

## GDP AND THE DIMENSIONS OF WELL-BEING IN TRANSITION ECONOMIES NEW EVIDENCE

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**Abstract:** *One of the most important questions that economic development has engendered is how people tend to feel the quality of life and well-being, and how citizens from the same society differ in their vision and their approach to welfare.*

*Indeed, the concept of quality of life is not conceived in the same way for all citizens in the same society and between countries. Welfare is not seen as a high level of GDP per capita, but rather as a successful model of economic development that can every citizen benefit from.*

*However, the rise of standard of living is directly linked to the increase in GDP per capita of each citizen and does not reflect the idea that people do on their quality of life, but rather on their ability to dispose of more goods and services in short periods.*

*This article considers that the quality of life is being felt in very different ways between human and between societies. The basic reflection considers that the transition from the stage of development to another, change completely the idea that people have on welfare, even if it does not directly result in increase in GDP per capita. In this context, three dimensions of prosperity and well-being can explain how people differ in their conception of welfare; they are (i) the role of justice, (ii) political and economic freedom, (iii) inequalities.*

*This paper shows that the standard of living measured by GDP does not reflect how people feel the well-being and quality of life. Indeed, a lower GDP per capita compiled with the presence of a fair judicial system, a large political and economic freedom and apparent equality can significantly contribute to ensure a real satisfaction in any quality of life. This affirmation is supported by an empirical analysis of the evolution of the standard of living and the vision of welfare in some Arab countries that have different levels GDP per capita.*

**Keywords:** *Welfare, Standard of living, Well-being, GDP, economic development, inequality, human development.*

**JEL:** I3, I38, O11, O12.

### INTRODUCTION

One of the contradictions in the Arab world is why countries rich in natural resources are unable to find the path to prosperity. Millions of people live under the poverty line and inequalities are growing every day. Economic Growth though

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positive in some Arab countries especially in the oil states do not allow to increase significantly the standard living, excepting for some Gulf countries.

But this question of standard living is the problem of policy makers and don't concern citizens, a recent studies<sup>1</sup> show that standard of living and well-being are perceived differently by policy makers and citizens. The politicians says that a significant increase in the level of GDP per capita was realized during the last thirty years in most Arab countries, but this reality is different for citizens who perceive the standard of living as a combination of several factors that affect their lives and not only GDP per capita increase.

This divergence is primarily the responsibility of governments and nature of economic policies led for many years. Indeed, policy-makers in Arab countries argue that the well-being of citizens is felt in the ability of governments to deliver services to citizens. They also argue that GDP per capita is growing and consequently the standard of living improves continuously. However, the only indicator used is GDP per capita with in terms of macroeconomic analysis does not reflect real increases in standard of living, but only the ability to offer more goods and services. This view is widely contested by the citizens who far from believing in the continuing rise of standard of living; they consider that the well-being and quality of life results from in economic and non-economic elements.

### **1. GDP and the Dimensions of Well-being**

The Limits of GDP and GDP per capita as an indicator of well-being come primarily from the use of these indicators to justify economic decisions. However, the use of GDP as an indicator of economic performance or as an indicator of comparison is widely accepted by economists. But it's still always an indicator of production and not an indicator of well-being. "... it has often been used as a measure of economic well-being. The confusion between these two concepts may lead to misleading about the level of satisfaction of the population and lead to inappropriate policy decisions. The standard of living is more directly associated with measuring of real national income, real income and the real consumption of households: production can grow while incomes decrease, or vice versa"<sup>2</sup>

This observation made by the Committee on the measurement of economic performance and social progress des not concern only the developed countries, the same phenomenon is found in developing countries, including Arab countries. High levels of GDP per capita cohabit with the situation of poverty and misery and with a general deterioration of living conditions. The citizens of several Arab countries argue that their standards of living are degraded even with an increase in their incomes because they evaluate their well-being differently.

In this context the quality of services such as education, health, justice, and access to public transport services doesn't have any direct link with the increase

of level income of household. Some households attach directly the increasing of their well-being to their capacities to access to more quality of services and not to their ability to have more products. Therefore, the logic of GDP per capita is based on purely economic considerations, which do not affect its use by policymakers, but which limit its capacity and its extension to include other dimensions of well-being and quality of life.

The insufficiency of GDP as a factor in measuring well-being does not come from its nature, but come from its use by policymakers. This tendency to justify everything by the politicians is widely used in most developing countries, because an increase in GDP per capita according to this approach is always corresponding to an improvement in standard of living and amelioration of quality of life. Therefore, the well-being is related directly to the feelings of citizens, the tendency to believe that only the income and consumption increase citizen satisfaction remains very limited, but still a strong argument for politicians.

“at a given time, the correlation between the level of real income of a country and life satisfaction of its population is not clearly stated. D. Cross and S. Deneulin (1996) observed that: “between different nations, it does not seem to be any strong correlation between income per capita and the results of satisfaction surveys. Easterlin (1974) finds a lack of correlation based on a sample of 14 countries around the world. According to Veenhoven (1991) and Inglehart (1988) there is a significantly positive correlation but a large dispersion remains, some poor countries have higher levels of satisfaction than developed countries”. For example, in Brazil average life satisfaction is greater than the Japanese despite the real income per head which clearly inferior doubtless, we must read a different approach to life”<sup>3</sup>.

However, this approach confirms that well-being is not the result of growth of GDP per capita should not normally be a problem for researchers, because it only the individuals who really can determine the nature and the origin of the well-being. Indeed, the approach of subjective well-being considers that individuals are the best judges of their quality of life. “It is a straightforward strategy to ask them about their well-being (Frey and Sutzter, 2002).

Since individuals are only able to determine the nature of their well-being and quality of life, this mean that there are several situations in which people can say they are satisfied with their quality of life without linking it directly to their income level.

This statement leads us directly to ask the opposite problem witch concern the possibility of real satisfaction in people’s quality of life in situations of low income.

## **2. Countries rich and poor citizens**

Several Arab countries are oil exporters, which gives them great ability to finance their basic infrastructures. This idea of massive investment meets the interests of these countries to provide basic infrastructure but contribute to relegate the productive investments in second place.

In terms of economic growth these countries have realized different GDP growth rates; GDP per capita has almost doubled in some countries especially the Gulf countries. However, the standard of living of most other Arab countries has shown no significant improvement in long period.

But this improvement in the standard of living measured by GDP per capita is not the only worry of citizens, because in societies which have many forms of inequality, the concept of standard of living takes several dimensions, the well-being is largely depending on how it is perceived by citizens.

In this context, the most important objective of Governments is to prove by statistical data that the standard of living has improved continuously, but it's clear that this level of life is not perceived in the same way by politicians and citizens. In this context, GDP per capita is widely recognized as a best measure which reflects the well-being.

But The majority of Arab citizens, believes that improving the standard of living must reflect changes in certain aspects of development such as improving in judicial system, access to high quality of health services, access to education , equity in access to housing and others services<sup>4</sup>.

In a generational perspective, more people have seen their income level increased compared to those of the 80s and 90s. But at the same time, access to certain services was significantly decreased for the majority of them, and a very significant deterioration in the quality of services was observed.

The data available on GDP per capita show that a significant increase was realized from the 70s, but this increase was positively correlated with rising oil prices. So from a purely economic view the standard of living in most Arab countries has improved steadily.

## **3. The well-being in some Arab countries**

The quality of life has two different meanings, the first refers to the necessary conditions for a decent life and the second meaning concerns the nature of life that people lead. "in the individual level, the two dimensions are applied. When we say that someone does not have a good life, we mean that he has lack in necessary things. A person can be rich, powerful and popular, but be disturbed and suffering. Moreover, someone who is poor, powerless and isolated can still feel good mentally and physically"<sup>5</sup>.

In the light of this affirmation, in Arab world, the peculiarity of this perception is that the well-being and quality of life are strongly characterized by fatality, it means that people are predisposed to accept their quality of life, (even poor). This acceptance of quality of life does not have a relation with acceptance of the political system, only an analysis of quality of life and role of the political institutions can conclude to the existence of this relation.

Most studies of standard of living in Arab countries seem to be marked by a general tendency on the study of correlation between economic growth and institutional factors (Arab Human Development Report 2002, 2003, 2004, 2005). The satisfaction households' surveys in the Arab world are limited and don't present any assertion about the factors that affect the well-being.

Also, the availability and reliability of data are a very important problem in the Arab countries, because most of these countries do not have neutral statistical agencies, in addition to the non-diversity of available data.

The growth rate of GDP per capita is relatively low for all Arab countries, rarely exceeding 3% over the two periods of 1950-1973 and 1973-1998. It should be noted also that the growth of GDP per capita in all Arab countries across periods of Maddison growth is lowest compared to all other countries over the same periods.

The per capita GDP growth rate is relatively low for all Arab countries exceeding that rarely 3 % on two periods of 1950-1973 and 1973-1998. It should be noted also that the growth of GDP per capita Arab countries rate is lowest compared to all other countries on the same periods.

With growth rates of GDP per capita of less than 3%, and sometimes negative, Arab countries have not been able to increase significantly their GDP per capita over a long period; GDP per capita has fallen even 7.8% over the period from 1990 to 1998. Over the same period the rate of economic growth realized by some Arab countries is relatively high, especially those exporting oil. The higher economic growth rate for Arab countries was realized between 1950 and 1973, which explains in some way the increase of standard of living during this period. For Algeria, the economic growth realized between 1950 and 1973 exceed 4% but it slowed down over all the periods 1973-1998.

#### **4. The change of well-being in Arab countries**

The study of well-being in the Arab world suffers from a lack of reliable statistics on the quality of life of households'; human development indices classify the majority of Arab countries in the category of countries which have a medium human development (HDR 2015, AHDR 2008). In addition, the Arab Human development reports do not confirm the existence of a tendency to improve the standard of living in these countries, excepting for the golf countries.

**Table 1**  
**The Evolution of well-being and life condition**

	<i>Situation of Well-Being</i>	<i>Future aspiration</i>
Financial situation	Degradation	Decrease
Assets situation	Decrease	Decrease
Home equipment's	Decrease	Increase
Housing condition	Improvement	Increase
Leisure and free time	Degradation	Unpredictable
Jobs conditions	Degradation	Unpredictable
Education quality	Decrease	Unpredictable
Participation in civil life	Decrease	Unpredictable
Health conditions	Degradation	Unpredictable
Citizen involvement	Degradation	Unpredictable
Social connection	Degradation	Unpredictable
Security	Unpredictability	Unpredictable

*Source:* Estimation of the authors based on local reports

### 5. The effect of cultural factors on wellbeing

As we mentioned, the increase in the level of GDP per capita is not a sign of satisfaction and improvement of quality of life, at the same time a low income is not a sign of complacency. People can be happy with their life without increasing in their income or even their living conditions change over time. Obviously, this assertion cannot be generalized only in a similar social and cultural context. This is the case for the Arab citizens who in large majority consider that quality of life and wellbeing are not always related to economic factors.

Indeed, several institutional factors can influence the opinions of individuals in Arab countries on well-being and can change their conception, these factors can be:

- The search for personal quiet (peace);
- The incapacity of people to change their situation and which create a complacency of this situation;
- The satisfaction of the quality of life for religious reasons (we accept what God gave us);
- Poverty is not a sign of degradation of quality of life, but rather a sign of privation to access to certain services (education, leisure, basic rights);
- The absence of equity in access to health services;
- The feeling of discrimination (judicial system);
- The feeling of absence political and economic freedom.

Although these factors are very difficult to quantify, but remain very influential in understanding of well-being in the Arab world, where people consider that they accept their current situation while hoping that it will change in the future.

## 6. Evaluation of well-being

The surveys of subjective well-being enable often to know how people think about well-being and how they judge their quality of life. However, these surveys don't identify a general index on the evolution of household's well-being. "... In addition, the practical difficulties and biases induced by survey methods (formulations of questions, interactions with investigators, etc..) create additional problems (Selnik, 2003). It was also suggested that the comparisons between countries have modest meaning due to cultural differences. In fact, as reported by several authors, none of these objections are likely to invalidate the subjective well-being approach... "6. But generally this approach reveals a tendency on the perception of quality of life and factors that have a direct impact.

In this context, a study of the situation of well-being has been conducted to determine what factors are most influential in the perception of well-being. This study concerns only Algeria, actually no studies about others Arab countries are available at this moment.

This survey takes into account the low level of household income, however, we start from the idea that even a low level of income, the households' perception of their living standards may change provided that non-economic factors act directly on this perception. A summary of results is presented in the following tables:

**Table 2**  
Evaluation of the subjective well-being of the household in Algeria<sup>7</sup>

	<i>en %</i>				
	2005	2007	2009	2012	2014
Very satisfactory	12.7	10.4	15.6	13.8	11.6
Satisfactory	30.5	31.1	33.7	30.2	28.8
Unsatisfactory	56.8	58.5	50.7	50	59.6
Total	100	100	100	100	100

**Table 3**  
Evaluation of the acceptance of well-being of the household in Algeria

	<i>en %</i>				
	2005	2007	2009	2012	2014
Unsatisfactory but I accept (hamdoulillah, thanks god)	68.4	64.2	61.5	59.8	61.9
Unsatisfactory I do not accept	31.6	35.8	38.5	40.2	38.1
Total	100	100	100	100	100

**Table 4**  
**Factors who influence the wellbeing of the households**

	<i>by %</i>				
	2005	2007	2009	2012	2014
Education expenditure	12.4	10.3	12.1	12.4	13.4
Health expenditure	10.9	11.7	12.2	11.4	11.3
Justice <sup>s</sup>	21.4	24.8	22.2	23.2	22.2
Political and Economic freedom	9.6	10.5	11.1	12.6	11.8
Poverty	12.1	13.1	12.1	10.9	10.4
Income	11.4	10.3	10.2	11.8	12.7
Unemployment	22.2	19.3	20.1	17.7	18.2
Total	100	100	100	100	100

**Table 5**  
**Factors influencing well-being of the households (by elimination\*)**

	<i>by %</i>				
	2005	2007	2009	2012	2014
Justice	29.4	31.6	32.2	34.6	35.2
Unemployment	24.2	20.3	21.3	19.5	20.4
Poverty	19.1	25.1	21.6	20.1	19.6
Political and Economic freedom	13.1	12.7	13.8	13.9	12.6
Income	14.2	10.3	11.1	11.9	12.2
Total	100	100	100	100	100

\* we ask households to eliminate non important factors that impact their well-being and classification of others factors by importance degree

**Table 6**  
**Factors Influencing wellbeing of the households (by elimination)**

	<i>en %</i>				
	2005	2007	2009	2012	2014
Justice	55.2	51.3			
Poverty	10.1	16.2			
Political and Economic freedom	19.1	18.1			
Income	15.6	14.4			
Total	100	100			

Unemployment is excluded from others factors

**Table 7**  
**Factors who influence the wellbeing of the households (by elimination)**

	<i>en %</i>				
	2005	2007	2009	2012	2014
Justice	42.5	45.8	46.2	45.3	46.6
Political and Economic freedom	34.1	36.1	40.7	35.6	42.1
Income	23.4	18.1	13.1	19.1	11.3
Total	100	100	100	100	100

Poverty is excluded from others factors



The overall analysis of these results can not indicate clear assertions on the evaluation of householders' well-being. However, they suggest that the factors that influence well-being are not the same for all peoples. Far from seeing the income as only indicator of wellbeing, people attach great importance to non-economic factors such as the existence of an equal and fair equal judicial system can change the opinions of the individuals on their quality of life.

In addition, when we ask people to choose between several heterogeneous elements that affect their well-being, the answers seem to be oriented towards economic factors, but once we proceed by elimination of certain factors, it is clear that perception of welfare change.

## CONCLUSION

The evaluation of well-being changes from one human society to another and between individuals within the same country. The well-being of households' surveys confirms this idea; they also show that non-economic factors can directly influences the perception of individuals of their quality of life. The increase of income level is not directly related to improvement of quality of life in certain human societies.

If the problem of the existence of an equal and fair equal judicial system does not arise in the developed nations, it seems that it determines a large part of the vision that individuals have on their well-being in the Arab world.

The influence of these factors may change over time once the conditions of transition to a new level of well-being are satisfied, which means that the well-being according to the vision which prevail in the Arab world is considered as a stratum, which, once the conditions of the first stratum are joined together will give place to another stratum and will form another conception of wellbeing.

Finally, it should be noted that the results of this study are still at the exploratory stage and its must be confirmed by further Surveys on the conception and feeling well-being by Algerian and Arabs households. Further Surveys on behavior of households will surely help to develop a general trend on the evolution of the quality of life in the Arab world.

## Notes

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