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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

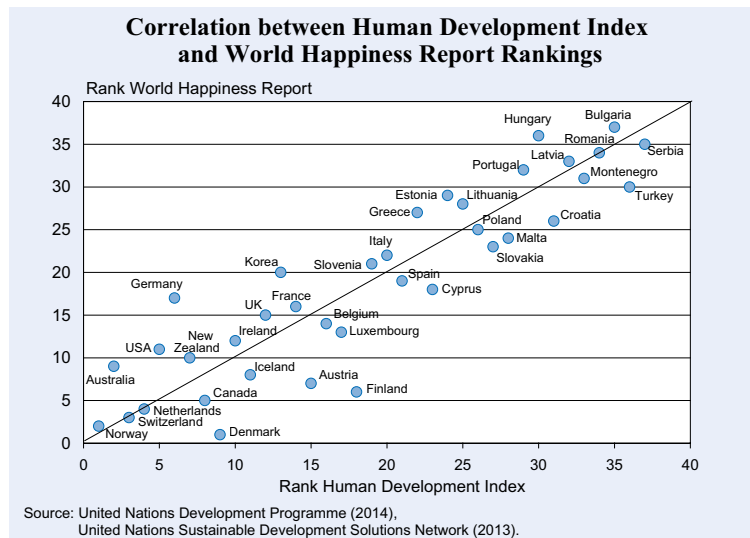


Figure 2

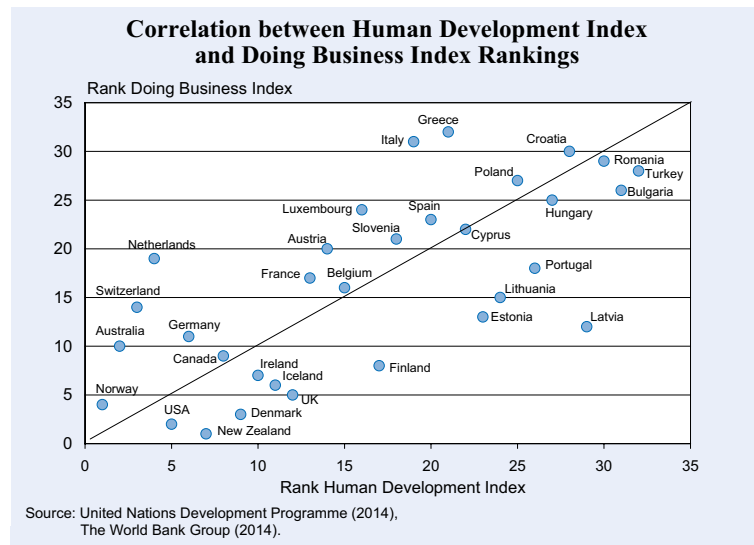
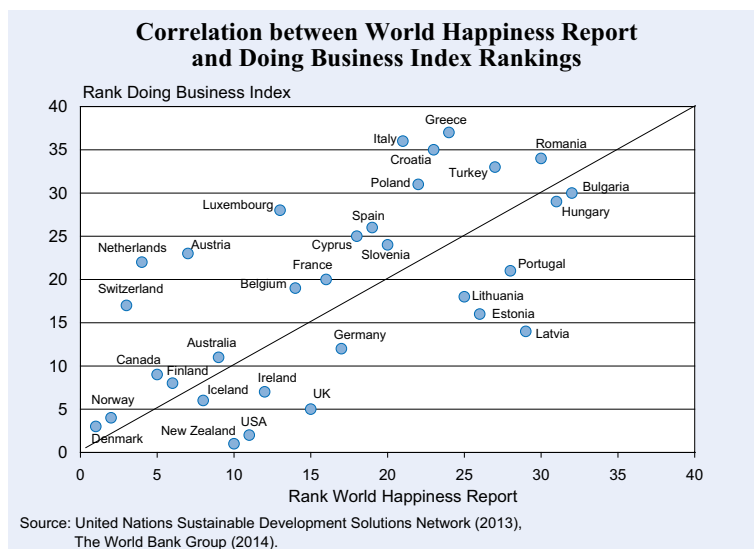


Figure 3



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.

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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).