

Drometer, Marcus

Article

Economic Prosperity and Well-being in Developed Countries

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ECONOMIC PROSPERITY AND WELL-BEING IN DEVELOPED COUNTRIES

To what extent is economic prosperity linked to a country's well-being? In recent years several new indicators have been proposed as an alternative to the standard economic measure of income. Among the most well-known are the Human Development Index (HDI) and the World Happiness Report. At the same time, the competitiveness of countries as a crucial determinant of prosperity is measured by well-established rankings, e.g., the Doing Business Ranking of the World Bank. Often such indicators are employed to illustrate differences between underdeveloped, poor countries and the highly industrialized, rich Western world. In the following, however, the focus is on whether the above mentioned rankings assess countries within the developed world differently.

The Human Development Index (HDI) emphasizes that people and their capabilities should be the ultimate criteria for assessing the development of a country. It is the geometric mean of normalized indices of three key dimensions: life expectancy and health status, education as measured by expected years of schooling and the standard of living as measured by gross national income per capita. In doing so, the index uses the logarithm of income to reflect the diminishing importance of income with increasing level, but further important dimensions of capabilities such as inequalities and empowerment are neglected.

The World Happiness Report focuses on the measurement of happiness as a critical component of how the world should measure its economic and social development. It is published by the United Nations Sustainable Development Solutions Network, covers over 150 countries and its scale runs from 0 to 10. The primary measure of the indicator is life satisfaction or happiness with "life as a whole" in contrast to further components of subjective well-being such as emotions. Accordingly, the survey is ex-

PLICITLY framed to take the respondents' aspirations into account. Six key variables (real GDP per capita, healthy life expectancy, having someone to count on, perceived freedom to make life choices, freedom from corruption, and generosity) explain three-quarters of the variation in annual national average happiness scores.

The Doing Business Ranking of the World Bank assesses the competitiveness of countries by focusing on the quality of laws and regulations affecting local business, in particular small and medium size companies. It is based on the responses of local practitioners who evaluate standardized case scenarios. These comprise several areas of business regulation related to the life cycle of a hypothetical company ranging from start-up and expansion, to operation and finally insolvency. In doing so, the assessment covers in particular property rights, access to credit investor protection, administrative burden and flexibility in hiring.

Table 1 compares the most recent rankings of the three indicators for the countries covered by the DICE database (mainly EU-27 and the other major OECD countries). According to the HDI Norway, Australia, Switzerland, the Netherlands and the United States are the most developed countries. Similarly, Denmark, Norway, Switzerland, the Netherlands and Canada fare best in the World Happiness Report. The World Bank's Doing Business Ranking portrays Australia, New Zealand, Switzerland, Canada and Ireland as the most competitive countries. To obtain a better overview, the results of the different rankings are plotted against each other.

Figure 1

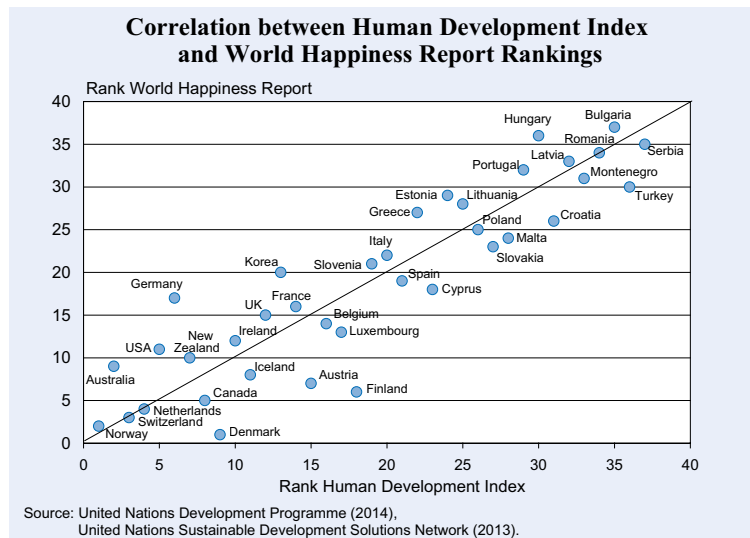


Figure 2

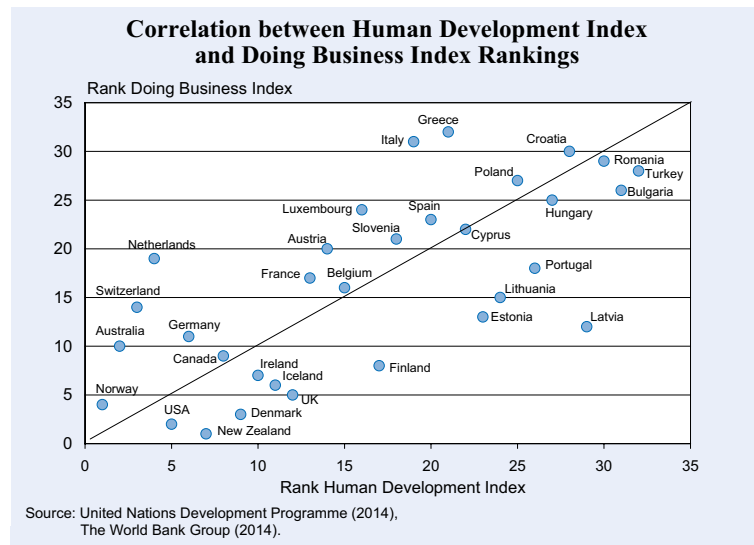
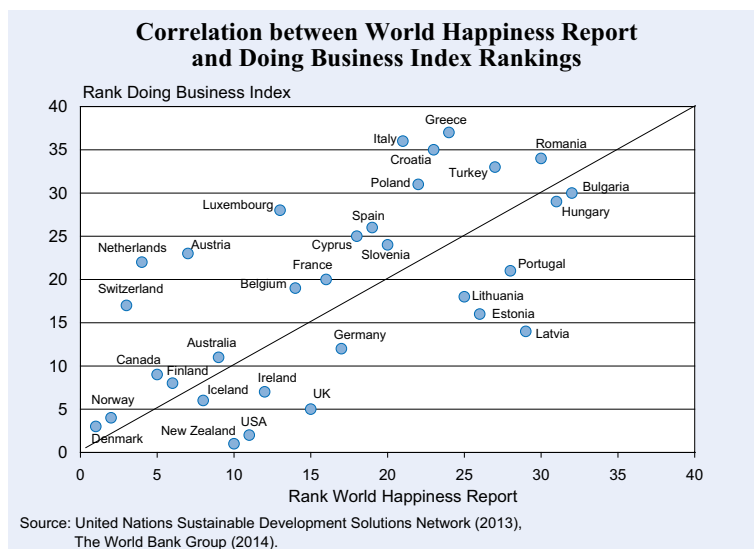


Figure 3



The HDI and the Happiness rankings are compared against each other in Figure 1. Based on this descriptive evidence, both indicators strongly agree on which countries offer a higher level of well-being, as almost all countries lie very close to the 45° line. There are only few, quantitatively small exceptions like Finland where people seem to be comparatively happy given their level of capabilities, and Germany where the situation is assessed more pessimistically.

When comparing the two rankings of well-being against the competitiveness indicator a different picture emerges in Figures 2 and 3. The congruence between each of the two measures is clearly less pronounced in both cases. Interestingly, both indicators show that certain

countries like Switzerland, the Netherlands, Luxembourg and Italy enjoy a comparatively high level of well-being given their level of competitiveness. At the same time, the Baltic countries, for example, which are highly competitive, clearly obtain a relatively low level of well-being. Taken together these findings suggest that there is no clear trade-off between economic prosperity and well-being when looking at developed countries. Instead, the relationship between well-being and the conditions for economic prosperity seems to be determined by further country-specific social and institutional factors that lie beyond the scope of a stylized analysis based on descriptive rankings of indicators.

Marcus Drometer

References

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Table 1

Country Rankings			
Rank	Human Development Index ^a	World Happiness Report ^b	Doing Business Index ^c
1	Norway	Denmark	New Zealand
2	Australia	Norway	United States
3	Switzerland	Switzerland	Denmark
4	Netherlands	Netherlands	Norway
5	United States	Canada	United Kingdom
6	Germany	Finland	Iceland
7	New Zealand	Austria	Ireland
8	Canada	Iceland	Finland
9	Denmark	Australia	Canada
10	Ireland	New Zealand	Sweden
11	Iceland	United States	Australia
12	United Kingdom	Ireland	Germany
13	Korea	Luxembourg	Japan
14	France	Belgium	Latvia
15	Austria	United Kingdom	Macedonia
16	Belgium	France	Estonia
17	Luxembourg	Germany	Switzerland
18	Finland	Cyprus	Lithuania
19	Slovenia	Spain	Belgium
20	Italy	Korea	France
21	Spain	Slovenia	Portugal
22	Greece	Italy	Netherlands
23	Cyprus	Slovakia	Austria
24	Estonia	Malta	Slovenia
25	Lithuania	Poland	Cyprus
26	Poland	Croatia	Spain
27	Slovakia	Greece	Slovak Republic
28	Malta	Lithuania	Luxembourg
29	Portugal	Estonia	Hungary
30	Hungary	Turkey	Bulgaria
31	Croatia	Montenegro	Poland
32	Latvia	Portugal	Czech Republic
33	Montenegro	Latvia	Turkey
34	Romania	Romania	Romania
35	Bulgaria	Serbia	Croatia
36	Turkey	Hungary	Italy
37	Serbia	Bulgaria	Greece

Source: a: United Nations Development Programme (2014), b: United Nations Sustainable Development Solutions Network (2013), c: The World Bank Group (2014).