How do we know how GOOD things are?

The accepted measure for "standard of living" is average GDP per person. Simply speaking, you take the total value of goods and services produced within a country's borders and divide that number by the total number of people in the country. Although it's an imperfect way to gauge how well people live, at least it's measurable, and that's an important consideration.

But how do we measure "better off"? How do we quantify "happiness"? Do people in countries with a higher "average GDP per person" live better than people in countries where average GDP per person is not quite so high?

Economists often shy away from such questions, in part, because of the difficulty in devising valid or accurate measures. And while that's a big concern, the questions are still worth considering.

The world's best country

Staff members at the Economist Intelligence Unit, which is part of the same group that publishes *The Economist*, devised a 2005 "quality-of-life" index for 111 of the world's countries. A summary of the group's conclusions appeared under a headline that was unequivocal: "The world's best country." No question mark; no hint of uncertainty.

Four countries in sub-Saharan Africa, four former Soviet republics, Russia, and Haiti were at the bottom of the list. No real surprises there. All have experienced varying degrees of economic weakness, economic dislocation, political uncertainty, a cavernous gap between rich and poor, and inability to provide their citizens with an adequate level of essential services.

Almost all of the top ten were European democracies that offer their citizens a comprehensive set of medical and social services. Again, no big surprises, except that: (1) the country that ranked number one in quality of life wasn't Sweden or Switzerland or Denmark, but Ireland, which until recently lost legions of its young people to the lure of economic

Something to Think About

The Economist Intelligence Unit's Quality-of-Life Determinants

What do you think? Are these the determinants you'd use to evaluate quality of life? If not, what would you substitute?

1. Material well-being: GDP per person
2. Health: life expectancy at birth
3. Political stability and security: ratings devised by *Economist* staff
4. Family life: divorce rate
5. Community life: rate of religious-service attendance and trade-union membership
6. Climate and geography: latitude, to distinguish between warmer and colder climes
7. Job security: unemployment rate
8. Political freedom: average of indices of political and civil liberties
9. Gender equality: ratio of average male and female earnings

opportunity in other places, and (2) the United States, which has the world's second-highest GDP per person (after Luxembourg) ranked thirteenth in quality of life.

Of course, any rating system intended to measure something amorphous, especially something as amorphous as quality-of-life, is bound to trigger a certain amount of healthy skepticism—even in the top-ranked country. Shortly after the report came out, an article in *The New York Times* reflected some of this feeling in a quote from Irish novelist Joseph O'Connor: "'If Ireland is the best place to live,' Mr. O'Connor said good-naturedly, 'God help us all.'"

Which isn't to say that the top ranking is unfounded, or even undeserved. *The Times* article noted that Ireland's "gross domestic product per person, not quite 70 percent of the European Union average in 1987, sprang to 136 percent of the union's average by 2003, while the unemployment rate sank to 4 percent from 17 percent." In a country where poverty and pessimism once seemed endemic, these numbers are nothing short of spectacular.

Yet, along with prosperity has come a certain degree of ambivalence and apprehension. There are philosophical concerns over the erosion of traditional values and excessive materialism. And then there are concerns of a less spiritual nature: sprawl, rising prices, gridlocked traffic, torturous commutes to work.

But as Joseph O'Connor also remarked to *The Times:* "Yes, people are commuting long distances now, but not nearly so long as the commute to, say, Australia, which is where many people had to go to find a job a generation ago."

• According the Federal Reserve's Survey of Consumer Finances, more than 50 percent of American families own stock, either directly or through mutual funds and retirement accounts.

• According to Elizabeth Warren, co-author of *The Two-Income Trap: Why Middle-Class Parents Are Going Broke,* fixed costs eat up 75 percent of the income of a dual-income, American middle-class family in the early 21st century. Ms. Warren defines "fixed costs" as mortgage, child care, health insurance, car, and taxes. She calculates that these costs absorbed about 50 percent of a middle-class family's income in the early 1970s. And that's for a single-income middle-class family.

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