

Worldwide and European Methods for Assessing Living Standards

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Abstract

The article argues the theoretical concept of assessing the population's standard of living, which in conditions of globalization becomes a factor of competitiveness among countries. The authors show some of the methodological concepts used for assessing the quality of life (QL) from a worldwide perspective.

Using a wide range of theoretical and statistical information, they describe The Economist Intelligence Unit's Quality-of-Life Index (QLI). The authors argue that human development can be defined as an enlargement process of opportunities for people to choose from. From the perspective of human development, opportunities for people extend, in most cases, in three critical areas: life expectancy, educational level, and access to economical resources necessary for a decent level of living. All existing methodologies for assessing quality of life express the quality of life but from different perspectives.

Human development is both a process and a final result. From the perspective of human development, the authors argue the role and importance of subjective evaluation in public surveys. The article also analyzes the results of public polls conducted in European Union countries by „The Economist Intelligence Unit” during the years 2005, 2007 and 2009, the QL components and draws some conclusions.

Key words: quality-of-life index, assessment indicators, methodological concept, quality-of-life management, methods for quality-of-life assessment, life satisfaction.

J.E.L. classification: F

1. Human Development

In market economy conditions the quality of life in one country or another is a competitive factor. At the world level, quality of life (QL) is calculated by using the Human Development Indicator (HDI), the method proposed in 1990 by the United Nations, which includes monetary indices or measures of welfare and social indicators.

To measure the average achievements in a country is a challenge. As indicators of welfare, some monetary indices have been proposed - *income and consumption*, considered as important components of overall quality of life dynamics of the population. Income is one of the key factors which directly affects the living standard. If you assume that population's income generally viewed in terms of its use is manifested through consumption, that its surplus can be seen in savings, and that any increase in real income causes an increase in consumption, then this requires a parallel analysis of income and household consumption to assess welfare. It has been demonstrated that the main tool for measuring poverty is the poverty line, which allows the division of the whole society into poor and non-poor people. This is, essentially, the minimum allowable or critical life standard. The people whose welfare levels are below the poverty line, form the poor part of the population, while the rest are referred to as non-poor.

To characterize the quality of life, the authors consider that the most important income is the available income, known as *net income*, which means that part of income that remains available to people to cover consumer's spending and saving. The volume of expenditure in a given period depends on income levels in the same period, the

accumulation of income from prior periods as well as the use of anticipated income. As a rule, individual income of employees or their families are determined by the respective budgets. In addition to the factors listed above, a special place in the assessment of living standards is held by household consumption, which means all the consumed food and non food products, and the services used by population for non-productive purposes in a given period [3; 4; 5,11].

Each year the Human Development Reports (HDRs) make effective recommendations at national and international level. At national level, policy recommendations aim at human development priorities, the need to establish a new partnership between state and market, to promote new forms of alliance between governments, civil societies and institutions, communities and individuals. National, regional and global reports on human development have played a key role in promoting human development.

2. The Economist Intelligence Unit's Quality-of-Life Index (QLI)

The Economist Intelligence Unit's analysts developed a new QL index for the year 2005, which was based on the subjective opinion of respondents to the QL issues. The results of the research revealed surprising data: Ireland was ranked first comfortably. The United States of America, although ranked second due to its GDP per capita (after Luxembourg), according to the QLI ranked thirteenth, and the United Kingdom ranked the 29th. It was shown a long time ago that material wellbeing alone does not adequately measure the quality of life [12]. Money has its importance, of course, but polls have shown over time that substantial increases in income are not always translated into human satisfaction [14].

Brithish Economic Analysis Division of The Economist Intelligence Unit proposed a new variant of QL index, variant based on a unique methodology that links the results of subjective life satisfaction surveys and the objective determinants of QL in several countries. This way, the QL index was calculated for 111 countries in 2005. We are going to present this methodology for calculating the QL index variant proposed by

The Economist Intelligence Unit [12]. According to some previous studies, material wellbeing, as measured by GDP per person cannot be the only explanation of the complex concept of QL in a country. Some of the literature has tried to adjust GDP by quantifying facets which are omitted by the GDP measure - as, for example, various nonmarket activities and social ills such as environmental pollution. But this approach has faced insurmountable difficulties in assigning monetary values to the various factors that comprise a wider measure of socio-economic wellbeing [12].

There have been numerous attempts to construct alternative, non-monetary indices of social and economic wellbeing by combining in a single statistic a variety of different factors that influence QL. The main problem is selection bias in QL factors and assigning weights to different indicators (measured on a comparable and meaningful scale) in order to find a single synthetic measure. GDP, despite its drawbacks, has at least one clear, substantive meaning, and prices are objective weights for the goods and services component. Some researchers have invoked the Universal Declaration of Human Rights to identify factors that should be included in a QL measure. But even if accepted as a starting point, they are not well defined and easy to weigh.

The starting point of the study conducted by The Economist Intelligence Unit for a methodologically improved and more comprehensive measurement of QL is subjective life-satisfaction surveys. In such investigations subjects are asked the question of how satisfied they are with their lives in general. Therefore, a typical question on a scale used in the EU's Eurobarometer studies is, "On the whole are you very satisfied, fairly satisfied, not very satisfied, or not at all satisfied with the life you lead?"

The results of such surveys have enjoyed growing attention in recent years. Despite initial criticism which is related to cultural differences, language barriers, and psychological factors distorting the answers, tests have disproved or mitigated most concerns. One objection is that responses to surveys do not adequately reflect how people actually perceive their lives; they report how satisfied they are expected to be. But the study conducted by the above mentioned

journal indicates that subjects know very well how satisfied they are. Responses are prompt and non-response rates are low. The simple measure of life satisfaction was found to correlate with more sophisticated tests. Survey results have proved more reliable than expected [8].

Another criticism of this type of investigation is that life-satisfaction responses reflect the dominant view of life rather than actual quality of life in a country. Life satisfaction is seen as a judgement depending on specific social and cultural frames of reference. But this degree of relativism is invalidated by the fact that people in different countries report similar criteria as being important for life satisfaction, and also that the majority of differences in life satisfaction across countries can be attributed to differences in objective circumstances. In addition, it has been found that the answers of immigrants in a country are much closer to the local population responses than answers in their motherland. Answers to questions on satisfaction in bilingual countries do not reveal any linguistic bias related to different meanings and connotations of the words "happiness" and "satisfaction."

There are several reasons why it is not sufficient to calculate the QL index of a country as the average life satisfaction score obtained from processing the survey results. First, comparable results for a sufficient number of countries tend to be outdated, while many nations are not covered by the survey results. Second, the impact of measurement errors on assessing the relationship between life satisfaction perception and objective indicators tends to cancel out when the research refers to a large number of countries. There might also be a significant number of errors for any given country. Thus, there is a bigger chance of error in assessing QL between countries, if we take a single average life-satisfaction score as opposed to a multi-component index. The last and most important reason – inter-country variation in the life-satisfaction surveys can be explained by objective factors.

3. Quality-of-Life Indicators

To calculate an objective index, the British specialists have used the survey results on life satisfaction as a starting point, and as a means for deriving weights for the various determinants of QL across countries.

The nine quality-of-life factors chosen by "The Economist Intelligence Unit" and the indicators used to represent these factors are [12]:

1) *Material wellbeing* (GDP per person, at PPP in \$. Source: Economist Intelligence Unit);

2) *Health* (Life expectancy at birth, years. Source: US Census Bureau);

3) *Political stability and security* (Political stability and security ratings. Source : Economist Intelligence Unit);

4) *Family life* (Divorce rate per 1,000 population, converted into index of 1 – lowest divorce rates to 5 – highest. Sources: UN; Euromonitor);

5) *Community life* (Dummy variable taking value 1 if country has either high rate of church attendance or trade-union membership; zero otherwise. Sources: ILO; World Values Survey);

6) *Climate and geography* (Latitude, to distinguish between warmer and colder climates. Source: CIA World Factbook);

7) *Job security* (Unemployment rate, %. Sources: Economist Intelligence Unit, ILO);

8) *Political freedom* (Average of indices of political and civil liberties. Scale of 1 – completely free to 7 – unfree. Source: Freedom House);

9) *Gender equality* (Ratio of average male and female earnings, latest available data. Source: UNDP Human Development Report).

A number of other variables were also investigated but, in line with findings in the literature, they had no significant impact on QL. These were: education levels, the rate of real GDP growth and income inequality (Gini coefficient). Studies have often found a small correlation between education and life satisfaction. A recent report by the ILO found that an indicator of schooling and training was actually inversely related to wellbeing when jobs were poorly attuned to people's needs and aspirations.

The British analysts have pointed out that GDP per capita explains more than 50% of the inter-country variation in life satisfaction and the relationship is linear. Surveys show that in rich countries high-income population is more satisfied with the level of living than low income people. In 24 of the 28 countries that entered the Eurobarometer survey, material wellbeing has been identified as the most important criterion for life satisfaction. However, over several decades there has been only a very modest upward trend in average life-satisfaction scores in developed nations, whereas average income has grown substantially. There is no evidence for an explanation. In The Economist Intelligence Unit's estimates, the level of income inequality had no impact on levels of life satisfaction. Life satisfaction is primarily determined by absolute status related to states of mind and aspirations. The explanation is that there are four factors associated with modernisation that, in part, offset its positive impact:

- a concomitant breakdown of traditional institutions is manifested in the decline of religiosity and of trade unions;
- a marked rise in various social pathologies (crime, and drug and alcohol addiction);
- a decline in political participation and of trust in public authority;
- the erosion of the institutions of family and marriage.

In personal terms, this has also been manifested in increased general uncertainty and an obsession with personal risk. These phenomena have accompanied rising incomes and expanded individual choice.

4. Quality-of-Life-Assessment in 2010

Since 2010 we have witnessed another period in the development of worldwide QL assessment. The new methodology for evaluating the global QL focuses on the following factors [8; 9]:

- cost of living in a country;
- people's culture and hobby;
- economic development;
- degree of cultural development;
- public health;
- infrastructure development degree;

- state security or stability;
- climatic conditions.

Some indicators previously used to assess QL are no longer in use. These are: GDP at PPP in \$, job security, political stability and freedom, family life, etc.

"International Living" Journal 2009 [14] published a top ten best countries in terms of QL, meaning the cost of living (15%), culture and hobbies (10%), economy (15%) environment (10%), freedom (10%), health (10%), infrastructure (10%), security (10%), climate (10%). France ranks first, then Australia, Switzerland, Germany, New Zealand, Luxembourg, the United States, Belgium, Canada and Italy. Australia, for example, is a place good for retirement, living a balanced life, enjoying a temperate climate, vast beaches and great landscapes. Also, people with college degree will find a job easily because of the Australian economy and the Asian boom. In Switzerland, everything works. There is reliability, quality, discretion, punctuality, safety and tranquility. Five languages are spoken in Switzerland. In New Zealand you can see the most beautiful scenery in the world. Moreover, for young graduates, New Zealand is the perfect place. There is a very low crime rate as well. Romania is flanked by the Cayman Islands and the Dominican Republic [2].

5. Drop in satisfaction with life and standard of living in the EU

In general, the most striking changes between 2007 and 2009 were seen in terms of satisfaction with life in general and with standard of living. Between the last quarter of 2007 and September 2009, the average level of satisfaction with life in general across the EU fell from 7,0 to 6,8, or by about 4%. This decline was more marked in the new Member States, where global life satisfaction had been increasing: here, the average score fell from 6.5 to 6,1, this decline of 6% being twice as great as the fall in life satisfaction in the EU15. The biggest falls were in Bulgaria (where average ratings of life satisfaction fell from 5,0 in 2007 to 4,4 in 2009), Romania, Malta, Estonia and Latvia, but also in France where the average life satisfaction rating fell from 7,3 to 6,7. So, in the Baltic States, for instance, the pattern of decline in life

satisfaction reflects the drop in GDP. However, it does not correspond to the relatively small declines in GDP in countries such as Malta and France [13].

There was no difference between men and women in terms of the drop in life satisfaction experienced between 2007 and 2009. However, a clear difference was seen between older and younger people: among people aged between 18 and 34 years, ratings of life satisfaction rating fell by only 1%, while they fell 5% among older people. The survey findings indicate that older people in the NM-S12 enjoyed fewer of the benefits of enlargement and are feeling exposed to the risks of the economic crisis. The ratings of life satisfaction among people aged 65 and over were, in 2009, on average of 7.0 in the EU-15 countries and only 5.5 in the NMS-12, which may in part be related to the poorer health of older people in the NMS-12.

Household income and material conditions have a consistent relationship with ratings of life satisfaction. Both the 2007 and 2009 surveys include a question on how easy or difficult respondents found it to make ends meet. In 2007, the average life satisfaction score for those who found it easy to make ends meet was 7.8; in 2009, this was 7.7. The corresponding ratings for people finding it difficult to make ends meet were 5.3 and 4.9. So, the fall in life satisfaction among people who reported difficulty in making ends meet was, on average, 8% between 2007 and 2009. However, this decline was greater in the NMS-12 – 15% compared with 6% in the EU-15, perhaps reflecting the greater depth of difficulties in the NMS-12. The average life satisfaction score for people who were unemployed at the time of the surveys was unchanged among people in the EU-15, but fell by 11% among respondents in the NMS-12 – from 5.7 to 5.0. A similar pattern of decline can be seen when people's satisfaction with their standard of living is compared. On average, in the NMS-12, citizens' satisfaction with their standard of living increased by 9% between 2003 and 2007. However, it fell by 6% between 2007 and 2009. In the EU15, the decline in satisfaction with the standard of living between 2007 and 2009 was less, at 4%. Moreover, the average rating of satisfaction with standard of living was 6.9 in the EU-15, compared with 5.8 in the NMS-12. The

biggest falls in ratings were in Romania and Malta, followed by Latvia and Portugal, France and Estonia, so the perceived decline in standard of living was by no means only in the NMS-12 or those countries most affected by the crisis.

In terms of social groups, older people in the NMS-12 would appear to have been most influenced by the economic crisis. Among people aged 65 and over, ratings of satisfaction with standard of living fell by 5% in the EU-15, but by 12% in the NMS-12. And older people in the NMS12 rate their satisfaction with their standard of living at a lower level than their counterparts in the EU-15: in the 2009 survey, among people aged 65 and over, the average rating of satisfaction with standard of living was 6.9 in the EU15 as against 5.2 in the NMS-12. Not surprisingly, people who say that they are finding it difficult to make ends meet are much less satisfied with their standard of living than those who find it easy.

As table 1 shows, around twice as many people in the NMS12 as in the EU15 find it difficult to make ends meet. In 2009, the proportion of citizens having difficulties was highest in Bulgaria, Greece, Hungary and Latvia (more than 30% in each country, and more than 40% in Bulgaria). The pattern was little changed from 2007; the greatest increases (of more than 5%) were in Greece, Ireland, Latvia and Lithuania.

Table 1 Elements of economic strain, EU-15 and NMS-12, %

	EU-15		NMS-12	
	2007	2009	2007	2009
Difficult to make ends meet	10	11	26	22
Cannot afford meat	4	6	20	21
Cannot afford a holiday	24	28	55	55

Source: Trends in quality of life in the EU: 2003–2009

Two particular indicators from the deprivation index were used to identify changes in relatively severe hardship: being *unable to afford meals with meat, chicken or fish* every second day, and being *unable to afford a week's annual holiday away from home*. Table 2 shows that the proportions

unable to afford these items are much higher in the NMS, but that there was relatively little change overall between 2007 and 2009. The biggest increases in deprivation were found in Hungary, where the proportion of citizens who said that they were unable to afford meat rose from 32% to 42% between 2007 and 2009. Meanwhile, the proportion unable to afford a holiday rose from 61% in 2007 to 73% in 2009; the only other country in which people reported comparable levels of deprivation in 2009 was Bulgaria.

While between 2007 and 2009 there were noticeable falls in people's satisfaction with their lives, and their standard of living, there was less change in their satisfaction with other aspects of life. Between 2007 and 2009, satisfaction with family life and health fell somewhat more, but job satisfaction remained remarkably stable, as Table 2 indicates. People rated their satisfaction on a scale from 1 to 10.

Table 2. Satisfaction with different aspects of life, EU-15 and NMS-12

	EU-15		NMS-12	
	2007	2009	2007	2009
Family life	7.95	7.81	7.70	7.52
Job	7.22	7.21	6.84	6.95
Health	7.44	7.26	6.98	6.7

Source: Trends in quality of life in the EU: 2003–2009.

Satisfaction with family life is relatively high in all countries, and it is difficult to discern any consistent trend across the three points in time. However, there are two groups of countries in which satisfaction with family life fell between 2003 and 2007, and again between 2007 and 2009 – Germany and Austria; and Greece, Italy, Portugal and Spain. The views of older people appear to have changed somewhat more than those of the average citizen between 2007 and 2009, with a decline of 3% in their level of satisfaction with family life, compared with a fall of 2% for people aged between 35 and 64 years, and no change among those aged between 18 and 34. There was no difference between the ratings that men and women gave to their levels of satisfaction [13].

Between 2007 and 2009, levels of satisfaction with health fell by 4% among respondents in the NMS12 and by 2% among

people in the EU 15, the most marked drops being in Bulgaria, Romania and Portugal. However, people in Latvia were more satisfied with their health in 2009 than they had been in 2007, so it is difficult to know how to interpret such changes. Overall, average job satisfaction did not change between 2007 and 2009, and in the NMS12 it rose by 2%, on average. This appears paradoxical against a background of economic recession, growing job insecurity and deteriorating working conditions (for at least some workers).

6. Conclusions

From our point of view, the methodology proposed by UNDP in 2010 for QL assessment is interesting and relevant. It allows countries in the world to be compared according to several indicators. However, it is quite cumbersome and time-consuming to compile and systematize primary information. In conclusion, we argue that human development can be defined as a process of enlarging people's choices as much as possible. Every day people make many choices in the economic, social and political areas. From the perspective of human development, people's opportunities to choose are expanding in three critical areas: life expectancy, educational level and access to economic resources necessary for a decent life.

However, the fundamental human development framework is much broader. The concept of human development is linked in a compatible and complementary way to human rights. While human development aims at expanding opportunities and freedom enjoyed by members of the community, human rights is an approach to improving the social structures that facilitate or secure these capabilities and freedom. Other choice areas, whom people assign a high value, is the participation in social life, security, responsible governance and sustainability. In terms of human development all these factors are necessary in order to ensure productivity and creativity, self-respect and the sense of belonging to a community. Ultimately, human development means to develop people for people and through people. The essential difference between the concept of economic growth and human development is that the

former focuses exclusively on a single expansion possibility - to make money, while the latter involves the consolidation of all possibilities – either economic, social, cultural or political. From the viewpoint of the concept of human development, income is a means for human development, but not the only one. Using various methods, the benefits of income should be used to cover multiple aspects of development. Therefore, growth is a necessary but not sufficient condition for human development.

According to Human Development Reports, human development matters first, not quantity, but quality growth. Often governments, especially in transition countries, do not consider improving the quality of economic growth and expanding opportunities for people to choose from. Usually, they are concerned with other aspects of the transition process, such as macroeconomic stabilization, budget execution, foreign policy, marginalizing the importance, structure, quality, and influence of other factors on human development. The experience of several countries in transition in the last decade has proved that there is no direct link between stability, growth and human development.

But even if this link has been established, it may wither away, especially if strategic policies management is not consistent or appropriate to the goals of human development. For these reasons, human development should be incorporated into public policy debates and decision-making process agenda. We should not ignore that the definition of human development goes beyond per capita income, human resource development and basic needs as a measure of human progress. From this year on, the definition should also include the following factors: inequality and human development, social justice, international development assistance and international trade that can unlock the potential of human development.

QL assessment is performed by using more thoroughly standards at the regional (European) level than at the global level. The latter way does not contradict the logical links between the two approaches. We can say that these methodologies are in "cause and effect" relationship. The highest effects are registered at the global level, confirming the impact of regional factors in global

phenomena such as population migration, global warming, viral diseases expansion, less agriculture share in countries' economies, population's poverty increase, etc. [5].

7. References

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