Introduction
Ajit Zacharias

The term ‘quality of life’ is used in a variety of disciplines, including economics. Within a single discipline it is hard to find a generally accepted definition of the term. Further, the definition of quality of life as it pertains to a single aspect of life (such as health or education) varies significantly across disciplines. Yet, it is striking how the assessment of the quality of a particular aspect of life necessarily involves looking at other aspects of life. Quality of life is a multifaceted phenomenon that, by its very nature, includes a high degree of interdependence among the different facets.

The assessment of individual health may elucidate the nature and extent of problems involved in the definition and conceptualization of the quality of life. ‘Quantity’, as distinct from quality of life, has a direct meaning in the assessment of health because the former can, in principle, be measured by how long an individual life typically lasts, that is, life-expectancy rates. Admittedly, however, although the expected length of life is a key aspect or indicator, it alone is not sufficient for an assessment of health status. Living a life free from serious illness or impairment is evidently important for an individual and society, as is the ability to lead a decent life even with illness or impairment. Problems emerge as soon as an attempt is made to render substantive content to this proposition: what is a ‘serious’ illness or impairment? What is meant by a ‘decent life’? Reflection on these questions would show that answers are dependent on the perspective and purpose of the researcher. It would also appear that as far as the second question is concerned, the answer depends on the illness or impairment in question. If one were to adopt a definition of health-related quality of life that is general enough to be applicable across concerns, perspectives and contexts, the following would be an appropriate candidate:

Perhaps the measurement of quality of life can be approached from the point of view that the quality of life is high when the individual functions at a high level: when he is free of morbidity, impairment, or disability and when his vitality is high; when he fulfills his major social role obligations satisfactorily according to his own values and those of his group; when he has a high moral self-evaluation and evaluation of his group; finally, when he is emotionally healthy. (Lerner 1973, p. 5)
Indeed, this definition can be considered as an elaboration of the definition of health – put forward long ago in the World Health Organization’s constitution – as a state of complete physical, mental, and social well-being (not merely the absence of disease or infirmity), provided that social well-being is understood in a broad sense.

It is interesting to observe that Lerner’s notion of health-related quality of life is similar to the much more developed and elaborate notion of quality of life put forward by Amartya Sen. At the risk of seriously oversimplifying Sen’s rich conceptions, we may summarize the essentials of his view in the following manner. The basic concept in his approach is that of functioning, defined as a vector describing the state of a person; that is, a combination of that person’s ‘beings and doings’. In turn, the set of feasible functioning vectors, from which the person can choose, constitute the capabilities of that person. Each person is assumed to have a (scalar-valued) valuation function that allows the transformation of feasible functioning vectors into a set containing indices of personal well-being. The actual well-being of the person can then be assessed on the basis of the value of the chosen functioning vector. Similarities between the two approaches lie in the focus on functioning and the broad view of what is to be included in it, as well as in the emphasis that the valuation of functioning is fundamentally a personal act.

An important feature of Sen’s approach is that the traditional indicators of well-being – income and wealth – are not directly important. These are relevant only insofar as they shape functioning. And this they do, because capability is constrained by personal characteristics and resources (‘entitlements’) available to a person. In his formal approach to well-being, Sen treats resources as given quantities. However, most theoretical inquiries into income and wealth distribution seek to shed light on the processes by which individuals get to have certain entitlements. Most of the chapters in this book can be characterized as directly addressing, in a quantitative fashion, the question of resources available to individuals and households, although, as noted below, portions of certain chapters and the whole of Part IV discuss other aspects of well-being.

Traditionally, economists have measured resources by real personal income or command over potential consumption bundles. Often, assessments made on the basis of such measurements went with the caveat that there was something more to life than attaining continual increases in real income or consumption. The above discussion has sought to place that caveat, and the relationship between resources and quality of life, in context. The remainder of the Introduction provides an overview of the major parts and individual chapters.
PART I LIVING STANDARDS IN THE UNITED STATES

Given that economic growth in the United States in the recent past, especially during the 1990s, has often been portrayed as a model for the rest of the world to follow, trends in living standards in this country is of special interest. The chapters in Part I present quantitative evidence on living standards, poverty and inequality on the basis of trends in income, consumption and material indicators. There are well-known problems in the measurement of living standards, even using conventional yardsticks, stemming from methodological considerations and data quality. The chapters in this part also offer discussions on a range of such topics, from equivalence scales to the construction of price indices.

In Chapter 1, Edward N. Wolff presents a variety of indicators that showed stagnation or sluggish growth in American living standards since 1973, as compared to the 1947–73 period. Median family income, and, to a lesser extent, per capita disposable income have grown more slowly since 1973. The mean income of those at the bottom quintile of the distribution and the share of that quintile in total income have fallen, indicating a worsening of living standards for those at the bottom in both absolute and relative terms. According to Wolff, the main reason for stagnant median family income is the slowdown in labor earnings since 1973, as supported by a variety of estimates of labor income. Income inequality has also worsened, as indicated by the significant rise in the Gini coefficient, the share of income received by the richest 5 per cent of families and the ratio of their average income to that of the poorest 20 per cent.

Wolff argues that the standard human capital explanations are inconsistent with the behavior of labor earnings and education trends since 1973. Although average years of schooling and the share of highly educated people in the adult population have risen, average labor earnings have stagnated; inequality in earnings has widened even though inequality in educational attainment (as measured by years of completed schooling) has fallen. Yet another anomaly is the behavior of real wages and labor productivity; while both tended to grow at the same rate until 1973, there has been a sharp divergence since then, with real wages growing at a significantly lower rate than labor productivity. This has contributed to a rise in profitability and an increase in the share of profits in national income. Evidence presented by Wolff shows a shift in wealth distribution favoring the wealthiest, stagnation in median household wealth and homeownership rates for those with an average amount of wealth, and a growing burden of household debt. He concludes that the last 25 years or so has seen a stagnation of earnings, income, wealth, and consumption
expenditures for the average American, as well as rising poverty and inequality.

Some economists have argued that consumption expenditures are a better measure of living standards than income (Brown 1994; Slesnick 2001). In Chapter 2, David S. Johnson examines how different the assessment of living standards would be if the yardstick used is consumption expenditures rather than income. Additionally, he points out that choices made regarding other important measurement options also complicate the assessment of intertemporal and interpersonal changes in the standard of living: interpersonal comparisons have to take into account differences in family size and composition, while intertemporal comparisons must adjust family income or consumption expenditures for inflation. There are no generally accepted principles regarding how these adjustments are to be made and, as a result, assessments of the level and distribution of living standards can vary substantially. Johnson presents a variety of estimates of living standards illustrating his arguments. For example, inequality in family income has shown a sharp increase in the 1990s while inequality in consumption expenditures appears to have remained stagnant or even declined.

In Chapter 3, Christopher Jencks, Susan E. Meyer and Joseph Swingle further explore the issue of the sensitivity to the yardstick of living standards by discussing how incorporation of additional information – in their case, material indicators of living standards – can serve to resolve inconsistencies. They focus on a particularly vulnerable segment of the population – children. The authors begin by looking at the change in real household income (weighted by the number of children in the household) from 1969 to 1999 for children at the 10th, 50th and 90th percentiles of distribution. Using the official definition of money income reveals a rather dismal picture: while high-income children experienced significant improvement during this period, middle-income children saw only modest gains and those at the bottom actually experienced a decline. However, if household income is replaced with per capita income (to adjust for the declining household size during the period) and if adjustment for cost of living is made using a purportedly better price index, the picture appears to be different, especially for those in the middle and at the bottom. The improvement in middle-income children’s income is far greater and, instead of growing poorer, those at the bottom make some gains. Jencks, Meyer and Swingle argue that difficulties in the measurement of income and consumption such as biased price indices, omission of noncash government transfers, and appropriate equivalence scales makes it hard to accept one or the other. In order to adjudicate between the two, they examine evidence on changes in housing conditions, incidence of crime, ownership rates of
automobiles, and access to telephones and medical care. The overall evidence suggests that children on the bottom rung of the income distribution are now living in households whose material conditions have improved over time.

In Chapter 4, Dean Baker examines in depth an issue that was raised in the previous two chapters – the efficacy of official price indices in accurately reflecting changes in cost of living. In his assessment, the work done by the Boskin Commission was politically motivated by a desire to cut the budget deficit and its main conclusion, that the consumer price index (CPI) overstates inflation by 1.1 percentage points annually, was not based on sound economic research. However, the debate around the commission’s work raised several important issues whose implications go well beyond its specific recommendations. Baker argues that the commission’s basic assumption that the CPI can serve as a cost-of-living index is flawed because it does not take into account changes in the physical and social infrastructure, or the provision of public goods and services (such as changed availability of clean drinking water, increased costs of commuting and pollution, and exposure to new diseases). Nor does it take into account relative consumption, that is, the changes in consumption standards brought about by changing notions of social status. These considerations suggest that the CPI can, at best, serve the narrow purpose of measuring price changes of consumption goods and services. Two main concerns raised by the Boskin Commission in this regard were substitution bias and quality change. According to Baker, the first problem could be important during times when prices of a narrowly defined group of goods change rapidly. With respect to quality change, the commission argued that the CPI was systematically recording quality improvements as price increases. Baker contends that several alleged quality improvements were not based on systematic empirical research and that the results of empirical research on quality change are, at best, mixed. Consequently, there is no strong evidence pointing to an inflationary bias in the CPI.

PART II INTERNATIONAL COMPARISONS OF LIVING STANDARDS

Just as in the assessment of several key social phenomena, international comparisons are vital also in the assessment of living standards. Yet, such comparisons are particularly hard given the limitations of data. The chapters in Part II address this important and difficult task.

In Chapter 5, Lars Osberg and Andrew Sharpe offer a comparison between the trends in the United States and Canada during 1971–99 using
a new measure of economic well-being. Conventional indicators, such as per capita GDP, have shown significant improvement in recent years; however, they exclude factors important to economic well-being such as costs of environmental degradation and income inequality. In order to overcome these limitations, Osberg and Sharpe have developed an index of economic well-being that is a weighted sum of current consumption, total wealth accumulation (all tangible and intangible assets, including natural resources), distribution of income, and economic security. Apart from what is usually counted as such in the national accounts, current consumption is defined broadly to include gains due to increased life expectancy and government final consumption expenditures. Decreases in family size and nonworking time, and, increases in commuting costs, crime, house pollution abatement, and auto accidents are considered as losses to current consumption. The definition of wealth accumulation is also broader than in the national accounts: increases in research and development (R&D) capital and human capital are added, and, the deterioration in the value of natural resources (as proxied by the costs of carbon dioxide emissions) and increase in net foreign debt are subtracted. Osberg and Sharpe extend their concept of economic well-being beyond the realm of monetary magnitudes, by including a measure of inequality (a combined index of income inequality and poverty rate) and of security (a combined index of income risks from unemployment, illness, old age and ‘widowhood’ (or being a single-female parent)).

Value judgments are inevitable in the determination of weights by which these four components are combined to form the overall index – for example, the standard use of current consumption alone as an indicator of well-being involves assigning weights equal to zero for the other three components. Thus, if current consumption is given a relatively dominant weight (0.7), then the index leads to roughly the same conclusions as would be obtained by a comparison of real per capita GDP. However, when the four components are equally weighted, the patterns are different. Worsening distribution of income and increasing economic insecurity made the index rise much more slowly than the per capita GDP in both countries.

Proponents of the American model of capitalism have often argued that a high degree of income inequality is socially acceptable, because those in the middle and at the bottom of the income distribution here are generally better off than their counterparts elsewhere. In Chapter 6, Timothy M. Smeeding and Lee Rainwater examine the validity of this proposition using data from the Luxembourg Income Study, perhaps the best existing source of data for household-level comparisons, and find almost no reason to hold on to this view. They provide estimates of distribution of disposable real personal income in 21 OECD countries, with income expressed in a common currency.
purchasing power parity adjusted dollars. The estimates show that the gap between the richest and the poorest 10 per cent of the population is the largest in the United States and the lowest in Sweden. Further, the poorest 10 per cent of US residents have a lower average income than their counterparts in all but two countries, while the richest 10 per cent in the United States have a higher average income than their counterparts elsewhere.

An additional aspect of this chapter is that it also considers the real incomes of children (computed using an equivalence scale), because it sheds light on how opportunities differ for children in low-income groups as compared to those in middle- and high-income groups. Only in the United Kingdom, the estimates showed, was the gap in real income greater than that in the United States. More importantly, it emerged that the poorest 10 per cent of US children are poorer in absolute terms than their counterparts in all but two countries. While there are limitations to the income data used (for example, omission of most noncash government transfers), these findings suggest that while the United States has a higher level of average income than other countries in the group, low-income adults and low-income children are worse off in the United States than in most other countries.

PART III WEALTH AND LIVING STANDARDS

A strong case can be made for taking wealth into account for the assessment of living standards on the grounds that wealth has an independent effect on well-being. The ownership of real assets, such as homes, can free up resources that would have been spent on obtaining the services of such assets. Financial asset ownership can provide a degree of economic security in normal times and, in times of hardship such as that imposed by unexpected sickness, help households in maintaining their standard of living. Additionally, quantity and quality of local public goods available, access to credit, and a number of other noneconomic benefits are also strongly dependent on wealth ownership. In spite of its importance, it is fair to say that empirical studies on living standards have, by and large, concentrated on income or consumption. The two chapters in Part III offer interesting insights into the question of wealth in two different contexts.

Houses are by far the most valuable kind of asset that most families have in the United States. In Chapter 7, William J. Collins and Robert A. Margo present evidence, drawn from the decennial censuses, on black–white gaps in homeownership rates and home values. A striking piece of evidence presented by the authors is that the ownership rate among blacks in 1990 (49.3 per cent) is lower than it was among whites in 1900. Estimates show that the ratio of black to white ownership rates rose from about 45 per cent in
1900 to 67 per cent in 1980 (with most of the increases occurring after 1940), and then declined slightly to 65 per cent in 1990, indicating a large and persistent ownership gap between races. The slow decline in the racial gap in ownership prior to the 1940s was due to the virtual unavailability of conventional mortgage financing to blacks. The civil rights movement and associated legislation help explain, at least in part, why there was a relative quickening in the closing of the gap in the 1960s and 1970s. Several analysts have suggested that growing up in owner-occupied housing confers some positive effects on children. The proportion of children under age 10 living in owner-occupied housing has increased for both races over time, but much more slowly for blacks; as a result, the racial gap in the likelihood of children living in owner-occupied housing has widened over the last century. In an arithmetical sense, the growing gap stems from a combination of lower ownership rates for female-headed households and the increasing proportion of black children living in such households.

The questions of wealth inequality and its impact on living standards is explored in Chapter 8 by Seymour Spilerman and Florencia Torche in the Chilean context by utilizing the Survey of Social Mobility conducted in that country during 2001. The chapter analyzes the role of wealth holdings in shaping living standards and notes the differences in that role in the United States and Chile. The empirical part of the chapter attempts to tease out the connection between parental resources on the one hand and household income and wealth of the offspring on the other. The authors find that earnings and household income are influenced strongly by educational attainment and parental resources. The latter also has an independent effect on educational attainment; however, the schooling system in Chile does not seem to unduly favor the wealthy. But, human capital variables account for only a small portion of variation in household wealth while parental wealth has a large effect. Spilerman and Torche suggest that this may be due to the fact that average income in Chile is not sufficient enough to accumulate savings, and hence accumulation of human capital cannot offset the initial disparity in wealth determined by inheritance. These disparities, similar to those noted by Collins and Margo in the case of black–white gaps in home ownership in the United States, may be ameliorated only through conscious government policy aimed at asset accumulation by the disadvantaged.

PART IV OTHER DIMENSIONS IN MEASURING WELL-BEING

While income and wealth shape the access of individuals and households to the means available for maintaining and enhancing their quality of life,
nonmarket spheres of human activity and nonmarket institutions must be an integral part of an overall assessment of the quality of life. This belief, shared by a large number of social scientists, is grounded on the recognition that nonmarket activities and institutions are often of interest in themselves for individual lives. It is also widely recognized that they have a profound impact on market activities and that powerful feedback effects exist between the two. The chapters in Part IV address these issues in detail.

In Chapter 9, Richard H. Steckel argues that the study of physical stature can shed light on well-being (understood in terms of functioning as discussed at the beginning of this chapter) and inequality. It can also be used in contexts for these purposes where adequate information on usual yardsticks of well-being, such as income, does not exist (for example, eighteenth-century Norway), or where such yardsticks are not applicable (for example, slaves in the United States). Biological reasoning and international comparisons show that the relationship between height and income is highly nonlinear. Average heights between two groups of people with the same average income can differ because the proportion of people with the ability to lead a healthy life is different among them even after controlling for other relevant characteristics. Therefore, insofar as greater equality in the ability to lead a healthy life is positively related to greater equality in income, societies with greater income inequality may be jeopardizing the health of their economically disadvantaged members. Steckel presents long-run, comparative data on stature in the United States. While he discusses the complex social and historical factors driving trends in stature, it is worthwhile emphasizing, in light of the other chapters in this volume, that the relationship just noted between stature and inequality is an important factor in almost all historical periods discussed.

A well-known limitation of the conventional measures of well-being is that they ignore nonmarket activities performed by individuals. Time-use surveys have been utilized by researchers in order to arrive at estimates of time spent on such activities and impute monetary value to the output produced by them. However, a serious limitation of several available surveys is that they do not adequately take into account the simultaneous performance of multiple activities (such as mending clothes while waiting for the pot roast to cook). Ignoring this dimension poses methodological problems in models of time allocation and creates a systematic bias in the reporting of unpaid work. In Chapter 10, Maria S. Floro and Thomas L. Hungerford address these issues by analyzing time-use data from Australia for 1992, which records time spent on multiple activities by respondents. They classify data on overlapping activities into adverse (for example, cooking and cleaning at the same time) and beneficial (such as listening to music and reading) types. They also examined the extent and duration of
such overlapping activities, and the incidence of such activities among individuals according to their gender, income and family type (for example, single versus married). Results show that the incidence and duration of adverse overlapping activities were greatest for women, particularly those who were relatively poor, had children and did not have full-time work.

Several analysts have pointed to the importance of worker rights and labor strength for the well-being of workers and macroeconomic performance. In Chapter 11, Robert Buchele and Jens Christiansen present an index of relative worker strength for advanced capitalist economies using indicators that can broadly be grouped into three categories reflecting key aspects of labor strength: employment protection (such as ease of dismissing workers), representational strength (such as union density) and social protection (such as unemployment benefits). Factor analysis was used to combine the different indicators into a single index. Comparison of the value of the index across countries shows that the United States ranks at the bottom and Sweden at the top in labor strength. Buchele and Christiansen also consider the relationship between their index of labor strength and other economic and social indicators, using correlation analysis. They find a positive but insignificant relation with per capita GDP growth (a result of the index being correlated positively with labor productivity growth and negatively with employment growth), a strong positive relation with real wages and mandated vacation time, and a strong negative correlation with income inequality.

Over 100 communities in the United States today compile quality-of-life indicators. Such indicators encompass a variety of aspects relevant for human well-being, including those that are specific to a particular community. Economists have generally not subjected these indicators to careful analysis, a lacuna that Daphne Greenwood attempts to fill in Chapter 12. She discusses reasons behind the emergence of these indicators and offers a detailed, comparative analysis of indicators developed in three communities. Greenwood argues that local-level indicators (as distinct from individual-level indicators) are useful because the quality of environment and neighborhoods, as well as access to cultural and natural resources, may be uniform across the locality. In addition, some policy changes that affect the overall quality of life (such as school board or zoning decisions) are made locally; good scores on such indicators can help in attracting residents and businesses to the area. The efforts to develop quality-of-life indicators are driven by increasing costs of economic growth and a growing awareness that well-being requires more than just sufficient income. However, she notes, there are also problems associated with local-level indicators, such as their incomparability over
time and across localities. In spite of such difficulties, it is remarkable that some of the changes in local quality-of-life indicators mirror similar changes occurring at the national level.

NOTES

1. Economists have paid increasing attention to issues related to quality of life in the last decade. An indication of this trend is that a standard search on Econlit for the phrase ‘quality of life’ produced 1535 citations, of which 1416 were written since 1990 (search conducted with publication types restricted to book, collective volume article, journal article, and dissertation. Date: 21 October 2002).

2. Consider for example, the quality of schooling. While an economist measures quality by average term length, relative teacher pay and pupil/teacher ratio (Card and Krueger 1992), for an educationalist the relevant factors are curriculum content, effectiveness in learning and subjective evaluations of the learning experience by both teachers and students (Brown 1937).

3. It is still crucially important for large segments of the world’s population, given the striking international disparities in life expectancy and the dramatic declines that have occurred in certain countries. According to the World Health Organization, healthy life expectancy at birth for total population ranged, in 2001, from a mere 33 years in Afghanistan to 50 years in Iraq and 67 years in the United States (Annex 4, available at: http://www.who.int/whr/2002/annex/en/).


7. Comparisons of the level of well-being are eschewed because of data limitations.

REFERENCES