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The Relationship between the Living Standards Framework and the Sustainable Development Goals

Judd Ormsby

Office of the Chief Economic Adviser
Living Standards Series: Discussion Paper 18/06

July 2018

DISCLAIMER

This paper is one of a series of Discussion Papers on wellbeing in the Treasury's Living Standards Framework (LSF). The papers on the Financial/Physical Capital, Resilience and Future Wellbeing, and the note on the role of culture in the LSF are all Discussion Papers. The Discussion Papers are not the Treasury's position on measuring intergenerational wellbeing and its sustainability in New Zealand. Our intention is to encourage discussion on these topics.

There are marked differences in perspective between the papers that reflect differences in the subject matter as well as differences in the state of knowledge. The Treasury welcomes comments on these papers to help inform our ongoing development of the Living Standards Framework.

LIVING STANDARDS SERIES: The Relationship between the Sustainable Development Goals
DISCUSSION PAPER 18/06 and the Living Standards Framework

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Executive summary

Those familiar with both the Sustainable Development Goals (SDGs) and the Treasury's Living Standards Framework (LSF) have often asked us what the relationship is between the two. This paper, drawing on work done by the Organisation for Economic Cooperation and Development (OECD), provides an answer to that question. While there are conceptual differences between the two – the SDGs are a set of policy goals, the LSF a framework for thinking about wellbeing – there is a large degree of overlap. This paper shows that each of the SDGs relate to an aspect of the LSF, while three of the LSF's domains of wellbeing do not map well to an SDG (though even here, the flexible nature of the SDGs mean it would not be hard to adapt SDG reporting processes to include these areas).

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Section 1: Introduction

People familiar with both the Sustainable Development Goals (SDGs) and the Treasury's Living Standards Framework (LSF) have sometimes asked us what the relationship is between the two. This short paper is an answer to that question.

On the one hand, the LSF and the SDGs are quite different. The SDGs are an agreement among all member states of the United Nations; the LSF belongs to the New Zealand Treasury. The SDGs are a set of goals; the LSF is a framework for thinking about wellbeing.

Yet on closer inspection, there is a substantial degree of overlap. The SDGs have a reporting system in the form of Voluntary National Reporting (VNR); the LSF will (come the end of this year) have a *Living Standards Dashboard*. The SDGs can be used as a tool to think about policy; The Treasury is currently working on incorporating the LSF into its advice.

In *Measuring Distance to the SDG Targets*, the OECD (2017) included a section examining the relationship between the SDGs and its own *How's Life?* wellbeing framework. As the Treasury's LSF is informed by the *How's Life?* wellbeing work, the relationship between the OECD's wellbeing framework and the SDGs is very similar to the relationship between the LSF and the SDGs.

The rest of this paper is set out as follows. Section 2 provides a brief description of the LSF. Section 3 gives an overview of the SDGs. Section 4 discusses the relationship between the LSF and the SDGs, finding each of the SDGs relate to an aspect of the LSF, though three of the LSF domains do not map cleanly to an SDG. Section 5 concludes.

Section 2: Brief description and overview of the LSF

The LSF is the Treasury's framework for thinking about wellbeing. At its simplest, the LSF involves three concepts: **current wellbeing**, **future wellbeing** (with indicators organised around the four capitals) **and risk and resilience**. The Treasury's LSF is a particular way of viewing these three concepts, as well as their interplay with each other.

The Treasury first released the Living Standards Framework in 2011 (Gleisner, Llewellyn-Fowler, & McAlister, 2011). However, our LSF has evolved since then, and continues to evolve, as our understanding of the theory and empirics of wellbeing improves and as we receive feedback. The Treasury (2018) outlines the Treasury's latest understanding of the LSF, but the Treasury is yet to finalise its LSF. It has commissioned an expert proposal for a *Living Standards Dashboard* (Smith, 2018) which is open for consultation until the end of July 2018. The description of the LSF used here is therefore draft and subject to change.

Current wellbeing has 12 domains (listed below, with draft definitions). Each person has a given amount of each domain at a point in time (eg, Sarah's income in 2018, Tane's health in 2030). The LSF is interested both in the levels of these domains overall, and their distribution over people and different groups.

- **Income and consumption:** people's disposable incomes from all sources (including employment, government transfers, investment returns and home production) and how much people spend and the material possessions they have.
- **Jobs:** the quality of people's jobs and work environment, people's ease and inclusiveness of finding suitable employment and their job stability and freedom from unemployment.
- **Health:** our mental and physical health.
- **Housing:** the quality, suitability and affordability of the homes we live in.
- **Knowledge and skills:** people's knowledge and skills.
- **Environment:** the natural and physical environment, and how it impacts people today (this is different from the Natural Capital stock, which is measured elsewhere).
- **Cultural identity:** having a strong sense of identity, belonging and ability to be oneself, and the existence value of cultural taonga.
- **Safety and security:** people's safety and security (both real and perceived) and their freedom from risk of harm, and lack of fear.
- **Leisure:** the quality and quantity of people's leisure and recreation time (ie, people's free time where they are not working or doing chores).
- **Civic engagement and governance:** people's engagement in the governance of their country and their civic responsibilities, how "good" New Zealand's governance is perceived to be and the procedural fairness of our society.
- **Social connections:** positive social contact.

- **Subjective wellbeing:** this includes three components: our overall life satisfaction; our day-to-day mood and emotion; and our sense of meaning and self. Life satisfaction is conceptually different from other components of current wellbeing as it can be interpreted as a proxy for a person's overarching sense of wellbeing.

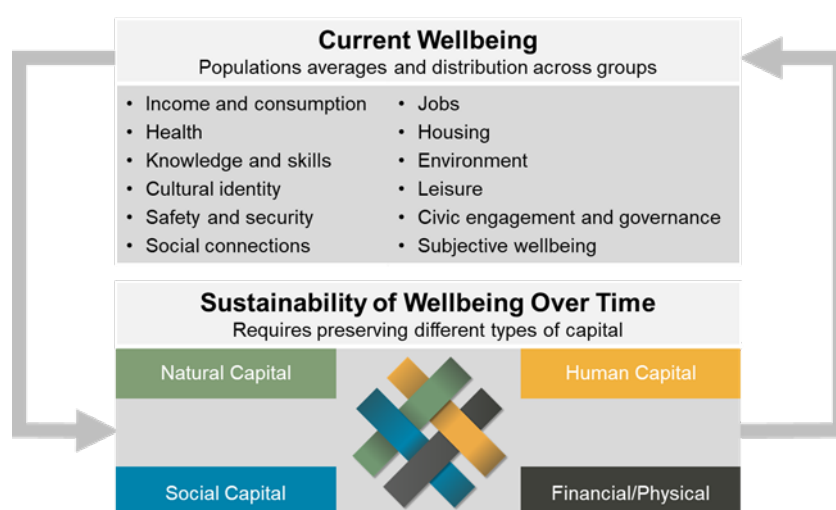
Crucially, current wellbeing changes over time (current wellbeing can be thought of as point-in-time wellbeing). Thus, when we make statements like “we want high wellbeing in 2050” it means that we want the domains of wellbeing to be high – at least on average across the 12 – in 2050 (ie, for New Zealanders to have high incomes in 2050, good health in 2050, etc).

The capitals are called capitals because they are *means of production* (ie, the capitals are the stock of ingredients we use to produce the future flow of wellbeing). As wellbeing is multidimensional, all four capitals are used – to a greater or lesser extent – to produce each domain of wellbeing. This relationship is illustrated in Figure 1. The four capitals are:

- **Natural Capital:** all aspects of the natural environment needed to sustain life and human activity
- **Financial/Physical Capital:** the country's physical and financial assets that have a direct role in supporting incomes and material living conditions
- **Social Capital:** the connections between people and the values that underpin society
- **Human Capital:** people's skills, knowledge, physical and mental health.

(For more information about each capital, see Van Zyl and Au (2018) on Natural Capital, Morrissey (2018) on Human Capital, Frieling (2018) on Social Capital, and Janssen (2018) on Financial/Physical Capital).

Figure 1 – The interaction between current wellbeing and the four capitals in the Living Standards Framework



The four capitals are a way of organising indicators of future wellbeing, but they do not constitute future wellbeing. The LSF recognises other factors that affect future wellbeing: how productively we use each of the four capitals and ensuring a good capital mix are two examples, but beyond this the LSF incorporates *risk and resilience* – this means thinking about all shocks that affect wellbeing (both current wellbeing and the four capitals). For example, potential domestic threats – like earthquakes – but also those from around the world

– the global financial crisis being a recent example. For more information on the risk and resilience aspect of the LSF, see Frieling and Warren (2018).

Out of the framework falls a system of measurement – the *Living Standards Dashboard* – which the Treasury intends to release at the end of this year. The *Living Standards Dashboard* will help to show – at a high level – New Zealand’s strengths and weaknesses, who is doing well (and who isn’t doing so well) and what our future might look like. Smith (2018) provided the Treasury with his recommendations for what the *Living Standards Dashboard* should look like. This proposal is out for consultation until the end of July this year.

As the framework and its use matures it will be used to inform advice, both from the *Living Standards Dashboard*’s data and, potentially, from a more micro, issue-by-issue perspective.

Section 3: Overview of the SDGs

The SDGs were established in 2015 and agreed to by all UN member nations. They are seen as the successor to the Millennium Development Goals (MDGs) which were established in 2000 and were also agreed to by all UN member countries. However, whereas the MDGs were goals for developing countries, the SDGs are to be universally applied by all UN member countries.

There are 17 SDGs:

- Goal 1: No Poverty
- Goal 2: Zero Hunger
- Goal 3: Good Health and Well-Being for People
- Goal 4: Quality Education
- Goal 5: Gender Equality
- Goal 6: Clean Water and Sanitation
- Goal 7: Affordable and Clean Energy
- Goal 8: Decent Work and Economic Growth
- Goal 9: Industry, Innovation and Infrastructure
- Goal 10: Reduced Inequalities
- Goal 11: Sustainable Cities and Communities
- Goal 12: Responsible Consumption and Production
- Goal 13: Climate Action
- Goal 14: Life Below Water
- Goal 15: Life on Land
- Goal 16: Peace, Justice and Strong Institutions
- Goal 17: Partnerships for the Goals.

Beneath these 17 goals sit 169 targets. In addition to these targets, there is an evolving list of 244 indicators currently recommended by the Inter-Agency and Expert Group (IAEG) to be used for global monitoring. In time, one could look at the relationship between the SDG targets or the IAEG indicators and the indicators the Treasury decides to use in the *Living Standards Dashboard*. However, since the indicators in the dashboard have not yet been decided (Smith's paper is not written by the Treasury, and is out for consultation until the end of the month), it is not possible to do this mapping at present. No doubt such a process would yield interesting results. For example, many of the targets address issues across country boundaries, which are not currently a large focus of the LSF, and so could be a promising area for future research once the LSF indicators have been settled. An added advantage of keeping this paper at the high goal/domain/capital level is that it is much simpler to describe the relationship concisely – though it is appreciated that this is a simplification.

Each country has agreed to work towards achieving the SDGs (ie, improving outcomes in that area), “taking into account different national realities, capacities and levels of development and respecting national policies and priorities”.¹ Countries then report on progress towards achieving these goals through a Voluntary National Reporting (VNR) process.

Statistics New Zealand has said that the indicators they are developing as part of Indicators Aotearoa New Zealand (IANZ) will be able to be used to report back against the SDGs.² IANZ will be based on the Conference of European Recommendations on Measuring Sustainable Development which have been adjusted by an international task force to ensure they are well aligned with the SDGs. A broad number of the indicators that will be used in The Treasury’s *Living Standards Dashboard* will be a subset of IANZ. The above points notwithstanding, it is beyond the scope of this paper to discuss how New Zealand should compile its VNR as this is a decision to be made by the Government.

The next section fleshes out how the SDGs relate to the LSF.

¹ <https://sustainabledevelopment.un.org/post2015/transformingourworld>

² <https://www.stats.govt.nz/assets/Uploads/Indicators-Aotearoa-New-Zealand-Nga-Tutohu-Aotearoa/Downloads/single-source-of-truth-for-measuring-our-well-being.pdf>

Section 4: Relationship between the LSF and the SDGs

Figure 2 – Mapping of SDGs to LSF

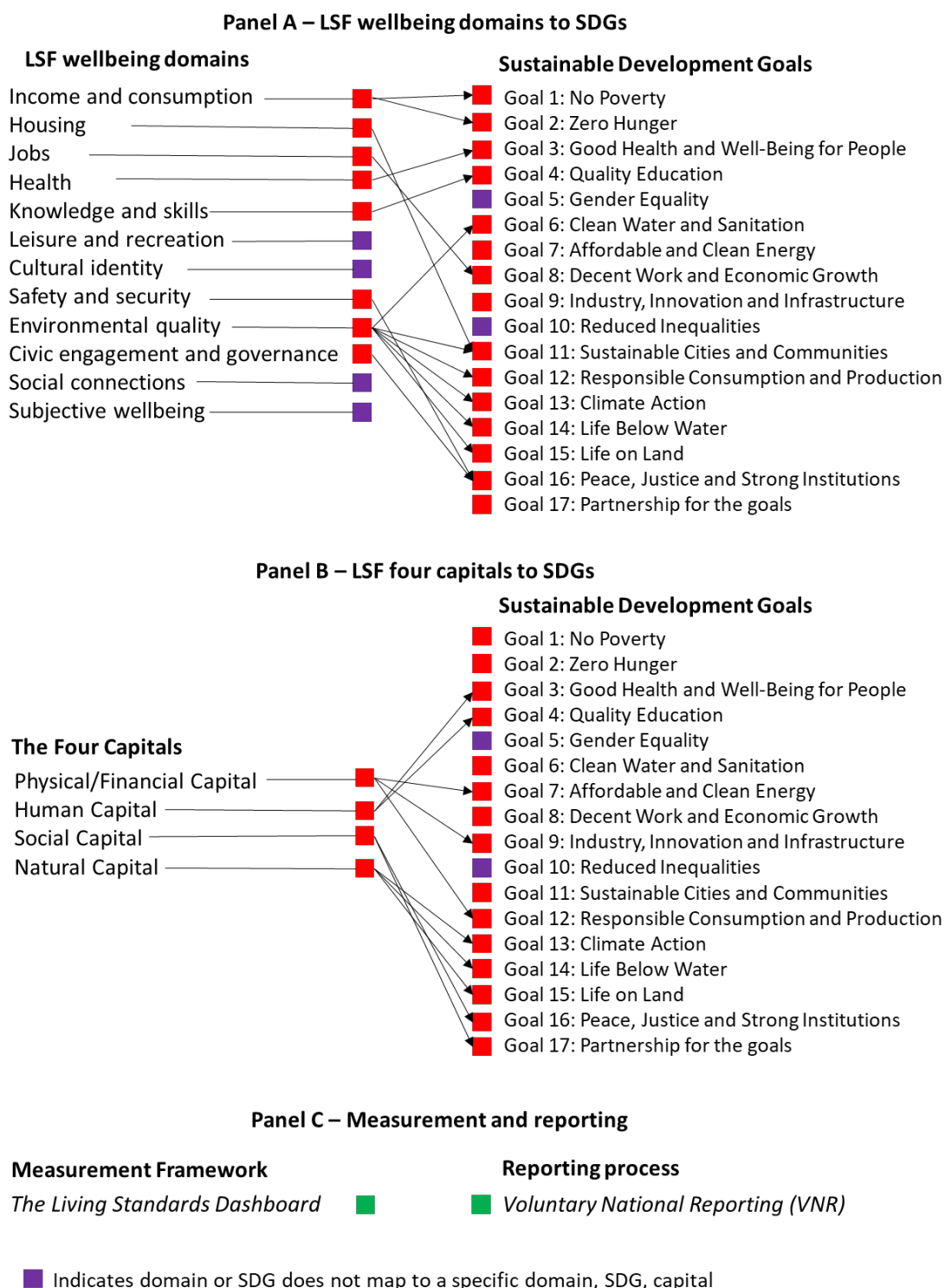


Figure 2 illustrates a mapping from the LSF’s four capitals and 12 domains of current wellbeing to the 17 SDGs. Some of the relationships are looser than others. For example, the LSF Housing domain is somewhat narrower than “Sustainable Cities and Communities” while the LSF domain of Health is very tightly connected to Goal 3.

An interesting feature of Figure 2 is how focused the SDGs are on the environment, with six SDGs mapping (at least partially) to the LSF domain of the Environment (Goals 6, 11, 12, 13, 14 and 15), and three of these also mapping to Natural Capital (13, 14 and 15).

SDGs that don't map to LSF domains or capitals

SDG 5 Gender Equality and SDG 10 Reduced Inequalities are specific goals under the SDGs but they do not map to any particular domains in the LSF. This is not because the gender distribution (and distributions across and within other groups – eg, ethnicity) are unimportant to the LSF, but because the LSF thinks of distribution as a cross-cutting issue that applies to every domain (eg, not just the gender differences in income but also in health, leisure, subjective wellbeing, etc). Indeed, the SDGs themselves are intended to view distributional issues as cross-cutting and applicable to each goal – in addition to the specific goals around Gender Equality and Reduced Inequalities.

SDG 17, Partnership for the Goals, bears some relationship to Social Capital in the LSF.³ However it is worth noting that the LSF is a framework for thinking about wellbeing; it does not, in and of itself, tell us how to improve wellbeing (this is where research and analysis can contribute). Meanwhile aspects of Goal 17 relate to a means or mechanism for improving wellbeing, so are a point of difference to the LSF. In addition, while the Treasury has always appreciated the importance of other countries for our wellbeing, and governments make international commitments, the LSF itself is designed specifically for New Zealand and to measure New Zealand's wellbeing, rather than the wellbeing of other countries – so this is another point of difference with respect to the international components of SDG 17.

LSF domains that don't map to the SDGs

The Cultural Identity domain does not map to one part of the SDGs. In some sense, this is understandable as Cultural Identity, by definition, will vary from country to country. However, it is not fair to say that Cultural Identity is not a part of the SDGs, as the SDGs are designed to take into account a country's own unique position – so in this sense should be viewed as something cross-cutting and of relevance to each goal.

Leisure and recreation, Subjective wellbeing, and Social connections each do not map to an SDG. The SDGs may have benefited from including these however, the flexibility of the SDG process means that countries could include commentary on these domains if they felt they were relevant to their VNRs.⁴

³ Aspects of the Goal 17 also relate to mobilising Financial/Physical Capital, and, to an extent, the social connections domain.

⁴ For example, New Zealand could add leisure reporting under Goal 8. It is also possible that a deeper dive at the target level, or the level of IAED indicators, would identify more places where these aspects of the LSF could fit.

Section 5: Summary and conclusion

While the LSF and SDGs differ in nature – one is the Treasury’s wellbeing framework, the other a UN agreement – there is substantial overlap. Every SDG, except Goal 17, relates either to a domain of wellbeing, a capital stock, or, in the case of gender distribution and reducing inequalities, a cross-cutting issue relating to each domain. Most of the LSF relates to an SDG goal, but since a few domains do not – at least not closely – there is some sense in which the LSF takes a broader, and more New Zealand-specific, approach. However, the flexible nature of the VNR process means that New Zealand could choose to discuss these LSF domains if it wished.

Out of both the LSF and the SDGs falls a measurement framework or reporting framework, and a way to analyse policy.⁵ The LSF will soon have a *Living Standards Dashboard*, while the SDGs have countries report back on progress through the VNR system. One can take an LSF approach to policy by thinking about how a policy impacts the dimensions of wellbeing and the four capitals; while one could take an SDG approach to policy by thinking about how a policy impacts each of the SDGs.

⁵ Though the LSF dashboard, while not yet released, will have much more of a data focus than VNRs – which while including data (and in New Zealand’s case linked to Statistics New Zealand’s IANZ), they also tend to include a lot of context and reporting that goes beyond strict measurement.

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