

A Study of Quality of Life in Advanced and Emerging Economies : Report of World Economic Forum

Dr Varun Sarda

Faculty, Prestige Institute of Management and Research, Indore

Dr Yamini Karmarkar

Reader, IMS, DAVV, Indore

Dr Neha Lakhotia

Faculty, Pioneer Institute of Professional Studies, Indore

Email : neha.pimd@gmail.com

ABSTRACT

The growing inequality and slow progress of the living standard of people have led to a condition of erosion of social cohesiveness and hence a need of a political polarization has come up. Through out the World a need for an inclusive and sustainable model has come up which promotes high standards of living and growth in the economies. In light with the above mentioned problem the World Economic Forum has introduced an Inclusive Growth and Development Report which identifies fifteen areas which can lead to better growth figures and social participation. Hence, as an alternative to Gross Domestic Product the Inclusive Development Index was developed. The Inclusive Development Index (IDI) is an annual assessment of the economic performance of 103 countries on eleven dimensions of economic progress in addition to GDP. The IDI has three pillars of growth namely - growth and development, inclusion and intergenerational equity – sustainable stewardship of natural and financial resources. The study also makes an analysis using inputs from the SEDA and HDI.

Keywords: GDP, IDI, Economic progress, HDI, SEDA

Introduction

Worldwide a need is being felt for an inclusive and sustainable model of growth and development which is capable of promoting high standard of life. This has become all the more important because of the slow progress in the living standard of people and widening inequality which has in turn led to erosion of social cohesion among countries. To help narrow the gap the World Economic Forum has introduced an economic policy framework and performance metric in Inclusive Growth and Development Report 2017. Through this 15 areas of structural economic policy have been identified to contribute to higher growth and social participation. The structural policies represent a system through which economies diffuse gains in living standards. Under emphasis of policies relative to macroeconomic, trade and financial policies is the reason for a failure to mobilize response to inequality and stagnant median income. The imbalance is reinforced by the national economic performance and Gross domestic product. For the common populace the standard of living being enjoyed by them is more important than the national macroeconomic indicators. For policymakers however what is of supreme importance is the GDP as a standard measure of economic success.

Quality of life or the satisfaction people draw from the quality of life they spend in a country has been gaining enough importance of late. Though we might talk about huge developments on political and global fronts but still what comes to a citizen of a Nation in terms of his satisfaction might be quite different from the National achievements and accolades.

The recent report by the World Economic Forum has ranked India at the 62nd position amongst Emerging Economies on an Inclusive Development Index. This position is very disheartening for its competitors Pakistan and China have grabbed 47th and 26th position respectively. Norway has attained the first position

by being the most advance economy whereas Lithuania the most well-off economy among Emerging Economies.

Inclusive Development Index

The Inclusive Development Index (IDI) is an annual assessment of the economic performance of 103 countries on eleven dimensions of economic progress in addition to GDP. The IDI has three pillars of growth namely - growth and development, inclusion and intergenerational equity – sustainable stewardship of natural and financial resources. The Inclusive Development Index reflects the criteria by which people evaluate the economic progress taking place in their country. The index ranks economies in two groups namely – advanced and emerging economies. In the survey of 2018, the global rankings of 103 economies are taken into consideration.

The World Economic Forum's System Initiative on the Future of Economic Progress has launched the IDI project. It operates with the specific aim of informing and enabling sustained National Key Performance Indicator economic progress through deepened public-private cooperation, thought leadership and analysis, strategic dialogue and concrete cooperation.

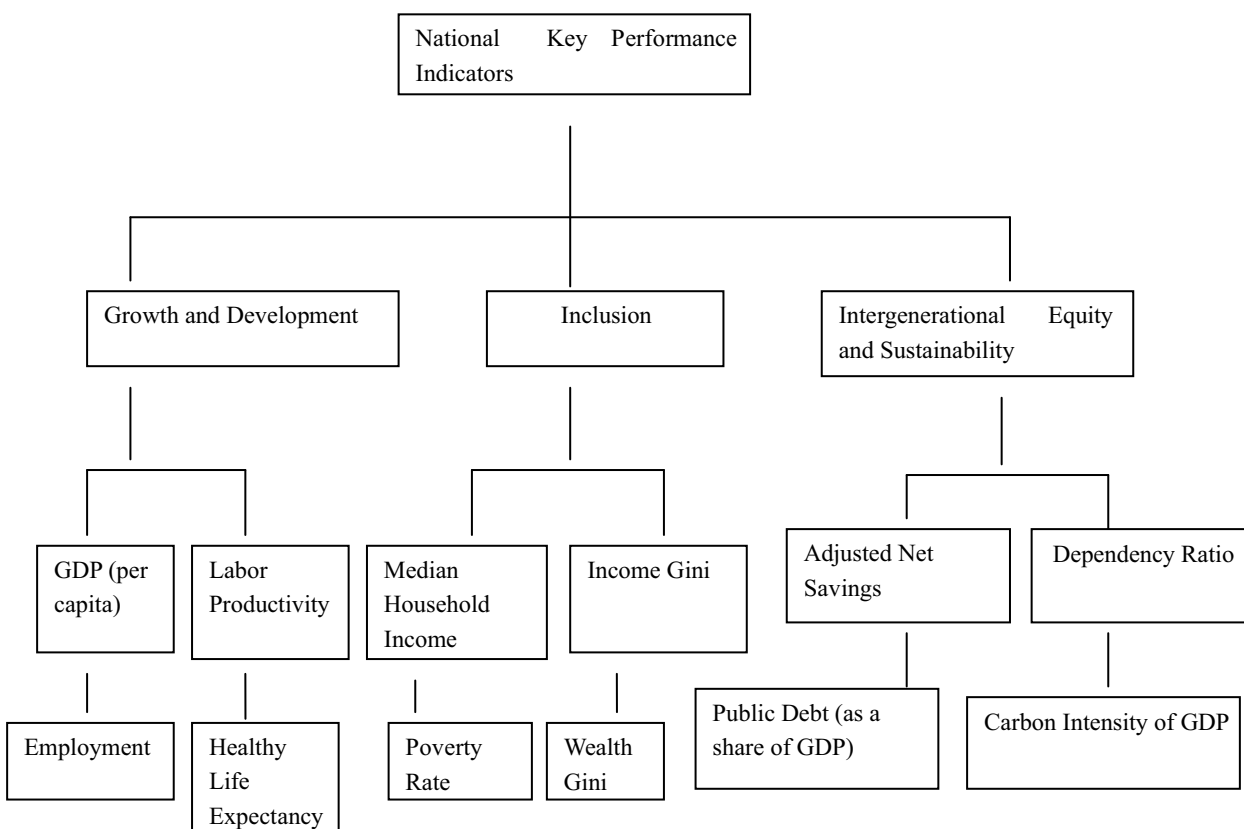


Figure 1: Inclusive Growth and Development Key Performance Indicators

Literature Review

Pukeliene and Starkauskiene (2015) have in their study measured the quality of life by the quality of life index (IQOL). It is difficult to measure the quality of life and hence an integrated model for measuring the quality of life is formed on the basis of theoretical assumptions and mixing the factors which affect the quality of life from the external and internal environment. The study was carried out on 20 developed and emerging economies of the European Union.

The concept of quality of life is not an easy one and is further made difficult with the complexity of the factors which affect quality of life (Cummins, 1996; Felce & Perry, 1997; Haas, 1999)

In the opinion of Hagerty (2001) quality of life is more of a subjective term and can be best understood by making use of quality of life factors and systematic study of their interrelationships. There can be more than one factors affecting the quality of life and hence the objective and subjective dimensions should be analyzed by the way of some composite index.

Basically, for an economy or a country the level of well-being it enjoys is best understood only by the Gross Domestic Product (Quality, 2005). Easterlin (2003) has pointed out in the study the concept of material wealth and related those factors to the quality of life. Material goodness of things have been considered by many as an important factor in determining the happiness related to it.

Haas (1999) have a study pointed out about the usage of terms like quality of life, satisfaction with life, functional status and well-being. The terms cannot be used inter changeably according to the author. Keith (2001) have opined that the concept of quality of life cannot be clearly defined for many reasons. It is a multi-dimensional and universal concept which is affected by many factors both objective and subjective. Also, there is no consensus on the meaning of quality of life as it is varies widely and finally to understand the gist of the quality of life it is important to not understand the meaning but to identify the factors affecting the quality of life.

GDP as a measure of Economic Development of a Country

When talking about Economic development in a country GDP is considered to be the prime barometer to measure the condition of the economy. But in reality this is not the case. The Inclusive Development Index takes into consideration the “living standards, environmental sustainability and protection of future generations from further indebtedness.

The over reliance on GDP as a measure of economic growth only leads to short term achievements and inequality. With this model the leaders are encouraged to move to a model of inclusive growth and development.

Sustainable Economic Development Assessment (SEDA)

There can be a correlation which can be seen in the country's wealth and the economic growth and improvements in a country. In line with the same the overall improvement in the well-being of an economy can be seen. GDP alone is not enough in reflecting the overall measurement of the performance of the economy hence the SEDA index is a measure which combines the data on outcomes like health and education. It is relative in nature and assesses the measurement of the performance of an economy relative to other economies. The index has been given by BCG and makes use of quantifiable data. It defines well-being on ten dimensions which are broadly categorized into three main contributors namely – Economics, Sustainability and Investments. The ten dimensions are Environment (quality of the environment), Governance (effectiveness of government; accountability; stability; freedom), Civil society (Civic activism; intergroup cohesion; interpersonal safety and trust; gender equality), Equality (income distribution; equality in education and in life expectancy), Infrastructure (power, water; sanitation; transport; information and communication technology), education (Access to education; education outcomes), health (Access to health care; health care outcomes), employment (Rate of employment and unemployment), Economic stability and Income (Inflation, GDP and inflation volatility).

The assessment done through SEDA relies on 40 indicators based on the recently available data. The measure of each indicator is normalized on a scale of 0 to 100, where 0 represents the lowest score. The SEDA score

can be used to compare the performance of one country vis-à-vis the other countries. The scores are also used in reviewing the priorities for remedial actions to be taken for the countries. Governments can also set strategies for corrective action. The applicability of the SEDA scores can be analyzed in how well the countries are able to convert their wealth into well-being of the people living in it. A coefficient of 1.0 for countries indicate that the countries are generating well-being in line with what would be expected given their income levels. Likewise, countries with a greater coefficient than 1.0 would be expected to deliver a higher level of well-being. Furthermore, countries with a coefficient of less than 1.0 would deliver lower level of well-being than would be expected (Table 2). The results of the BCG's SEDA for 2018 reveals that well-being of people across the World is improving. It also suggests that the well-being of people should not be sacrificed for the economic development of the Nation and a rise in the GDP does not mean that people's lives are improving.

Human Development Index (HDI)

The Human Development Report introduced the new approach for advancing the well being of people in 1990. The approach of the human development focuses on the expansion of rich human life rather than only the richness of the economy in which people live. It focuses of people and opportunities and choices. Human development also focuses on giving more liberty to people in terms of the opportunities. Choice is also a matter of providing opportunities to people and not insisting that people make use of the opportunities. However, the happiness is a matter of choices people make according to their own concern and knowledge. Human development also lays emphasis on creating such an environment in which people can utilize their full potential and have a chance of being productive and creative.

The HDI or the Human Development Index is a statistical report which is released to ensure the well-being of people and to emphasize that people should be the ultimate criteria for the evaluation of the development of the country. It summarizes the average achievement in key dimensions of human development like long and healthy life, knowledge levels and the standard of living of people. It is a geometric mean of normalized indices for the three dimensions. The health dimension is assessed by life expectancy at birth, the dimension related to education level is measured by the mean years of schooling for adults aged 25 years and more and expected years of schooling for children of school entering age. In the same way the dimension related to standard of living in measured by the gross national income per capita (Table 3). In order to compute the HDI, the logarithm of income is used to reflect the diminishing importance of income with increasing GNI. It is a simplified way to capture the various aspects of human development. It does not include aspects like the inequalities in income, poverty, empowerment and human security. The reports of the HDI can be used to assess the human development differences which might come up in countries with the same level of GNI per capita. It also has the applicability to question the choices of national policies.

Research Methodology: -

The research design for this paper is exploratory in nature. The dynamic nature of the topic entailed an exploratory investigation through synthesized data collection from secondary sources.

The research makes a comparison between the GDP and the score of the Inclusive Development Index. This is done for both Advanced Economies and Emerging Economies. The performance of these economies is carried out on the three parameters namely Intergenerational Equity and Sustainability, Growth and Development and Inclusion. The secondary data from the report of the World Economic Forum has been used for the purpose of the study. The index has measured the progress of 103 economies on barometers like growth and development, inclusion and inter-generational equity. There are 29 advanced economies and 74 emerging economies covered in the report. The countries are divided into five categories namely receding, slowly receding, stable, slowly advancing and advancing.

The data related to the Sustainable Economic Development Assessment (SEDA) and HDI are also compared in order to make a better assessment about the performance of the countries.

Results and Findings: -

a. Inclusive Development Index

One good news for India is that it is amidst the 10 Emerging Economies with advancing trend. Only two advanced economies have shown “advancing” trend. Thus, talking about advancements in economies Emerging Economies are better off in comparison to advanced economies. Among Advanced economies which have topped the list are Norway followed by Ireland, Luxembourg, Switzerland and Denmark amongst the top five. European countries occupy the top nine positions. Australia being the only non-European economy in the first ten. Emerging Economies to occupy the first five positions are Lithuania, Hungary, Azerbaijan, Latvia and Poland. These economies have shown a particularly sound performance on growth and development benefitting from the membership of the European Union. Amongst G7 countries Germany ranks highest on the 12th rank followed by Canada(17), France(18), UK(21), US(23), Japan(24) and Italy(27).

In the case of few countries there is a stark difference amongst the individual pillars. For example, US ranks 10th out of 29 advanced economies on growth and development but 26th on Intergenerational Equity and Sustainability and 28th on Inclusion. Likewise, France ranks 12th on Inclusion, 21st on Growth and Development, and 24th on Intergenerational Equity and Sustainability. With respect to BRICS Russian Federation (19) tops the chart followed closely by China(26). Then is Brazil at 37th position, India at 62nd position and South Africa at 69th rank. The parameters which compose the index are inclusion, growth and development and inter-generational equity. On these grounds India ranks 72 on inclusion, 66th on growth and 44th on inter-generational equity. Surprisingly, India's neighbouring countries have really fared off well. Sri Lanka, Bangladesh and Nepal have 40, 34 and 22 ranks respectively. Countries which have done better than India also include Mali, Uganda, Rwanda, Serbia, Burundi, Ghana, Ukraine, Macedonia, Mexico, Thailand, Malaysia, Indonesia, Iran and Philippines. (Table 1)

An eye opener is the condition of China which ranks first among Emerging Economies with its GDP per capita growth of 6.8% but due to labor productivity growth of 6.7% its overall score is brought down by its lacklustre performance on inclusion. As a country China has given more priority to economic growth over social equity and due to its huge wealth and income inequality has crept it. This has further made the Govt. miss out on the circle of growth. The WEF has thus concluded that excessive reliance on GDP as the only measure of gauging the performance of the economy has strained conditions and is the main part of the problem. The GDP is narrow as far as measurement is concerned since it measures current production of goods and services rather than measuring its impact on the household income, opportunities for employment, economic security and quality of life.

As far as the health conditions prevalent in India is concerned with it ranks last among the BRICS in terms of quality and healthcare, which is worst than Pakistan too. In India the inequality among states is considered to be the main reason for a widening gap. Further, adding to it is the condition of the health sector which is unable to eradicate diseases in India. For carrying out the study the HAQ index was used which calculated the maximum levels of personal health-care access and quality achieved. The economies in South Asia and Middle East have lagged behind from what countries of similar development have attained between 1990 & 2015.

Comparison over the past years

The IDI scores have improved over the last few years and the same can be attributed to the efforts of the policy makers to broaden the socioeconomic progress. The gains in the upper middle income economies have

contributed to the improved IDI scores whereas the low-income economies have seen a further fall. Out of the 29 advanced economies 20 have seen a rise in income inequality and poverty has increased in 17 economies. The emerging economies have improved and shown a decline in poverty though the absolute levels of inequality still remain higher. In the case of Intergenerational Equity and Sustainability there is a decline in 56 out of the 74 emerging economies. The fiscal and demographic pressures a decline in net savings are the main reasons. Mostly all emerging countries have performed disappointingly on this indicator and the only exceptions being Brazil, China and India which are driven by human capital investment.

Few economies have made their growth processes more inclusive and sustainable like Czech Republic, Iceland, New Zealand, Nicaragua, Rwanda, South Korea and Vietnam. While on the other hand there are such economies in which the IDI rankings are lower than the GDP rankings showing that their growth has not transformed well into social inclusion including Brazil, Japan, Nigeria, South Africa and the United States.

The data indicates that there exists a weak correlation in the GDP per capita and performance of IDI indicators on factors like labor productivity and healthy life expectancy. Thus, a strong GDP growth cannot be relied to generate inclusive socioeconomic progress and improved living condition for people. All three advanced economies have seen an increase in GDP over the period but only 10 out of 29 have seen a progress on the IDI's inclusion pillar. 16 out of 29 economies have witnessed a fall in the Inclusion and remaining three countries have remained stable. The reason for the weak performance of the advanced economies on Inclusion is poor pace of economic growth recorded during this period. If the growth would have been at a better pace it would have shown improvement in the Index. However, the other side of the picture even shows that the majority of economies with good GDP growth performance have not done well on Inclusion.

It can be concluded from the analysis that GDP growth is not a sufficient condition for the progress in living standards in the economy though it might be considered to be necessary. Policymakers should not expect higher growth to be a panacea for social frustrations. Further, the study even highlights the importance of levels of interpersonal trust. There are economies where the respondents have reported that "most people can be trusted" making it perform better on the IDI. Many Asian economies have shown that high levels of trust can be maintained in spite of average levels of inclusive development. The WEF has cautioned the poor and rich countries both to protect the future generations against expecting higher growth to be a reason for social frustrations.

b. Sustainable Economic Development Assessment (SEDA)

The analysis of the SEDA reveal that the countries which top the charts are undoubtedly few of the richest countries of the World and they too comprise mainly of Western Europe. However, interesting results can be seen for the countries when an analysis of progress from 2006 is made. The recent report of the progress indicates that the emerging countries of Asia and Africa have scored above the other Nations and the countries which are considered to be the wealthiest Nations in terms of the GDP scores are at the bottom most. Greece, because of the recent economic despair has made the least progress and is hence the first country topping the charts of the list of the countries making the least progress converting economic growth into well-being.

The analysis of the SEDA reports point towards the importance of not just formulation of policies but also the implementation of the same. That is where the role of the Government comes up. In such a scenario it becomes imperative for the Governments to focus on the implementation of the policies with due respect. Also, the European Union has laid emphasis on the implementation of the policies and the same can be witnessed in the form of the progress being made by the EU countries. Also, it is time for a change in the thinking and not considering GDP as the only measure of the progress of the economy. The richer Nations need to make a note of the small recording the performance of their smaller neighbor countries.

c. Human Development Index (HDI)

The United Nations Development Programme (UNDP) highlights the importance of the human well-being for the overall performance of an economy. Wide inequalities in the well-being cast a shadow on sustained human development progress. The data used for the study compiles the HDI for the last 7 years. Norway, Switzerland, Australia, Ireland and Germany are leading the rank of HDI but the least scorers are Niger, the Central African Republic, South Sudan, Chad and Burubdi. The overall trend towards the human development is very encouraging. Out of the 189 countries in the list of the HDI, 59 countries have a very high level of human development and only 38 countries fall in the group of the countries which record a very low level of the human development. There is a huge improvement in the countries from the past few years. Health is a considerable factor towards the improvement of the HDI scores. Sub Saharan region and South Asian region have shown a considerable progress in terms of health and overall life-expectancy.

Analysts have even highlighted the high contrast in terms of the HDI. Like a child born on Norway is expected to live beyond 82 years and have a schooling of 18 years (being the country with highest HDI) as against Niger where the life expectancy can be 60 and the child might go to school for 5 years only.

Conclusion and Recommendations:

The illustrations provided by the Inclusive Development Index indicate that growth is necessary but not sufficient enough to take care of the rising median living standards. Hence, the policy makers should take a conscious effort to have a metric which measures the rate of improvement in socio economic progress of a country. The economies should bridge the gap between aspirations and action.

Economies have unexploited potential and it is important for the economies to prioritize the structural reforms and put it in the direction of strengthening the economic growth and wider social inclusion. Socioeconomic inequity needs to be prioritized and measured to sustain confidence in technological progress and economic integration for improving the living standard of people. The new growth model should place people and their living conditions in the center and international economic integration which should be able to transform inclusive growth from aspiration into action.

The SEDA and the HDI point out the critical role to be played by the formulators of the policies and the implementation of the same. Also, they highlight the significance of non-economic parameters in assessing the well-being of a country. The HDI allows to compare the inequality within countries. However, the overall disparity is still a matter of a gap which has to be narrowed down as disparity holds back the progress of the countries and limits the choices of people.

References

- Cummins, R. A. (1996). "e Domains of Life Satisfaction: An Attempt to Order Chaos. Social Indicators Research, 38 (6), 303-328.
- Easterlin, R. A. (2003). Building a Better "Theory of Wellbeing. IZA Discussion Paper No. 742.
- Felce, D., & Perry, J. (1997). Quality of life: "e Scope of the Term and its Breadth of Measurement. In R. I. Brown (Ed.), Quality life for people with disabilities: models research and practice(pp. 56-70). UK: Stanley "ornes, Ltd.
- Haas, B. K. (1999). A Multidisciplinary Concept Analysis of Quality of Life. Western Journal of Nursing Research, 21(6), 728-742.

- Hagerty, M. R., Cummins, R. A., Ferriss, A.L., Land, K., Michalos, A. C., Peterson, M., Sharpe, A., Sirgy, M. J. & Vogel, J. (2001). Quality of Life Indexes for National Policy: Review and Agenda for Research. *Social Indicators Research*, 55(1), 1-96.
- Keith, Kenneth D (2001) 'International Quality of Life: Current Conceptual, Measurement, and Implementation Issues' in Glidden, Laraine Masters (ed) *International Review of Research in Mental Retardation* 24, San Diego: Academic Press, p. 49.
- Pukeliene Violeta and Starkauskiene Viktorija (2015), "Assessment of Changes in the Quality of Life of Emerging Economies in the Context of Developed Economies of the European Union", *Organizations and Markets in Emerging Economies*, Vol. 6, No. 2(12)
- Quality of Life and Well-being: Measuring the Benefits of Culture and Sport: Literature Review and Link piece (2005). Scottish Executive Social Research. Internet Access: <http://www.gov.scot/resource/doc/89281/0021350.pdf>. [Accessed February, 5, 2015].

Webliography

- <https://www.weforum.org/reports/the-inclusive-development-index-2018>
- <https://www.thewire.in>
- <https://www.ndtv.com>
- <https://www.express.co.uk>
- <https://sdg.iisd.org>
- <https://www.thesun.co.uk/>
- <https://www.bcg.com/industries/public-sector/sustainable-economic-development-assessment.aspx>
- <https://www.bloomberg.com/>
- <http://hdr.undp.org/en/content/human-development-index-hdi>