

Global Indicators of Standard of Living

by Sophia Tutorial



WHAT'S COVERED

This tutorial will cover global indicators of standard of living, discussing some quality of life indicators that can be used as measures in addition to GDP.

Our discussion breaks down as follows:

1. GDP and Measuring Quality of Life
 - a. Social Indicators
2. Trends in Poverty
3. Indicators of Wealth Mobility and Quality of Life
4. International Comparisons and the HDI

1. GDP and Measuring Quality of Life

Much of macroeconomics, as you are well aware of now, involves measuring, discussing, and comparing GDP among nations.

$$Y = C + I + G + (X - M)$$

Despite its use in attempting to compare the quality of life among nations, though, it is limited in its ability to do this.

It is quite good at measuring consumption across nations because of how it is calculated, using the components of consumer spending, investment, government, and net exports, but it is limited in its ability to compare the quality of life.

Simon Kuznets was credited for developing national income accounting, yet he warned, "The welfare of a nation can scarcely be inferred from a measure of national income."

He stated publicly that GDP should not be used solely as a way to measure the quality of life or standard of living. In Kuznets' view, GDP is only one measure, and to discuss and evaluate the health and welfare of an economy, it should be used along with other measures.

Unfortunately, his advice has not always been taken, and people do sometimes use GDP alone to evaluate

the standard of living in nations.

1a. Social Indicators

However, there is increasing interest in adopting some social indicators that can give us insight into the quality of life in a nation that GDP by itself cannot capture.

Here are some indicators that can give us more insight into the standard of living, quality of life, or general welfare:

- Poverty, income disparity, and wealth mobility
- Population growth, including life expectancy, mortality, and live birth rates
- Literacy rates

As you can see, these indicators go beyond simply calculating consumption in an economy, and we will explore each of them in further detail.

2. Trends in Poverty

Poverty is nothing new. However, we would hope that over time, there would be an improvement in this area and that fewer people in the world would be living in a state of poverty.

Unfortunately, the opposite is the case. It has become almost like a global epidemic.

So, why are more people impoverished today than ever?

The gap between the rich and poor is growing. Also, we see inequalities in terms of access to health care and education--both of which would help to lessen the gap between the rich and the poor, as well as decrease poverty.

Now, the incidence of poverty varies across countries. It used to be the case that, overwhelmingly, it was only in developing or less developed countries that we saw high poverty rates and much larger income disparities between the wealthy and the poor.

However, this is changing. Today, developed nations are experiencing several factors, such as:

- Increasing population. This is because people are living longer, which is good, but it is also causing strain in terms of increasing population.
- Slowing economic growth.
- Wide range of educational attainment

All of these are causing the gap between the rich and poor to grow significantly--even in some of the developed nations in our world.



DID YOU KNOW

A very small percentage of the wealthiest at the top own most of the nation's wealth.

So, where is the middle class? Is it disappearing?

Now, it is a source of American pride that our country offers opportunity to anyone, no matter who you are.

➦ **EXAMPLE** During Barack Obama's presidency, in a State of the Union Address, he spoke of the idea that in our country, you can make anything of yourself that you want to. He cited himself as an example, as the son of a single mother who became President. This is the essence of American pride--that everyone has the opportunity to achieve; it's the idea of "rags to riches."

Throughout our country's history, each generation has enjoyed a higher standard of living than their parents'. This is known as wealth mobility, and it is diminishing.

People are starting to ask, "Will we be the first generation not to live a higher standard of living than our parents?" They wonder if the American dream is still a reality for most Americans, which is a legitimate question.

As measured by our GDP, our country did recover from The Great Recession following the housing crisis. The question remains, though, if everyone in our country felt this recovery. Did the middle class emerge stronger?

Findings indicate that the benefits of our economic growth have gone overwhelmingly to the wealthiest Americans, while those at the bottom continue to feel the pain from the recession.

3. Indicators of Wealth Mobility and Quality of Life

Next, let's discuss some indicators that a country has wealth mobility, or the ability to achieve more and move up in class.

The potential for wealth mobility increases with the following:

- Lower poverty rates
- Higher life expectancy
- Higher literacy rates
- Lower infant mortality rates



Infant mortality rates are measured as the number of deaths of infants under one-year-old per one thousand live births.

All of these things suggest that more people in a nation have access to quality healthcare and education, allowing them to live longer and achieve more.

Although related to GDP growth rates, these indicators actually shed light on how people are living, so they have more potential to demonstrate standard of living versus just GDP.

Here is a chart that outlines various signs of high quality of life in a country:

Indicator	Directional Movement/Comments
-----------	-------------------------------

Poverty Rate	Lower % of population; Government that provides welfare and educational/employment assistance
Population Growth	Declining or at replacement
Life Expectancy	Increasing
Infant Mortality Rates	Decreasing
Live Birth Rates	Decreasing (but because of lower pregnancy rates, not infant mortality)
Employment Rates	High; No gender/ethnic bias
Female Labor Force Participation	Greater/Limited/no wage discrimination



HINT

As a reminder, **labor force participation rate** is the percent of the population actively seeking work and defined as being able to do so; females actively seeking jobs is a sign of a higher quality of life in a nation.



TERM TO KNOW

Labor Force Participation Rate

Percent of the population actively seeking work and defined as being able to do so

4. International Comparisons and the HDI

Several global agencies provide data so that comparisons can be made between countries:

- World Bank
- United Nations
- International Monetary Fund (IMF)

The HDI is the Human Development Index. This is an index developed by the United Nations to rank countries into four levels of human development, considering economic and social development.

The indicators used are life expectancy, educational attainment, and income. The index is a number between 0 and 1.

Here is a partial list of countries ranked into four quartiles--very high, high, medium, and low--based on their HDI.

Very High	High	Medium	Low
Norway (0.955)	Russia (0.788)	China (0.699)	Pakistan (0.515)
Australia (0.938)	Romania (0.786)	Paraguay (0.669)	Haiti (0.456)
U.S. (0.937)	Jamaica (0.730)	Egypt (0.662)	Yemen (0.458)
Germany (0.920)	Turkey (0.722)	Iraq (0.590)	Chad (0.340)



TRY IT

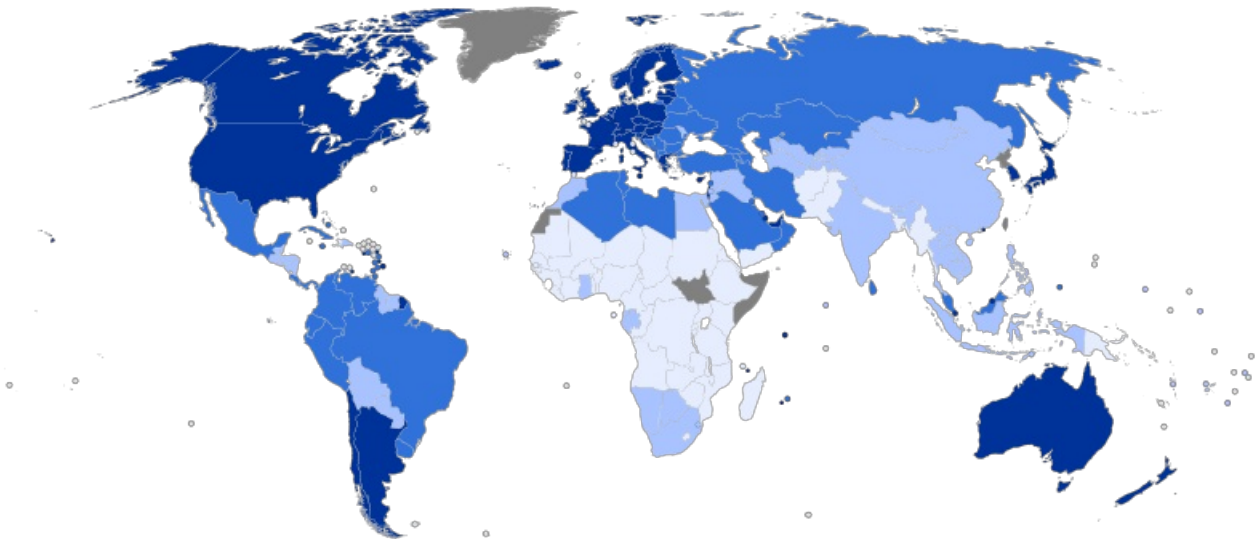
To access the entire list of countries, visit the following website:

http://en.wikipedia.org/wiki/List_of_countries_by_Human_Development_Index

For a visual representation, here is a map that shows HDI for each country in the world.

Each country is color coded as follows:

- Dark Blue = Very High
- Blue = High
- Light Blue = Medium
- Lightest Blue = Low



TRY IT

Again, if you are interested in examining this information in more depth, it can be accessed via the websites of the World Bank and the United Nations:

<http://web.worldbank.org>

<http://hdr.undp.org/en/data>



SUMMARY

Today we learned about the shortcomings of **GDP** as a **measure of the quality of life**, noting the need for **social indicators** to accurately measure the standard of living. We discussed current **trends in poverty** and income disparity. We identified **indicators of wealth mobility and quality of life** that can be used in addition to GDP. Finally, learned about **the HDI**, or Human Development Index, which can be used to make **international comparisons**.

Source: Adapted from Sophia instructor Kate Eskra.



TERMS TO KNOW

Labor Force Participation Rate

Percent of the population actively seeking work and defined as being able to do so.