

# ECO - 5(32) Living Standards

**Living standards or standards of living refer to all the factors that contribute to a person's well-being and happiness**

## Measuring Living Standards

- **GDP per head/capita:** this measures the average income per person in an economy.

$$\text{Real GDP per capita} = \text{Real GDP} / \text{Population}$$

## Merits of using GDP per capita to measure living standards:

- GDP is a useful measure of the total production taking place in the country, and so indicates the material well-being of the economy
- it also takes population into consideration, adding emphasis on the goods and services available to individuals
- since it is calculated on output, is a good indicator of the jobs being created
- GDP data is readily available so is population data

## Limitations of using GDP per capita to measure living standards:

- **it takes no account of what people can buy using their incomes.** A country with a high GDP per head may be no better off than a country with a low GDP per head, if there are far fewer products to choose from
- similarly, **GDP doesn't consider changes in technology that can have a large impact on living standards.** People might have had more income in the last decade but they couldn't benefit from all the technology available today
- **distribution of income is very unequal in reality**, so the GDP per head isn't accurate. Some people might be very rich while others very poor, but the GDP per head will only give the average incomes
- real GDP **excludes the unpaid work people do** for charities and voluntary organizations etc. Thus, it understates the total output

- GDP **also doesn't differentiate between the positive and negative values economies place on different output/expenditure.** For example, if the output rises because the sales of tobacco, alcohol or pornographic materials, it might show in the records as a rise in GDP per head but might not actually make people better off. Similarly, GDP might rise if the government has to rebuild after a natural disaster, which doesn't mean living standards have risen
  - the official GDP figures can be overstated due to technical errors or by political manipulation to look good, and give a wrong picture of living standards
  - this measure doesn't consider leisure activities, health and education levels, environmental quality- **all that determines people's happiness** and well-being
  - in order to effectively compare GDP per head across countries, they need to be converted to a common currency and adjusted for differing purchasing power in different countries
  - comparing GDP per head can also be unreliable as GDP accounting methods can be different for different countries.
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- **Human Development Index (HDI):** used by the United Nations to compare living standards across the globe, the HDI combines different measures into one to give a HDI value from 0 (lowest) to 1(highest). These are:
    - **Income index**, measured using the average national income – **GNI per head** adjusted for differences in exchange rate and prices in different countries (purchasing power parity)
    - **Education index**, measured by how many years on average, a person aged 25 will have spent on education (**mean years of schooling**) and how many years a young child entering school can now be expected to spend in education in his entire life (**expected years of schooling**)
    - **Healthcare index:** measured by **average life expectancy at birth**

The benefits of using HDI to measure living standards:

- it takes into account some **major indicators** of living standards
- recognises that it is not just output or income that determines living standards, but also **social factors**
- it is a useful method to **compare global living standards**– it shows clear patterns of living standards
- it is very **useful and reliable** measure since its produced by the UN and is thus also widely used and recognised

#### The limitations of HDI to compare living standards:

- **it combines a set of separate indicators into one**, so a country with good literacy rates and living standards but poor life expectancy can have a low HDI value
- **there are wide divergences in HDI within countries**
- **GNI per head doesn't say anything about inequalities in income and wealth within countries**
- **it doesn't consider other factors** such as environmental quality, access to safe drinking water, political freedom, crime rates etc. which are also important indicators of living standards
- **the HDI information for all countries may not be available** such as war-struck countries where civilisation has been disrupted

In the 2019 HDI index published by the UN, Norway comes first with an HDI index of 0.954 while Niger comes last with an index of just 0.377 owing to very low levels of education and GNI per head. See the full list at <http://hdr.undp.org/en/content/2019-human-development-index-ranking>

#### Reasons for differences in living standards and income distribution within and between countries

These have been discussed above in the merits and limitations of using GDP per capita and HDI. More will be discussed in the coming chapters. Some other reasons are discussed below

**Difference in living Standards within a country:** there can be variations in living standards within a country. An excellent example of this is the high living standards of the Indian state of Kerala (where IGCSE AID is based!) which has a HDI index of 0.779 while the poorest state of Bihar stands at 0.567 (2018).

- **Regional variances in income and consumption**
- **Major type of sectors/jobs:** manufacturing and services heavy regions will have higher incomes, education and health services compared to agricultural regions
- **Local government provisions of education and health**

**Difference in living Standards between countries:**

- **Productivity of industries:** more productive industries yield more output and incomes
- **Major industries:** what makes countries like Qatar and Norway achieve some of the world's highest per capita incomes is that their income comes mostly from petroleum industries that are scarce and highly demanded internationally
- **Population:** dense population lower per capita income and put pressure on scarce resource
- **Ability of citizens pay taxes:** higher tax-base and taxable incomes allow governments to invest in infrastructure and welfare programmes
- **Provision of health and educational facilities**
- **Variety of goods/services produced:** if citizens can choose from a wide variety of products, living standards rise. Western countries like US enjoy this
- **War, crime and natural disasters:** war-struck countries of Asia, the high crime rates of Latin America and frequent natural disasters in island countries, drive down their living standards as they damage infrastructure and put people into hardship
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