

# Working paper 2013/04: Living the good life – Defining ‘living standards’

Diana Tam

## Preamble

This working paper is intended to be a non-exhaustive and brief look at how we define living standards in New Zealand and abroad. Most if not all people would agree that improving living standards is one of government’s most important roles. However, things get a little muddier when we consider the question of what exactly a high standard of living constitutes.

## Narrow or broad?

Expressed narrowly, a country’s living standard is determined with reference to material living conditions (‘things that money can buy’) and no more (Perry, 2009). This is the definition that informed the most recent Living Standards Survey conducted by the Ministry of Social Development. A narrow concept of living standards undergirds the pursuit of economic growth, which is often measured with reference to gross domestic product (GDP). In this case, GDP is used as a proxy for living standards.

Echoes of a narrow interpretation can be found in article 25 of the *Universal Declaration on Human Rights* (UDHR), which describes an adequate standard of living as including adequate food, clothing, housing, medical care, necessary social services and the right to security in indigent circumstances. A slightly different, but similar, definition is employed in article 11 of the *International Covenant on Economic, Social and Cultural Rights* (ICESCR). However, note that the UDHR and ICESCR definitions are non-exclusive and potentially encompass non-material factors.

Away from the policy arena, the South African Audience Research Foundation takes a similar approach in its Living Standards Measure (LSM), the most widely used marketing research tool in South Africa (SAARF, 2012). Components of the LSM have changed over time, as certain aspects take higher priority and others become obsolete. For example, once upon a time, a VCR set merited placement on the LSM. Aside from time considerations, the LSM also highlights how the ‘adequacy’ of living standards will differ from country to country. The original LSM examined whether individuals had a ‘domestic servant’ (SAARF, 2012), which is unlikely to be relevant in many nations.

Returning to familiar ground, the New Zealand Treasury uses a broader, perhaps more ambitious definition of living standards. Although the Treasury recognises the importance of material wellbeing, ‘living standards [means] much more than just income or GDP’ (Treasury, 2011) and may include ‘participation in social networks, community life, political choices and civil society’ (Treasury, 2001). This does not cast aspersions on Ministry of Social Development’s work. Rather, it suggests that the term ‘living standard’ is a placeholder for goals and tasks set by whoever is defining the term. Given that it advises the government on a wide range of policy matters, it is unsurprising that the Treasury has adopted a wider definition.

## The relationship between wellbeing and standard of living

The term ‘living standard’ is sometimes used interchangeably with ‘wellbeing’, or ‘the state of being comfortable, healthy, or happy’ (Oxford Dictionaries, n.d.). The former seems to be about what is available to an individual, while the latter is about what the individual actually feels. In crude terms, wellbeing is more subjective for an individual than standard of living, though the two can impact on each other.

The UK Office for National Statistics employed a ‘Wheel of Well-being’ to assess the nation’s wellbeing, with 10 domains and 41 measures of national wellbeing (Corp, 2013). Some measures clearly align with any way we think of living standards (such as household income), although the Wheel also includes measures of mental health, feelings of safety walking home at night and more (OFNS, 2013).

The Australian Treasury also uses a wellbeing framework, although the distinction between wellbeing and living standards is less clear here. The five dimensions of this framework are availability of opportunities, distribution of opportunities, sustainability of opportunities, risk level, and allocation and complexity of choices (Gruen, 2011). Compare this with the dimensions of the New Zealand Treasury’s Living Standards Framework (LSF) dimensions: economic growth, risk reduction, sustainability, social infrastructure and increasing equity. Despite this, it is recognised that factors of living standards also impact on wellbeing (Treasury, 2011).

### **So what does it all mean?**

To reiterate – thinking about living standards will often involve a more objective approach than thinking about wellbeing, although the difference between the two is not always obvious. When defining living standards, you can limit yourself to material factors, such as your level of income, whether you own a fridge, if you have had to go without heating over winter and so on. A richer definition would include non-material factors, such as the enforcement of rights and freedoms, the efficacy of and trust in social institutions and more. The definition chosen will be affected by what you want to measure and what goals you want to attain.

## References

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