

# ECONOMIC QUALITY OF LIFE INDICATORS

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**Abstract:**

*Traditional indicators have usually focused on economic factors such as consumer spending and production measures. Although these factors may indicate the economic health of a region or society, they do not present a full picture of the well-being of the people involved.*

*There are quality of life measurement indicators that attempt to present a more holistic picture of what the quality of life constitutes and take measurements across categories such as education, shelter, environment and public safety.*

*The quality of life depends on many other factors apart from just GDP.*

**Key words:** *quality of life, education, shelter, environment, public safety*

**JEL classification:** P46

Quality of life is a broad concept that describes and assesses people's well-being. The term, which emerged in the 1960s, questioned the simplistic assumption about the relationship between economic growth and social well-being (Sirgy, Michalos, Ferriss, Easterlin, Patrick, & Pavot, 2006).

Although economic well-being is found to be positively correlated to some quality of life aspects such as life expectancy, educational attainment, and human rights, some studies have demonstrated that economic progress does not always guarantee, and may even be inversely related to, other aspects of well-being such as personal happiness, community safety, and a healthy environment (Diener & Suh, 1997; Bognar, 2005).

Traditional indicators have usually focused on economic factors such as consumer spending and production measures. Although these factors may indicate the economic health of a region or society, they do not present a full picture of the well-being of the people involved.

The gross domestic product (GDP) is the most important macroeconomic indicator which measures the total flow of goods produced and services provided in an economy over a defined period of time, usually one year.

The GDP is expressed as a percentage increase or decrease compared to the prior quarter. The GDP is a compilation of four factors: net exports, consumption, investment and government purchases. The government aims at keeping a healthy ratio between national debt and its GDP.

In terms of population (GDP/capita), the GDP serves for international comparisons regarding the general level of economic development and from the chronological point of view it reflects its dynamism in the country of analysis.

The structure of the GDP, regarded from the point of view of the establishment sources criteria, namely its destinations, characterizes the degree of the economy's modernity (by the share of the sectors contributing to its creation: primary, secondary and tertiary) and the type of development and allocation of resources (for accumulation/investment and immediate or delayed consumption - savings). Also, by relating to the GDP, the size of any macro-economic indicator of a country is more precisely characterized.

Starting his research in the 1970s, University of Pennsylvania economist Richard Easterlin found no evidence of a connection between the countries' income - as measured by GDP per capita - and peoples' reported levels of happiness.

More recent research suggests that GDP isn't quite so bad. Using more data and different statistical techniques, three economists at the University of Pennsylvania's Wharton School—Daniel Sacks, Betsey Stevenson and Justin Wolfers—found that a given percentage increase in GDP per person tends to coincide with a similar increase in reported well-being. The correlation held across different countries and over time.

Still, for measuring the success of policy, GDP is far from ideal.

The net domestic product results from subtracting from the gross domestic product the expenditures on goods destined for replacing some parts (which are used-up or outdated) of the technical and material basis (net domestic product - NDP).

The gross national product is the macroeconomic indicator in which is included, besides the gross domestic product (GDP), the income from investments made and properties held by the domestic agents abroad, and is eliminated the income created within the country by foreign agents.

It is expressed in units of national currency, and, for international comparisons ("gross national product" - GNP), in units of foreign currency, most commonly dollars. By relating to population, it serves – just like the GDP - as a synthetic indicator for the living standard, and, seen from the dynamic point of view, it expresses the level of economic growth in the respective country.

The interest rate is a value paid for borrowing money for a period of time, usually expressed as a percentage of the amount demanded (provided). For the loan or deposit to have a stimulating character, its sizing takes into account the rate of inflation during that period.

The degree of concentration of an economic sector expresses the share of all the firms that exceed a certain (defined) level in that sector's production. One can also calculate the share of the first "n" firms in the total invested capital, the share of the profits obtained, the commercial area etc.

Productivity shows the ratio between the production (outputs) and the resources (inputs) used in the production process. When the denominator is represented by labor resources, we get labor productivity: the quantitative or value result of the process per one worker, per one unit of time (hour, day, month, year) or per man-hour, man-month, etc.

Productivity level depends both on the human factor (training, skills) as well as the material factor (technical equipment, technology and organization, also reflected in the intensity of capital consumption).

The natural (economic) growth rate results from adding the labor force growth rate to the the labor productivity growth rate.

The degree of labor turnover is shown by the rate at which workers leave a company where they had worked for a period of time, usually one year. The higher the turnover is, calculated for the same average number of employees, the labor costs of the company increase.

The cost of living shows in percentages the relative change in all the expenses needed in order to live from one reporting period (considered basic) to another. One will take into account only some of the expenses, considered to be more representative, and grouped into a so-called "consumer basket", which varies from country to country. Calculations are done on different cases of households (families) with a certain number of members, area of residence and socio-professional status, because an overall average would have no particular relevance. For example, when we say "the cost of living of a family with employees and 4 members increased by 10% in May compared to April" we

mean that, in order to maintain the living standards from the previous month, the family spends 10% more.

The disposable income is that part of the salary that the individual takes home, or that part of the total national income available to households for consumption or depositing (savings). More specifically, the GDP minus total taxes, reserves for business and for covering capital deposit, plus payment of government transfers or other types of transfers and payment of interests granted by the State. It is the key parameter for the economic behavior of households and for establishing their living standard.

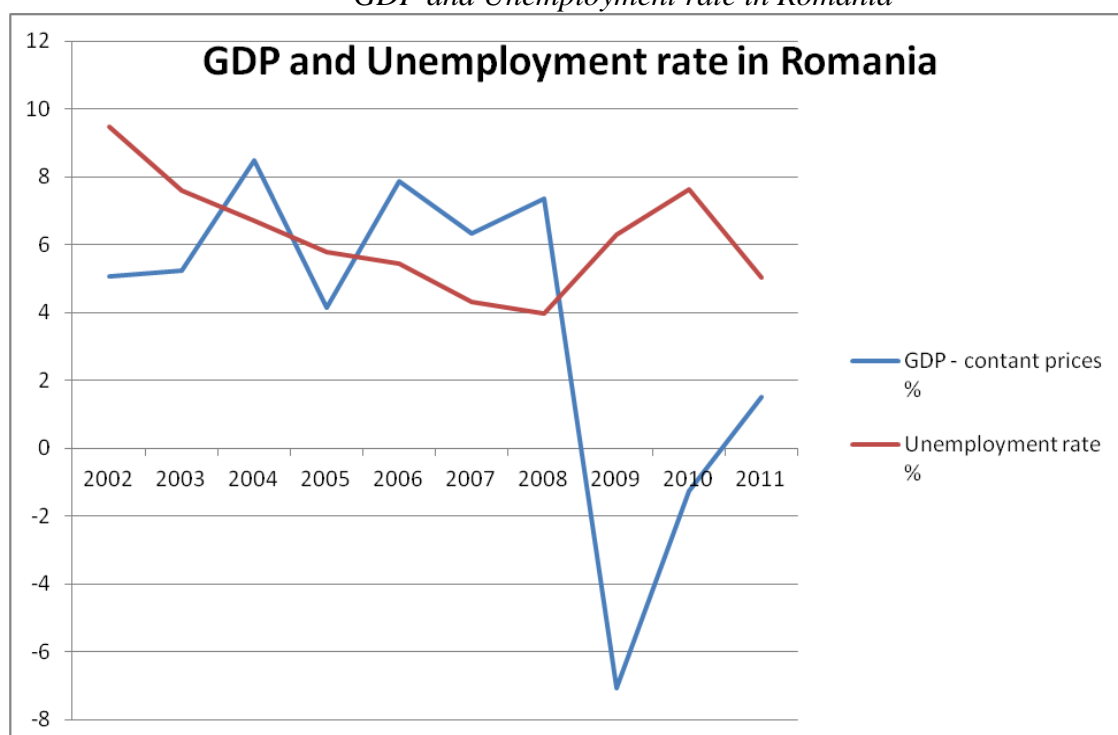
Per capita income is an indicator derived from the ratio between the total income of a community and the number of its people. It may refer to an inhabitant of a country or a town or a family member of a household. It is a relative indicator, particularly meaningful for standard of living comparisons.

Budget surplus (the macroeconomic level) represents the amount by which government revenues exceed its expenses in a given financial year, without including the eventual loans in the category of incomes. In relative measure, it appears as a share of that period's GDP.

Budget deficit is the amount by which the total government revenues expenditures exceed its total income in a given financial year. It is usually financed through loans and is meant not to exceed a certain percentage (considered reasonable) of the GDP.

Tax burden is the amount of money that an individual, an institution or group of people is required to pay under the form of taxes.

*Figure 1*  
*GDP and Unemployment rate in Romania*



*Source: Data processed using data from the World Economic Outlook, 2011, by Koema Beta, <http://knoema.com/nwnfkne/gdp-ranking>*

The economic quality of life indicators can be classified into several categories, namely (Yuan, S., Kole, S., Hwang, S.Y., Manlagñit, M.C., Yuen, S., & He, S.J. , 2009):

- Standard of living with the indicators: per capita income in current dollars, poverty rate (% of people), free or reduced – cost lunch (% of school children);
- Income inequality with the indicators: Gini index (a scale of 0-100), income share of household in the top 20% income group (% of income);
- Employment: economic dependent ratio (number of people in the total population who are not in the labor force per 100 of those who are), unemployment rate (% of people in the civilian labor force);
- Compensation and work hours: median earning (for people aged 16 and over with earnings in the past 12 months, current dollars), working long hours (usually work 41 hours or more per week, % employed people aged 25-64).

*Per capita income* assesses the economic health of a population. As an average measure, per capita income tells us how well income growth has kept up with population growth. A decreasing or increasing per capita income is useful in gauging local economic conditions and trends over time. Personal income affects many areas of concern such as access to adequate housing, healthcare, higher education, safety, nutritious food, and clean water, suggesting that strong economic resources can contribute to a higher quality of life.

*Poverty rate* gauges the percentage of individuals with an inadequate standard of living and limited access to food, clothing, shelter, health care, and education, all of which determine quality of life. Other challenges associated with poverty include stress, strained family relationships, unaffordable child care, unsafe environment, and transportation difficulties, which are associated with financial insufficiency.

*Free or reduced-cost lunch* measures student poverty and its concentration in public schools. Therefore, this indicator reveals the number of school-age children living in or near poverty. Research shows that children from low-income families are more likely to lack the resources needed to meet daily-living needs, perform poorly academically, and be at risk for child abuse or neglect.

*The Gini index* provides a summary measure of income inequality within a population and indicates how much the income distribution differs from a proportionate distribution. A measure of 100 indicates perfect inequality, i.e., one person has all the income while the rest has none. A measure of 0 indicates a perfect equal-sharing of income among all people. This index is also useful in measuring relative changes in income inequality over time. A decreasing Gini index indicates an improving income equality.

*Income* allows various means for meeting one's needs and goals. However, income also enables individuals to accumulate wealth, power, and influence, which may have important implications in a democratic society. An increasing concentration of income suggests greater inequality in a community. This also reflects changes in the distribution of most other income sources.

Therefore, a decreasing percentage of income-share of the top 20% income households reflects a reduction in income inequality.

*The economic dependent ratio* measures the extent of a community's population that is not participating in labor force, and is an indicator of the economic responsibility of those who are economically active in providing for those who are not. An economic dependency ratio of less than 100 means there are more economically active people than non-economically active people.

*Economic dependency* is directly related to the number of children (17 years and below) and older adults (65 years and over), and to some degree, is associated with the educational attainment and job availability in the community.

*Unemployment rate* tends to understate the unemployment situation of a region because it does not include underemployed workers or those who have given up job

seeking because they believe no jobs are available to them. Prolonged unemployment may lead to difficulty in meeting the basic necessities of daily living.

*Median earning*, which is the most basic measure of economic well-being and opportunity, determines, primarily, people's capacity to access food, clothing, shelter, and transportation—all of which determine quality of life. An increase in earnings indicates greater discretionary income for the purchase of goods and services, and plays a significant role in ensuring that individuals can be financially independent and more economically secure in the future.

The indicator "*Working long hours*" addresses the effects of long working hours on fatigue, health, and safety outcomes and work-life balance. Employees feel the strain of working long hours. Every hour spent at work is one less hour that can be spent with family or friends, or pursuing personal interests. Moreover, there is a tangible downside to overwork, from mental-health problems to physical ailments and job injuries that fatigue and stress cause. Too many hours at the office can also lead to less productivity since employees who are overtired or preoccupied with neglected personal issues are unlikely to perform at their peak. At the same time, workers who work longer hours may have difficulty in maintaining a healthy lifestyle, and obesity has become more prevalent as work hours have increased for some.

The economic indicators can shed light on a society's quality of life, as well as on how specific factors influence well-being.

I have argued that economic indicators are needed to understand human quality of life, and to make informed policy decisions.

Although the various measures each have a number of strengths and weaknesses, they are methodologically and conceptually complementary. Quality of life is a complex, multifaceted construct that requires multiple approaches from different theoretical angles.

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