affected? For example, does a policy change raise the issue of procedural fairness, or affect how we protect vulnerable members of society?
- ▶ Will a proposed policy change inadvertently damage equity? For example, does a policy affect some groups in society in a way that reduces their chance to participate?
- ▶ If a policy increases equity, are there tradeoffs with other of the living standards dimensions? Could the policy be improved in a way that minimises these tradeoffs?
- ▶ If a policy impacts negatively on equity, is there an alternative that avoids this impact?
- ▶ Has the analysis considered all the different types of equity (such as procedural fairness, opportunities and barriers), and all the relevant aspects (such as income, health, education) which are important for this policy?
- ▶ What are the short and long term impacts of a policy on equity?