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## Poland and Selected Countries in the Light of OECD's Better Life Index

**Summary:** Your Better Life index describes well-being in OECD countries and other major economies, by looking at people's material conditions and quality of life in eleven dimensions: income and wealth, jobs and earnings, housing conditions, health status, work and life balance, education and skills, social connections, civic engagement and governance, environmental quality, personal security and subjective well-being. In this presentation selected countries scores and ranking of the "Your Better Life index" with equal weight given to each dimension was compared with rankings of other commonly used measures of well-being like Human Development Index, Inequality adjusted Human Development Index, Life satisfaction, Gross National Income. Income inequalities in those countries, their reasons and possible influence on sustainability and quality of life were discussed.

**Key words:** Better Life Index, Human Development Index, Inequality adjusted Human Development Index, Gross National Income, Life satisfaction

### Introduction

For decades, economists and governments have used conventional production indicators such as per capita gross domestic product (GDP) to measure societies' overall "well-being". The reliance on the per capita GDP is understandable. It is easy to compute, and it is based on a rigorous and well-tested economic theory. Moreover, the data needed to compute GDP were relatively easy to compile and countries were quick to adopt this system of national accounts [1]. Developed by Simon Kuznets GDP economic performance index, was never designed to be a comprehensive measure of prosperity and well-being. In 2007, the European Commission, European Parliament, Club of Rome, OECD and WWF organized the high-level conference "Beyond GDP". The Beyond GDP initiative

is about developing indexes that are similar to GDP, but more inclusive of environmental and social aspects of progress. The 21<sup>st</sup> century needs indexes to measure global threats such as climate change, depletion of resources, poverty, health and quality of life of societies. In February 2008, the President of the French Republic, Nicholas Sarkozy, established the Commission on the Measurement of Economic Performance and Social Progress chaired and coordinated by Joseph Stiglitz (President of the Commission), Amartya Sen (Advisor) and Jean-Paul Fitoussi (Coordinator). The Commission's aim has been to identify the limits of GDP as an index of economic performance and social progress, including the problems with its measurement; to consider what additional information might be required for the production of more relevant indexes of social progress; to assess the feasibility of alternative measurement tools, and to discuss how to present statistical information in an appropriate way. On September 14, 2009, the Commission published a report with about 30 recommendations on how to improve measures of economic performance, societal well-being and sustainability. According to the report, quality of life should be considered as a multi-dimensional problem. The Stiglitz Commission identified eight dimensions of well-being: material living standards (income, consumption and wealth); health, education, personal activities including work, political voice and governance, social connections and relationships, environment (present and future conditions), insecurity, of an economic as well as a physical nature [8]. These eight dimensions cover objective and subjective aspects of well-being to be taken into account. The SSFC report also stressed that all the dimensions covered by quality-of-life indexes should assess inequalities in a comprehensive way. Finally, it suggested that statistical offices should incorporate in their own surveys questions to capture people's life evaluations, hedonic experiences and priorities. In May 2011, the French Government and the OECD organized jointly an international conference "Two years after the Stiglitz-Sen-Fitoussi report: What well-being and sustainability measures?" on the occasion of the second anniversary of issuing the Report. During the conference OECD launched the Better Life Initiative, which promotes "Better Policies for Better Lives". This initiative consists of two parts: How's Life?, which is a report about well-being in 34 OECD countries and other major economies [5], and Your Better Life Index [6]. The aim of this study was to compare the rankings of selected countries according to BLI index with the rankings of those countries for HDI, IHDI, GNI and Life Satisfaction, and an analysis of the impact of income inequality on these indicators and rankings.

## Construction of OECD Better Life Index

Since well-being is a complex phenomenon and many of its determinants are strongly correlated with each other, assessing well-being requires a comprehensive framework that includes a large number of components and that, ideally allows gauging how their interrelations shape people's lives.

The OECD framework for measuring well-being and progress is based on the recommendation made in 2009 by the Commission on the Measurement of Economic Performance and Social Progress. This framework is built around three distinct domains: material conditions, quality of life and sustainability, each with their relevant dimension. In the material condition domain there are three dimensions (housing conditions, income and wealth, and jobs and earnings), in the well-being domain there are eight dimensions (health status, work and life balance, education and skills, social connections, civic engagement and governance, environmental quality, personal security and subjective well-being) [5]. Each topic is built on one to four specific indexes. Housing (rooms per person, dwelling with basic facilities, housing expenditure), Income (household net adjusted disposable income, household financial wealth), Jobs (employment rate, long-term unemployment rate, personal earnings, job security), Community (quality of support network), Education (educational attainment, student skills, years in education), Environment (air pollution, water quality), Civic Engagement (voter turnout, consultation on rule making), Health (Life expectancy, self-reported health), Life Satisfaction (life satisfaction), Safety (assault rate, homicide rate), Work Life Balance (employees working very long hours, time devoted to leisure and personal care) [6]. The indexes have been chosen on the basis of a number of statistical criteria such as relevance (face-validity, depth, policy relevance) and data quality (predictive validity, coverage, timeliness, cross-country comparability etc. These indexes are good measures of the concepts of well-being, in particular in the context of a country comparative exercise. In the future other indexes will gradually be added to each topic.

For each index can also compare results for men and women, and see to what extent social and economic status affects results. Information on social inequalities is shown for selected indicators of the BLI in the topics and countries pages [6]. This information is shown by comparing the achievements of people with high socio-economic status with the achievements of people with low socio-economic status, through the social inequalities ratio. In some indexes, there is also the possibility to compare gender inequality. In the future, these indicators reflecting *current* material living conditions and quality of life will be complemented by indexes describing sustainability of well-being *over time* [6].

Your Better Life Index collects data from 34 member countries of the Organization for Economic Cooperation and Development, and from key partners

of Organization: Brazil and Russia. In the future, the index will also collect data from: China, India, Indonesia and South Africa.

Well-being is a multidimensional concept that deserves a multidimensional measure. However, extracting a single story from a very complex picture can be challenging. The advantage of composite indices is that they can provide an easy-to-read overview of well-being patterns [5]. We can get a concise picture of overall well-being across countries constructing a composite indicator. The Index gathers many indicators, expressed on very different units. To compare and aggregate values expressed in different unities, the values have to be normalized. This normalization is done according to a standard formula. Within each domain of well-being, the indicators are normalized and averaged with equal weights [6]. Because the weights assigned to the various well-being dimensions vary across countries and people, the OECD has designed Your Better Life Index which is an interactive web-based tool that allows citizens to measure and compare well-being across countries according to the importance they give to the various dimensions of people's well-being [6].

### **Rating countries according to various measures of quality of life**

Some of the English-speaking countries (USA,UK), a group of the Nordic countries (Sweden, Norway, Denmark, Finland), some of the previously socialist countries (Poland, Russia, Hungary, Estonia, Czech Republic, Slovak Republic, Slovenia) and Latin America countries (Mexico and Chile) were selected for analysis. Estimation of Better Life Index was possible for all these countries. Data on Life satisfaction [6], and their Human Development Index, Inequality Adjusted Human Development Index, income Gini coefficient and Gross National Income was also collected for them [3]. The scores of Your Better Life Index were obtained when the weights were set equally across the eleven dimensions of well-being. "Equality of dimensions" refers to equal weight given to each dimension (e.g. 1/11). The HDI serves as a frame of reference for both social and economic development. It is a summary measure for monitoring long-term progress in a country's average level of human development in three basic dimensions: a long and healthy life, access to knowledge and a decent standard of living. It sets a minimum and a maximum for each dimension, called goalposts, and shows where each country stands in relation to these goalposts, expressed as a value between 0 and 1 [1]. HDI also classifies countries on: very high human development, high human development, medium human development and low human development. Inequitable development is not human development. For this reason Human Development Reports have focused extensively on deprivation and inequality. Countries that do well on the HDI tend to be more equitable. This result is consistent with the research that shows how re-

ducing inequality – both in the population as a whole and across gender and other groups can improve overall outcomes in health and education, as well as economic growth [3]. Within countries rising income inequality is the norm: more countries have a higher Gini coefficient now than in the 1980s. The worsening is especially marked in previous socialist countries which still have relatively low Gini coefficient, because they started with low inequality. Transition has eroded employment guarantees and ended extensive state employment. While the privileged elite often attained higher material well-being the measured differences in income were narrow [3]. In Latin America and Caribbean historically high inequality has been linked to unequal distribution of land and education, higher returns to skilled workers, high fertility in poorer households and regressive public spending [3]. For most people around the world the largest components of income are wages and earnings. Income from capital, by contrast, is often highly concentrated among the wealthiest. The relative shares of labour and capital income are thus of interest in any discussion of inequality [3].

The inequality adjusted Human Development Index (IHDI), first time estimated in Human Development Report 2010, for 139 countries, captures the losses in human development due to inequality in health, education and income. Losses in the three dimensions vary across countries and tend to be largest in low HDI countries. The IHDI takes into account not only a country's average human development as measured by health, education and income indexes, but also how it is distributed. The IHDI accounts for inequalities in life expectancy, schooling and income by "discounting" each dimension's average value according to its level of inequality. The difference between the HDI and the IHDI measures the "loss" in potential human development due to inequality, but unfortunately, IHDI due to data and technical issues does not yet capture overlapping inequalities – whether the same people experience one or multiple deprivation [3]. The Gini coefficient is a standard measure of income inequality that ranges from zero (when everybody has identical income) to 1 (when all income goes to only one person). Research has identified three main components of subjective well-being. These are life satisfaction, positive affect and negative affect. These measures capture distinct elements of subjective experience and it is important to consider them all. Till now, your Better Life Index has only measured life satisfaction, which measures how people evaluate their life as a whole rather than their current feelings [6]. It captures a reflective assessment of life circumstances and conditions which are important for subjective well-being. Unfortunately, there is currently no well-established programme of official reporting on subjective well-being in OECD countries. The data are drawn from unofficial surveys, the Gallup World Poll [6]. These measures are collected in a comparable way across different countries, and are based on well tested questions. The level of satisfaction is measured by a scale of eleven points (from 0 to 10 points), where 0 denotes complete dissatisfaction, and 10 full satisfaction with

one's own life. The sample size for the Gallup Poll is relatively small, and this places some restrictions on the conclusions that can be drawn from these data [5]. Gross Domestic Product per capita is the indicator most commonly used to compare living standards across countries, gross national income is measure preferred by many analysts, GNI per capita is defined as GDP plus net receipts from abroad of wages and salaries and property income divided by population.

The values of BLI, HDI, IHDI, Life Satisfaction, income Gini coefficients, GNI per capita for selected countries were gathered (Table 1) and analyzed.

**Table 1.** Scores of quality of life indices: Better Life Index, HDI, IHDI, Life Satisfaction, GNI per capita and income Gini coefficient for selected countries.

Country	Better Life Index (2010)		HDI (2010)		IHDI (2010)		Income Gini coefficient (2010)		Life satisfaction (2010)		GNI per capita PPP(2008\$) (2010)	
	score	rank	score	rank	score	rank	score	rank	score	rank	score	rank
Sweden	0.78	3	0.885	3	0.824	2	25.0	2	7.5	3	36 936	3
Norway	0.79	1	0.938	1	0.876	1	25.8	3	7.6	2	58 810	1
Denmark	0.78	4	0.866	5	0.810	3	24.7	1	7.8	1	36 404	4
Finland	0.75	5	0.871	4	0.806	4	26.9	4	7.4	4	33 872	6
USA	0.78	2	0.902	2	0.799	5	40.8	12	7.2	5	47 094	2
UK	0.74	6	0.849	6	0.766	8	36.0	11	7.0	6	35 087	5
Czech R.	0.60	8	0.841	7	0.790	6	25.8	4	6.2	9	22 678	8
Slovenia	0.63	7	0.828	8	0.771	7	31.2	8	6.1	10	25 857	7
Poland	0.53	10	0.795	12	0.709	12	34.9	9	5.8	12	17 803	10
Slovakia	0.54	9	0.818	9	0.764	9	25.8	5	6.1	11	21 658	9
Hungary	0.50	11	0.805	11	0.736	10	30.0	7	4.7	15	17 472	11
Estonia	0.47	12	0.812	10	0.733	11	36.0	10	5.1	14	17 168	12
Chile	0.44	14	0.783	13	0.634	14	52.0	15	6.6	8	13 561	15
Mexico	0.36	15	0.750	14	0.593	15	51.6	14	6.8	7	13 971	14
Russia	0.45	13	0.719	15	0.636	13	43.7	13	5.3	13	15 258	13

Note: BLI own estimation on BLI data, <http://www.oecdbetterlifeindex.org>, The Life satisfaction from, <http://www.oecdbetterlifeindex.org/topics/life-satisfaction/>., Data on: HDI, IHDI, Income Gini coefficient, GNI (Human Development Report, 2010).

## Discussion

The highest scores of BLI were observed for the Nordic countries, USA and UK, similar as in other rankings. In BLI, HDI, GNI per capita rankings USA is in the second position, because of high income inequality the USA is on the fifth place in IHDI ranking and also Life Satisfaction ranking. The highest value of Life Satisfaction is reported by the Norwegians, the lowest by the Hungarians. In



the ranking by HDI index, Sweden, Norway, USA, UK, Slovakia, Hungary are in the same places as ranked by rate BLI, for other countries shifts are in the boundary one or two places. When comparing the ranking of countries according to the HDI and the IHDI indicators for most countries, except Norway, Finland, Poland and Slovakia are popular choice for a single shift of two places in the ranking. Only in the case of the United States the offset is from 2 to 5. Places stated in rankings of BLI and GNI per capita, are almost identical with the exception of Finland, which shifted from the 5<sup>th</sup> position in BLI, and moved to 6<sup>th</sup> place in the ranking of GNI per capita, and the UK, which shifted from the 6<sup>th</sup> place in BLI to the 5<sup>th</sup> position in the GNI per capita ranking, and Chile, which shifted from position 14 in BLI to the 15<sup>th</sup> place in GNI per capita, and Mexico, which shifted from the 15<sup>th</sup> place in BLI to the 14<sup>th</sup> position in the GNI per capita ranking. It is noteworthy that such a sophisticated measure of quality of life as BLI gives almost the same place to a country in the ranking as in the GNI per capita ranking. The Gini income coefficient achieves highest values for countries in which America's "free market" policies have come to dominate (USA, UK, Chile, Russia, Estonia, Poland, Hungary). In some of them the shock doctrine was applied. [4]. Using the public's disorientation following massive collective shocks like: wars, terrorist attacks, natural disaster or economic crisis – neoliberal changes were performed e.g. Pinochet's coup in Chile in 1973, in the UK during the Falklands War in 1982, the collapse of the Soviet Union in 1991, collapse of communism in Poland 1989). Neoliberal Chicago School of Economics emphasizes non-intervention from government and generally rejects regulation in markets as inefficient with the exception of central bank regulation of the money supply. Among the negative effects of these policies are economic and social inequalities. Economic inequality has reached extreme proportions in many countries. But the problem is far worse than we have understood until now. This is because all studies exploring economic inequality have systematically underestimated the wealth and income enjoyed by the world's wealthiest individuals. In the report issued by Tax Justice Network, "The Price of Offshore Revisited" James Henry, former Mc Kinsey & Co Chief Economist estimated that at least \$21 trillion of unreported private financial wealth was owned by high net worth individuals (HNWIs) via tax havens at the end of 2010 [2]. Accompanying this research is another study by TJN, entitled "Inequality: You Don't Know the Half of it", which demonstrates that, all studies of economic inequality to date have failed to account properly for this missing wealth. So income inequality is far worse than we think [7]. In 2009 epidemiologists Richard G. Wilkinson and Kate Pickett published a book "The spirit level: why more equal societies almost always do better" in this book they presented data for 23 of the world richest countries and for individual US states, demonstrating a relationship between income inequality and all sorts of social illnesses, including greater crime rate, mental illness, illegal drug use, obesity, teenage birth rate.

Greater income inequality was also associated with lower levels of trust and societal cohesion. Their conclusion was, that the societies that do best for their citizens are those with the narrowest income differentials—such as Japan and the Nordic countries. The most unequal – the United States, the United Kingdom and Portugal—do worst [10]. It seems that the improvement of the quality of life depends more on reducing disparities in income, than on economic growth. Inequality increases status competition, which results in increased consumption. Consumerism is the biggest threat to sustainability. Greater equality strengthens the sustainability of social life, public spiritedness and trust. People are starting to care more about the environment. The data show that a more equal society, recycle more of their waste, have a smaller footprint, use less water, eat less meat and produce less waste [9]. Greater than officially reported statistics of income inequality, according to the findings of Wilkinson, will cause more and more health and social problems in the richest countries. It seems, therefore that the increase in quality of life and sustainable development in those countries, will be possible only when the current income inequality will be reduced.

## Literature

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### **Polska i wybrane kraje w świetle wskaźnika lepszego życia, opracowanego przez Organizację Współpracy Gospodarczej i Rozwoju**

**Streszczenie:** Wskaźnik lepszego życia (Better Life Index) opracowany przez OECD w 2011 roku mierzy dobrostan w krajach organizacji i innych wybranych gospodarkach przez analizę materialnych warunków życia i jakości życia ludzi w jedenastu wymiarach. W tej publikacji sporządzono ranking wybranych krajów według wartości indeksu BLI (z jednakowymi wagami przypisanymi dla każdego wymiaru) i porównano go z rankingami tych krajów sporządzonymi według innych powszechnie stosowanych miar dobrostanu, jak wskaźnik rozwoju społecznego (HDI), wskaźnik rozwoju społecznego uwzględniający nierówności dochodowe (IHDI), dochód narodowy brutto *per capita* (GNI), satysfakcja z życia. Nierówności dochodowe w wybranych krajach, ich przyczyny i możliwy wpływ na jakość życia i zrównoważony rozwój są omawiane w tej pracy.

**Słowa kluczowe:** wskaźnik lepszego życia, wskaźnik rozwoju społecznego, wskaźnik rozwoju społecznego uwzględniający nierówności dochodowe, dochód narodowy brutto *per capita*, satysfakcja z życia