

LIVING STANDARD VS LIFE QUALITY BY DARIUSZ KORELESKI – A COMMENT

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Abstract. This comment discusses D. Koreleski’s article in *Acta Scientiarum Polonorum* – *Oeconomia* 6 (3). The aim of the comment is firstly to discuss the article and secondly to present some completing ideas.

Key words: Gross Domestic Product per capita (GDP pc), Purchasing Power Parities (PPP), Human Development Index (HDI), quality of life, economic and social welfare, static and dynamic aspects

INTRODUCTION

According to Johnsson [1990], “the rate of growth of the economy is the most important single indication of a country’s economic performance”. Furthermore, “...it is the per head growth... which should be used as an indicator of the rise in human welfare. (Consumption or personal income per head more accurately reflect living standards.)” Though growth rates are often used as descriptions of economic progress, they are not always clearly defined in the literature. It is sometimes not clear, whether the changes of production possibilities or of production (in this case totally, per head of population or per employed person) are meant. In his interesting article, D. Koreleski [2007] discusses instead of growth rates the levels of living standard, i.e. the economic situation of the average individual person at a certain point of time or during a period. The level of living standard is an important information about the average person’s economic situation. Furthermore, because many countries are members of international organization, the question of how to finance these organizations arises: average living standard could be a base of payments from individual member countries. Finally, by measuring the average level, when countries have different growth rates, we can investigate whether there are tendencies of convergence, whatever is meant by this.

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The objective of this comment is to firstly to discuss Koreleski's article¹. Secondly, we want to mention some completing points of view. The comment is organized in the following way. After the introduction, in section 2 the aim of the article is presented. In section 3, different aspects of living standard and the quality of life are discussed. Section 4 presents several completing points of view, regarding the article. Section 5 consists of some final remarks.

THE AIM OF THE ARTICLE

Koreleski has in fact several aims. He is mainly interested in "...social welfare of inhabitants...". To discuss and describe this he uses the following variables:

- GDP per head of population in purchasing power parities (GDP pc PPP)
- The Human Development Index (HDI), presented by the UNDP. The HDI is a summary of GDP pc PPP, life expectancy at birth and an education index.

Furthermore, Koreleski combines GDP pc and HDI. Besides of this, he even discusses life quality, which is described by a ranking based on the Economist [2006]. Finally the article discusses the relations between living standards and quality of life.

LIVING STANDARD AND LIFE QUALITY

According to Koreleski, living standard is easier to measure than the quality of life, which is more subjective and personal, but even a more comprehensive measure. Usually living standard is expressed with the help of GDP pc PPP to eliminate differences in price levels between countries. It is not always sure, that there is a positive relation between living standard and quality of life.

The HDI comprises more dimensions than GDP pc and seems therefore to be a more complete measure of living standards than GDP pc. On the other hand, HDI includes GDP pc, and probably there are some relations between this measure and life expectancy and education.

While GDP pc can be seen as an absolute measure of living standard, HDI is more of relative character.

The quality of life index [The Economist 2006] is a ranking, consisting of nine different aspects.

- | | |
|------------------------|--------------------|
| – Cost of Living, | – Health, |
| – Leisure and Culture, | – Infrastructure, |
| – Economy, | – Risk and Safety, |
| – Environment, | – Climate. |
| – Freedom, | |

Though there are probably some positive relations between living standards and quality of life, it is not sure that economic growth always leads to an "...increase of social welfare" [Koreleski]². Higher GDP pc and therefore living standards could be achieved

¹ Which from now on is called "the article".

² Even Vogel and Wolf (2004) argue in this direction, while Johnsson (1990) seems to be more optimistic regarding the relation between growth and welfare.

through less leisure time and more working hours, which could lead to a lower quality of life. On the other hand, if people are healthier, even when they become older, a longer working life could have positive implications for life quality. Obviously, there are other aspects of the Quality of life index which could be related negatively to living standard, expressed as GDP pc or the HDI.

SOME COMPLETING POINTS OF VIEW

While both HDI and the Quality of life index are more about rankings than absolute differences, GDP and GDP pc in absolute figures can be found in many different international sources, which hopefully make country figures comparable. In this section some completing points of view regarding mostly the GDP measures in the article are presented.

First of all – though and Koreleski has mentioned this – we have to be careful when discussing welfare: GDP measures the value of goods and services production in a country during a certain period of time. After a natural disaster or war during the rebuilding period, a rise in production and therefore GDP can be observed. Nothing yet is said about the destruction of physical capital and infrastructure, which obviously influences welfare negatively. Furthermore, the informal sector of the economy is not directly included in the GDP³.

The second point of view has to do with income distribution. If two countries have the same GDP pc and therefore even the same average standard of living, income distribution both between rich and poor and males and females matters. It is possible that a country with a lower GDP pc could have a higher standard of living – measured in a more comprehensive way – compared with another country with higher GDP pc, but very unevenly distributed incomes.

Thirdly, the question could be asked, whether GDP is the adequate measure of national income of national product. While the quantitative sizes of GDP and Gross National Income (GNI) are in most of the countries quite close, regarding Europe, we can observe large differences between these measures in Luxembourg and Ireland⁴. The level of GNI is one of the determinants of payments to Brussels for member countries of the EU. It could be a good idea to choose GNI pc as a measure of average standard of living, at least for those countries, which have large differences between GDP and GNI.

The fourth point of view is related to the idea of convergence of countries. Even Koreleski discusses the question of convergence. In *European Economy* [1993], “real convergence” is defined as “...convergence in living standards...”. To investigate whether there are tendencies of real convergence, figures from different points of time or time periods could be presented.

There seems to be an agreement that in international comparisons GDP should be measured in PPP, to eliminate the differences in price levels between countries. The fifth point of view is related to very open economies, with very high levels of imported

³ Incomes which are earned in the informal sectors can be spent on goods and services bought and sold on markets. In this way even the informal sector can influence GDP.

⁴ According to OECD, *National Accounts* (2007), in 2005 Irish GDP was 14.5 per cent lower and Luxembourg's GDP 18.3 per cent lower than GNI (at current prices).

consumption and investments commodities⁵. If there are large differences between a country's exchange rate and purchasing power parities in the sense that the national currencies is strongly undervalued, than PPP are probably not showing the living standard correctly. In this case, imported consumption and investment goods are paid according to the exchange rate. Probably PPP then is overestimating the average level of living standard.

Finally, Koreleski's method of normalizing his figures by using the Zero Unitarization Method⁶ makes it a little bit difficult to compare countries more in detail. If we are only interested in ranking, then it does not make any difference, whether we use absolute or relative figures. HDI and the Quality of Living index are more about rankings and relative situations. Regarding GDP pc, absolute figures in both exchange rates and PPP can easily be found. Probably it would have been interesting for readers to learn something about the absolute differences in GDP pc – and therefore even in living standard. Therefore, perhaps table 1 could have been presented both in the version as in the article, but even in absolute GDP pc figures.

FINAL REMARKS

According to the Presidency conclusions (even known as the Lisbon Agenda 2000), “the (European) Union has ... a new strategic goal for the next decade: to become the most competitive and dynamic knowledge-based economy in the world...”. The World Economic Forum [WEF 2002] “... defines a competitive country as one that”... “can provide its citizen with high and rising standards of living...”. It seems that the Lisbon agenda takes the development in the USA as a benchmark. The USA has on average higher GDP pc and employment rates than Europe. But is the quality of life higher in the USA too? In his article, Koreleski has discussed different measures of living standards. A comparison with the USA shows, that living standard and the quality of life in some European countries are higher than in the USA. As already discussed, rising living standard must not always mean rising quality of life. If rising living standard is achieved by more weekly and yearly hours of work and falling leisure time, then it is not sure that the quality of life is rising. As mentioned before, if healthier people are working more and a longer period of their life, both living standard and the quality of life can rise.

An intuitive example can illustrate that even low living standard must not mean low quality of life. Students have usually quite low standards of living during their years at the universities. Most of them yet expect that their incomes and possibilities to find interesting jobs will rise considerably after graduation. Probably when they are judging their quality of life, their actual living standard has only limited significance. The expected positive future is probably more important for students. The argumentation even shows (see more in Koreleski's article) that while living standard is a static concept, limited to a certain period or point of time, life quality has dynamic aspects, comprising the past, the present and the future.

⁵ And usually even high exports of goods and services, which too are paid according to the exchange rates.

⁶ The country with the highest value of GDP pc or HDI receives the value of 1, while the country with the lowest values receives 0.

Finally, the author of this comment wants to mention that Koreleski's article is very interesting, urgent and inspiring for future research.

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STANDARD ŻYCIA A JAKOŚĆ ŻYCIA – KOMENTARZ DO ARTYKUŁU DARIUSZA KORELESKIEGO

Streszczenie. Autor poddaje dyskusji artykuł D. Koreleskiego pt. Standard życia a jakość życia, opublikowany w *Acta Scientiarum Polonorum – Oeconomia* 6(3). Celem komentarza jest dyskusja ze stanowiskiem autora komentowanej pracy, a następnie uzupełnienie go o dodatkowe aspekty.

Słowa kluczowe: Produkt krajowy brutto per capita, parytet siły nabywczej, wskaźnik rozwoju społecznego, jakość życia, ekonomiczny i społeczny standard życia, aspekt statyczny i dynamiczny

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