

EconoMag
The Show that demystifies Economics
Economic Indicators - part 3
Quality of Life

by Max Farrington and Michael Hirsch ©



Economic indicators also include the HDI, the Human Development Index. This is a composite statistic based on three main things: life expectancy, education and per capita income. After a complicated calculation you end up with a number somewhere between 0 and 1. This is used to rank the countries into four levels of human development.

It was created by the Pakistani economist Mahbub ul Haq, and put forth by the Indian economist and Nobel Laureate Amartya Sen in his work on human capabilities, and was also published by the United Nations Development Program. The ranking varies quite a lot compared to GDP rankings. Some countries are almost always in the top 10, such as the United States, which placed 5th in the 2014 report. But other countries may fall in the rankings, as did Japan which went down to 17th place; and in the case of China, India and Brazil, all making the top 10 in GDP rankings, they don't even come within the top 50 places in the Human Development Index.

Other countries to make the top 20 are Germany in 6th place, Great Britain in 14th and France coming in 20th. The problem with this ranking is that it does not take into account the inequalities of the different countries, but the IHDI, or Inequality-adjusted Human Development Index is a measure that adjusts the HDI according to the inherent inequalities of various nations.

This does not really change the outcome of the top tier of the HDI ranking, as Norway, Australia, Switzerland and the Netherlands always come in at the top spots. Some countries decline in the ranking, such as the United States, which only ranks 28th in the IHDI, behind Estonia, Greece and Hungary.

Basically, the difference between the HDI and the IHDI depends on the inequalities of the country in question. If all the inhabitants of the country had the same wealth the HDI and IHDI would be the same. But when the opposite is true and the more a country has an unbalanced distribution of wealth, regardless of its GDP, then it will fall in the IHDI rankings. Some countries that may not have such a high GDP, or that have a lower HDI ranking, may end up ahead of wealthier countries in the IHDI if they have a more even distribution of wealth. Slovenia for example, a small country situated between Italy, Austria, Hungary and Croatia, is ranked 12th in the IHDI. France actually performs better in the adjusted rankings, but perhaps not as good as it should do. The government may often boast about the equality of every French citizen and put down the situation in other

countries such as Germany and the United Kingdom, but in reality, France comes in 18th in the IHDI, behind Britain in 16th and far behind Germany in 5th place.

Finally, another indicator of quality of life is the Gini Index, named after its Italian developer, the sociologist Corrado Gini. This measures the income distribution of a country's population. If this index expresses 0 that means the country is perfectly equal; however, the higher it goes the less equal it is, with the highest ranking being one, thus being the least equal. Currently, Denmark ranks as the world's most equal country in terms of income distribution with a score of 0.250, followed by Japan and Sweden. On the bottom end of the ranking we'll find many African and South American countries, with Namibia being the least equal with a score of 0.750.