

Chapter 2

The state of the world's livelihoods

Global progress in improving people's livelihoods has been remarkable over the past two centuries, especially in reducing extreme poverty, improving health, increasing literacy and moving towards gender equality. This chapter outlines progress in the core dimensions of livelihoods – income, work and basic needs – and shows that although living conditions have improved on many fronts, progress is slowing down. It also asks how people feel about their own livelihoods – are they thriving, surviving or suffering, and how does this vary across regions? Thus, the chapter looks at livelihoods beyond simple monetary measures and includes the many other factors which influence people's lives, from education, living conditions and health to people's own sense of well-being. This approach reflects the need to seek resilient and inclusive livelihoods.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

1. Note by Turkey: The information in this document with reference to “Cyprus” relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the “Cyprus issue”.

2. Note by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Highlights

- Livelihoods are defined as the ability to support oneself now and in the future. Livelihoods go beyond sheer survival to include people's potential to thrive.
- The world has made significant progress in improving livelihoods, especially living standards and health. Yet inequality is once again on the rise.
- Job creation has been the main driver of livelihood improvements in emerging and developing countries. However, work conditions remain mediocre in most low-income and some middle-income countries.
- Following the global economic crisis of 2008/9, unemployment has risen around the world, with the poor and young people particularly hard-hit. The progress made on securing basic needs in health, nutrition, access to basic services and education has slowed down.
- Many people feel dissatisfied with life, particularly the poor, and satisfaction has deteriorated in several regions following the economic crisis. People are nevertheless optimistic about the future, although less so in high-income countries.
- To sum up, though progress towards better livelihoods has been remarkable, the gains made are fragile and many people risk falling back into extreme poverty.

Livelihoods are not just about surviving but also thriving

In this book we define livelihoods as the ability to support oneself now and in the future. People's livelihoods are founded on the underlying condition that their basic needs are met. Basic needs include adequate nutrition, healthcare, shelter, water, sanitation, education, etc. Income, work and basic needs together form the core elements of livelihoods. Jobs are central as they are the main source of income for most people.

Livelihoods go beyond sheer survival, however, to include people's potential to thrive. Thriving can increase life satisfaction. People who are thriving are likely to have more sustainable livelihoods and greater resilience to upsets and challenges. They are more likely to have more accumulated wealth, more work opportunities and greater choice over their own lives. On the other hand, someone who subsists under poor living conditions over which he or she has no influence or choice is vulnerable to even small shocks such as sickness, job loss, failed harvests, etc. Such livelihoods may not be sustainable. Building people's ability to thrive depends not only on income and available resources, but also on the competences and capacities people need to create the life of their choosing.

Promoting resilience and inclusiveness requires a more rounded understanding of livelihoods

The most basic indicators for evaluating livelihoods tend to be gross domestic product (GDP) per capita and the World Bank's USD 1.25 a day extreme poverty threshold. But these statistics do not provide policy makers with a sufficiently detailed picture of people's living conditions. Income or consumption alone may not capture the multiple ways in which people can be poor. For example, economic growth has been strong in India in recent years and poverty in monetary terms has fallen. However, the prevalence of child malnutrition, for example, has remained at nearly 50%, which is among the highest rates worldwide. Moreover, poor people themselves describe their experience of

poverty as multidimensional. Participatory exercises reveal that poor people describe a lack of well-being to include poor health and nutrition, lack of adequate sanitation and clean water, social exclusion, low education, bad housing conditions, violence, shame, and disempowerment, among others (Oxford Poverty and Human Development Initiative).

The quest for secure livelihoods and inclusiveness calls for a better way of measuring the contributing factors. The way that livelihoods are assessed is therefore evolving rapidly. For example, the United Nations Human Development Index complements the GDP per capita indicator with some indicators of basic needs (life expectancy and education level).¹

The Multidimensional Poverty Index (MPI),² developed by the United Nations Development Programme (UNDP) with the University of Oxford, complements a purely monetary measure of poverty by considering other deprivations. The index identifies deprivations across the same three dimensions as the Human Development Index – namely education, health and standard of living (Kovacevic and Calderon, 2014). A person is considered as “multidimensionally poor” if they are deprived in 33% or more of the weighted indicators. Another advantage of a multidimensional perspective on poverty is that it allows policy makers to make better-informed policy decisions. For example, if many people are deprived of education, a different poverty reduction strategy will be required to a situation where people lack adequate housing.

But these objective measures need to be complemented by more subjective measures to get a fuller understanding of people’s well-being. People’s subjective evaluations of their own life (life satisfaction) help to see beyond survival and take into account their potential to thrive.

Richer countries, whose citizens’ basic needs have been met, are now starting to look at happiness or life satisfaction as indicators of well-being; basic economic needs are no longer the main drivers of social change. However, greater wealth does not necessarily result in greater life satisfaction. This has been confirmed by the “Easterlin paradox”: although people in wealthier countries are on average happier or more satisfied with life than people in poor countries, happiness seems only to rise with income up to a point, but not beyond it (Graham, 2009; Senik, 2014).

The Gallup World Poll measures life satisfaction based on extensive surveys of people’s own perceptions of their livelihoods around the world (see Box 2.2 later in this chapter).³ Their indicators give a view of overall life satisfaction as well as more specific aspects of individuals’ subjective well-being, such as their evaluations of social capital, food and shelter security, health status, job climate, income/wealth status and environmental conditions.

The OECD Better Life initiative, launched in 2011, captures both objective and subjective aspects of people’s individual well-being along 11 dimensions. This includes material conditions – namely income and wealth, jobs and housing – as well as quality of life dimensions: health, work-life balance, education and skills, social connections, civic engagement and governance, environmental quality, security, and subjective well-being (OECD, 2013a). A set of indicators is used to construct the score for each of the 11 dimensions. An interactive online tool allows users to set their own weights for each dimension.⁴ So far, the Better Life Index has only been developed for the 34 OECD countries. The OECD is currently developing an adjusted framework for developing countries (Boarini et al., 2014).

The OECD Better Life Index also acknowledges that the sustainability and resilience of livelihoods over time is built on different types of capital, although indicators for these are not part of the index. These types of capital include:

- Human capital: the stock of populations' competencies, knowledge and skills which constitute a potential workforce to meet employment or production needs.
- Social capital: the networks and social behaviours that contribute to civic and community life. It can also include institutional capital, such as trust in government action, transparency, corruption-clean policies, etc.
- Natural capital: the overall environment, including all its environmental and geological resources, as well as broader ecosystems, biodiversity, etc.
- Economic capital: the material aspect of livelihoods. It can be "produced physical capital" (such as infrastructure and buildings), knowledge assets (such as intellectual property), or financial assets (such as financial wealth).

This chapter uses both objective and subjective measures of livelihoods (including the types of capital contributing to them) to assess evolutions in the three core dimensions of livelihoods – income, work and basic needs – across all regions of the world. The assessment of income gives special emphasis to the analysis of poverty, while the focus on basic needs is mainly on health, education and basic infrastructure.

The chapter also looks at people's perspectives of their own lives – as a whole, and of specific aspects ranging from jobs to health and the environment – as subjective measures of the various types of capital mentioned above. Different aspects of livelihoods are compared with each other across regions and countries to identify possible correlations.

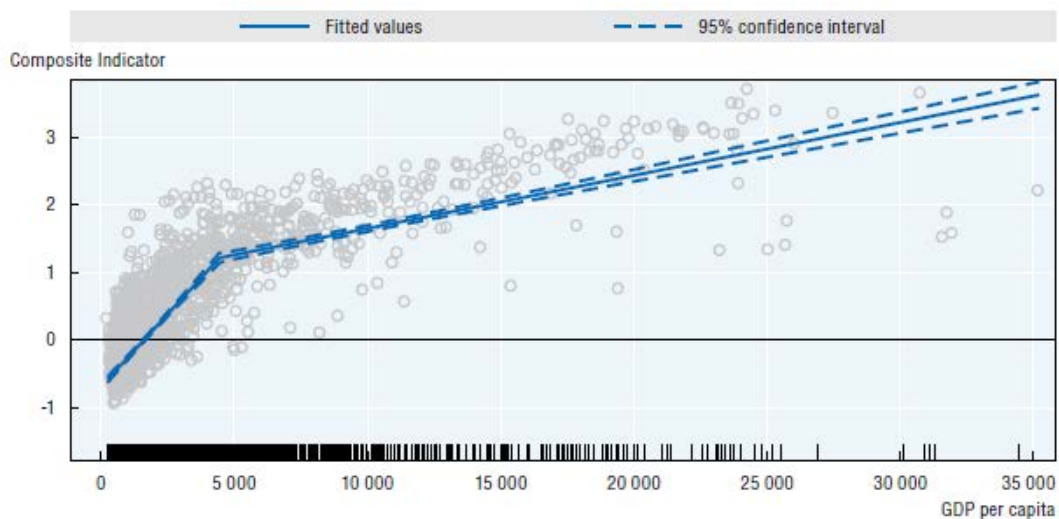
Progress in global well-being since 1820 has been remarkable

A recent OECD study of livelihoods (van Zanden, 2014) shows that the last two centuries have seen significant improvement in global well-being, particularly in the areas of income and basic needs. GDP per capita in purchasing power parity has increased by a factor of 10 between 1820 and 2010. Real wages of unskilled workers are about eight times the level attained at the start of the 19th century. Health status, measured as life expectancy, has also improved. Overall progress has been accompanied by greater gender equality. At lower levels of per capita GDP (below USD 5000, in 1990 purchasing power parity; see Box 2.2 for a discussion of PPP-based poverty measures), an improvement in per capita income has been associated with bigger gains in overall well-being compared to income improvements at higher income levels (Figure 2.1).

Yet this growth has been accompanied by a considerable increase in disparity among countries, and a serious deterioration in the quality of the environment. In 1820, the richest countries were about five times as wealthy as the poorest countries; in 1950, they were more than 30 times as well off, thanks to rapid industrialisation. Today, they are more than 50 times better off (World Bank, 2014). Inequality within countries, measured by the Gini coefficient, has increased (Figure 2.2, Panel A). In Western countries, after a decline from the end of the 19th century, inequality started to rise again in the 1970s, following a U-shaped curve (Figure 2.2, Panel B). This rise is sharp in Anglo-Saxon countries and relatively modest in continental Western Europe. The disintegration of communism in the 1980s was also followed by a sharp increase in inequality in Eastern Europe. In other parts of the world, China in particular, recent trends have also led to greater income inequality.

Figure 2.1. Improvements in well-being slowed down when the world became richer

Relation between a composite well-being indicator and GDP per capita



Notes: Higher values of the composite indicator correspond to higher average well-being. Grey circles represent one country for a given year (between 1820 and 2000). GDP per capita is based on USDs at 1990 PPP, decadal averages. For more details on the calculations see van Zanden (2014). The composite indicator of well-being includes the following measures: GDP per capita, real wages, physical height, life expectancy, average years of education, income inequality, polity, mean species abundance, homicide rate.

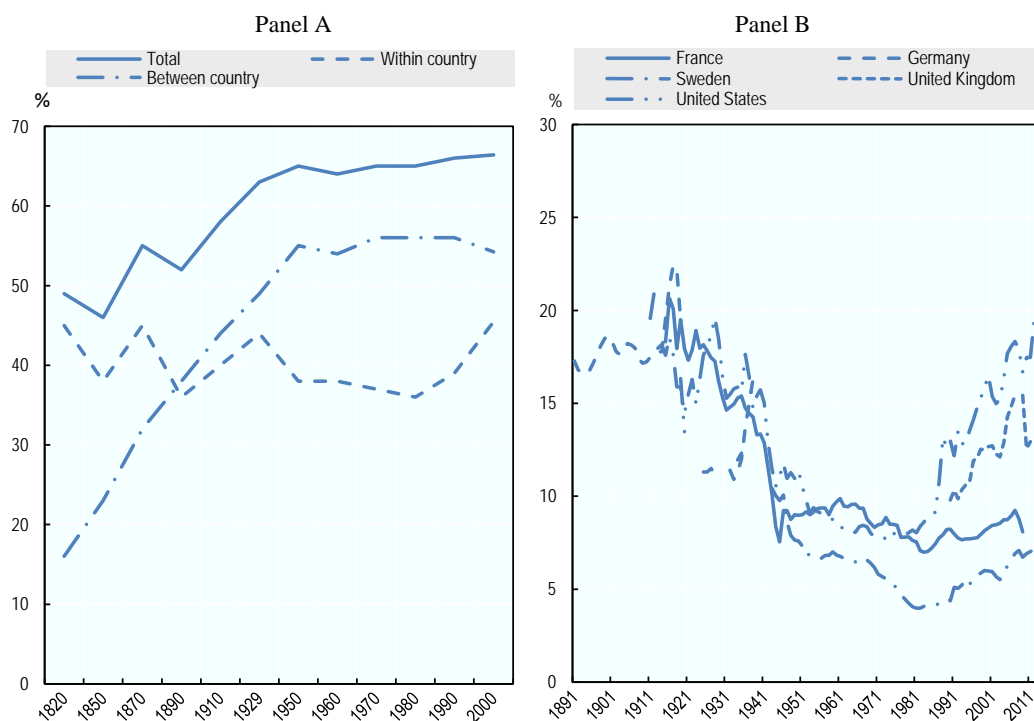
Source: van Zanden, J.L., et al. (eds.) (2014), *How Was Life? Global Well-being since 1820*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264214262-en>.

Progress in basic needs such as health and education has been significant, often linked with the growth in GDP. This is particularly the case for health. Since industrialisation began, average life expectancy at birth has almost doubled in wealthier countries, from 40 years to almost 80 years, and from around 30 years to 65 years in other parts of the world. Universal access to education has become a global phenomenon, leading to literacy rates rising from less than 20% in 1820 to around 80% in the 2000s. The only exception to this widespread livelihood progress is sub-Saharan Africa, which is lagging behind in life expectancy (around 52 in the 2000s) and literacy rates (65% in 2010) (van Zanden, 2014).

This general progress has been accompanied by greater gender equality – although much still remains to be done as highlighted by OECD Development Centre’s Social Institutions & Gender Index (SIGI) (see Box 2.1). Women’s life expectancy has increased from a world average of 36 years in 1900 to 71 in 2000. Since 1960, countries such as Afghanistan and India, which were characterised by large gender differences in life expectancy, have almost closed the gap. There are also regional differences: in Asia, women’s life expectancy grew faster than men’s. In education, the last five decades have seen a significant closing of the gap. In South and Southeast Asia, average years of schooling of females have more than doubled since the 1980s. Overall, however, the relationship between per capita GDP and gender equality is not very clear-cut.

Figure 2.2. Inequality is on the rise

World income inequality (Gini coefficient, values between 0-100%): 1820-2000



Notes: Panel A: Income inequality is measured by the Gini coefficient. A Gini coefficient of zero expresses perfect equality, where all values are the same (for example, where everyone has the same income). A Gini coefficient of one (or 100%) expresses maximal inequality among values (for example, where only one person has all the income and all others have none). In the figure, “Total” is the Gini coefficient for world income inequality when the world population is taken as one group to calculate the coefficient. “Within country” is the average of the Gini coefficient for all countries. “Between country” is the Gini coefficient of the average incomes in each country. For details on the country sample and data quality see van Zanden, J.L., et al. (eds.) (2014). Panel B: For details on data, see Alvaredo et al. (2015).

Source: Panel A: Adapted from van Zanden, J.L., et al. (eds.) (2014), *How Was Life?: Global Well-being since 1820*, OECD Publishing, <http://dx.doi.org/10.1787/9789264214262-en>. Panel B: Alvaredo F., A. B. Atkinson, T. Piketty and E. Saez (2015), *The World Top Incomes Database*, Paris School of Economics, Paris, <http://topincomes.parisschoolofeconomics.eu/#Database>.

Box 2.1. Key results of the 2014 Social Institutions & Gender Index (SIGI)

The OECD Development Centre's Social Institutions and Gender Index (SIGI) is a cross-country measure of discrimination against women in social institutions (formal and informal laws, social norms, and practices) across 160 countries. Discriminatory social institutions intersect across all stages of girls' and women's life, restricting their access to justice, rights and empowerment opportunities and undermining their agency and decision-making authority over their life choices. As underlying drivers of gender inequalities, discriminatory social institutions perpetuate gender gaps in development areas, such as education, employment and health, and hinder progress towards rights-based social transformation that benefits both women and men.

The 2014 edition of the SIGI shows that countries have made great strides in reducing discrimination through ambitious target setting and promising initiatives. However, gaps and challenges remain across some key areas affecting women's socio-economic and political rights and freedom from violence. Below are some global, regional and national trends which highlight the universal challenge of discriminatory social institutions and norms:

- **Early marriage:** The number of early marriages is decreasing in developing countries (from 36% in 2004 to 26% in 2010 in Malawi, for example), but the practice remains pervasive: on average in non- OECD countries 16% of girls 15-19 years old are married, ranging from less than 1% in Lithuania to 60% in Niger.
- **Unpaid care work:** Caring responsibilities are mainly performed by women, who typically spend three times more of their time on unpaid care work than men, ranging from 1.3 times in Denmark (where women spend on average four hours and men three hours on unpaid care activities) to 10 times in Pakistan (where women spend on average five hours and men less than 30 minutes on unpaid care activities).
- **Inheritance:** Only 55 countries in the SIGI's 160 accord women the same inheritance rights as men, both in law and in practice.
- **Domestic violence:** 35% of women believe that domestic violence is justified under certain conditions, ranging from 3% in Jamaica to 92% in Guinea, and 30% of women have been victims of gender-based violence in their lifetime, ranging from 7% in Canada to almost 80% in Angola.
- **Female genital mutilation:** In the 28 countries where female genital mutilation is a widespread practice (Egypt, Yemen and some Sub-Saharan African countries), 47% of women and girls have been victims.
- **Missing women:** Over 90 million women are missing around the world, 80% of these missing women are from India and the People's Republic of China.
- **Secure access to land:** The laws or customary practices of 102 countries still deny women the same rights to access land as men.
- **Political participation:** Only one member of parliament in five is a woman (no woman in Qatar and Yemen versus 63% in Rwanda). Even with legislative quotas, women occupy less than 10% of parliamentary seats in Brazil, the Democratic Republic of the Congo, Egypt and the Republic of the Congo.

Source: OECD (2014c), *Social Institutions & Gender Index, 2014 Synthesis report*, www.genderindex.org/sites/default/files/docs/BrochureSIGI2015.pdf.

The poverty picture is complex

More than two billion people have moved out of extreme poverty over the last four decades, largely thanks to the growth of the emerging economies, especially China. Extreme poverty is measured as people living on less than USD 1.25 a day (in 2005 purchasing power parity; see Box 2.2 for a discussion of PPP-based poverty measures). At the beginning of the 1980s, more than 50% of the developing world's population was below the USD 1.25 a day poverty threshold. This headcount ratio was reduced to 17% by 2010. China alone has reduced the number of extreme poor by 700 million since 1981.

Poverty is concentrated in a few regions

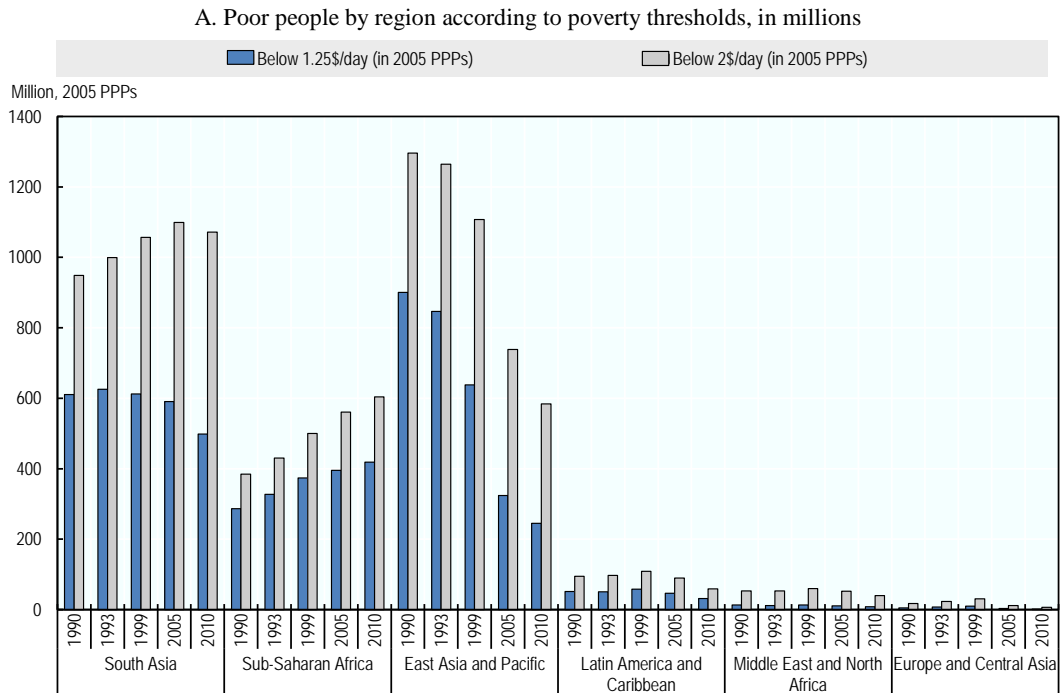
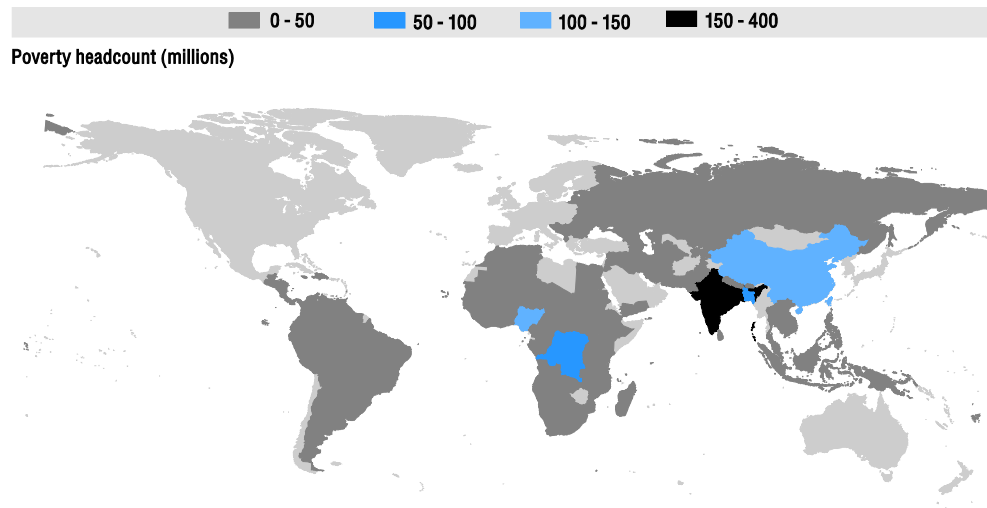
The world's poor are mainly concentrated in South Asia, sub-Saharan Africa, East Asia and the Pacific (Figure 2.3, Panel A), although poverty reduction in East Asia and the Pacific is proceeding at a fast pace. South Asia and sub-Saharan Africa still have rapidly growing populations, making it challenging to reduce the absolute poverty headcount. Although South Asia reduced the number of extreme poor from around 600 million in 1990 to around 500 million in 2010, this still makes up more than 40% of the world's poor. In sub-Saharan Africa, the number of extremely poor people increased over the same period by more than 100 million, coming close to the absolute number of poor in South Asia. The growth spurt in some emerging economies of East Asia and the Pacific, particularly in China, but also for example in Indonesia, Thailand and Malaysia, resulted in an impressive reduction of absolute poverty from more than 800 million to just above 200 million between 1990 and 2010. This reduction accounts for around 20% of the world's poor people.

A closer look at individual countries reveals that poverty today is largely concentrated in just five countries: Bangladesh, China, Democratic Republic of Congo, India and Nigeria (Figure 2.3, Panel B). In each of these five countries, the extreme poverty headcount was above 50 million in 2010. The headcount is highest in India, with more than 400 million poor, or 35% of the world's poor population.

Poverty relative to total population is decreasing in all regions

Poverty headcount ratios – the share of the population living below USD 1.25 a day – decreased in all developing regions between 1990 and 2010 (Figure 2.4, Panel A). In 1990 in developing sub-Saharan Africa, South Asia and East Asia and the Pacific, where the world's poverty is concentrated, the ratios were above 50%. By 2010 they had fallen to below 50% in sub-Saharan Africa, to approximately 30% in South Asia and to 10% in East Asia and the Pacific. In the other three developing regions (Latin America and the Caribbean, the Middle East and North Africa, and Europe and Central Asia), poverty headcount ratios also decreased during the same period and were below 10% in 2010.

Mapping the poverty headcount ratios by country reveals that in most countries on the African continent, poverty remains a concern (Figure 2.4, Panel B). Extreme poverty is most widespread in the Democratic Republic of Congo (85%), Liberia (83%), Madagascar (81%), Burundi (80%) and Zambia (75%). It appears to be less prevalent in northern and southern Africa. In Asia, poverty headcounts remain above 20% in Bangladesh, India, the Philippines and Lao PDR. In Central and South America, only Haiti is left with a high poverty headcount ratio of 65%. All other countries in that region have figures below 20%.

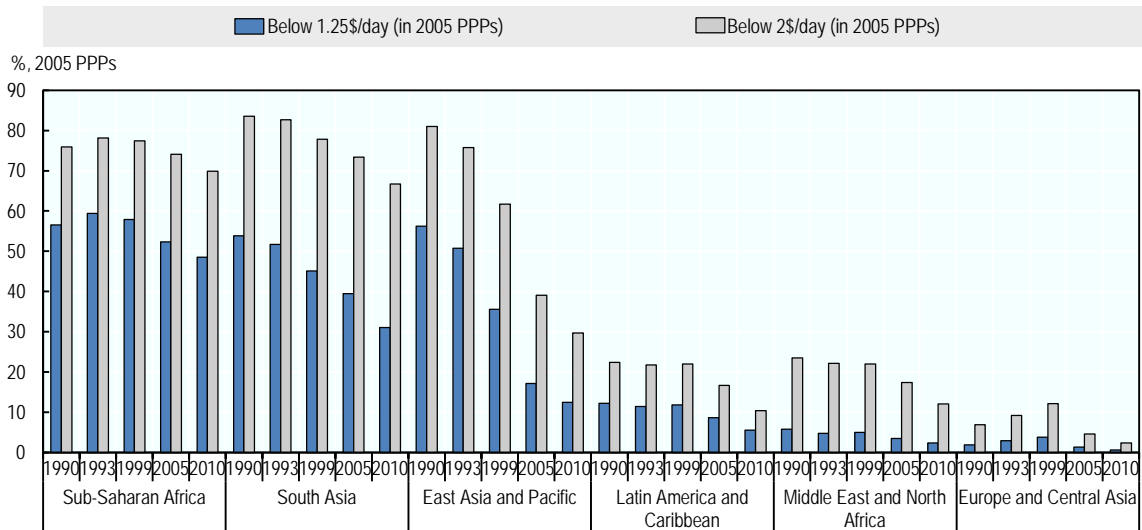
Figure 2.3. Poverty is concentrated in a few regions and countries**B. Numbers of poor people by country, 2010**

Notes: Panel B: PPP: purchasing power parity. Poverty figures for countries in light grey are not available. This is usually the case for developed countries where extreme poverty is low or inexistent. Reference year 2010.

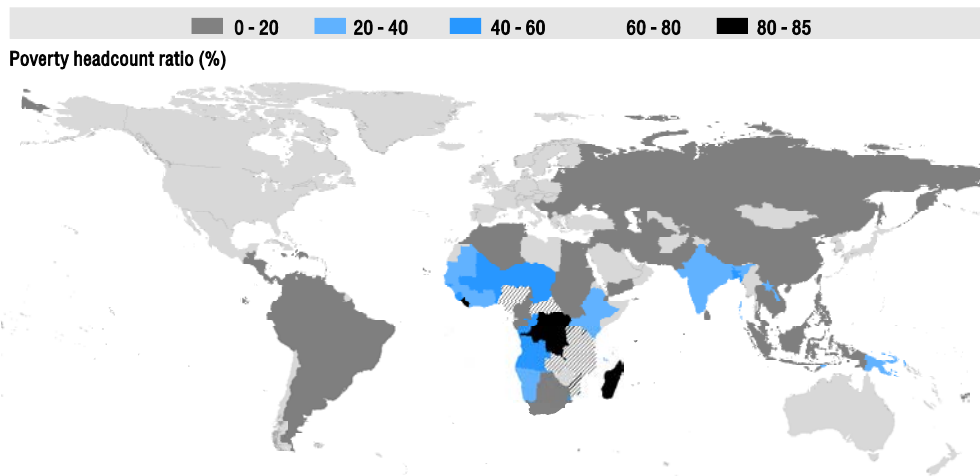
Source: World Bank (2014), 2014 World Development Indicators, The World Bank Group, Washington DC, <http://data.worldbank.org/indicator>.

Figure 2.4. All developing regions have reduced the share of their populations living in extreme poverty, 1990-2010

A. Poverty headcount ratio by region according to poverty thresholds, in %



B. Poverty headcount ratio by country, in %, 2005 PPPs, 2010



Notes: Panel B: PPP: purchasing power parity. Poverty figures for countries in light grey are not available. This is usually the case for developed countries where extreme poverty is low or inexistent. Reference year 2010.

Source: World Bank (2014), 2014 World Development Indicators, The World Bank Group, Washington DC, <http://data.worldbank.org/indicator>.

A large share of the world's population is at risk of falling back into extreme poverty

Many people who have managed to move out of extreme poverty remain at risk of falling back into it. When looking at the higher poverty line of USD 2 a day, the regional trends in poverty again reveal a strong concentration of poverty and higher poverty headcount ratios in South Asia, sub-Saharan Africa and East Asia and the Pacific (Figures 2.3 and 2.4). It is significant that the number of poor people in all regions

increases considerably for each year when using the USD 2 a day line compared to the USD 1.25 a day line. This illustrates that even if many people have moved out of extreme poverty in South Asia or East Asia and the Pacific, they are still at risk of falling back into it. Also, while many emerging economies do have rising middle classes (sometimes defined by people living on USD 10 or more a day; see Annex 3.A1 in Chapter 3), it is clear that sub-Saharan Africa and South Asia are far from that situation, with more than 65% of their populations still living on less than USD 2 a day (Figure 2.4, Panel A).

Alternative poverty measures provide additional insights

Dollarised poverty measures have an important limitation: poverty counts change in every round of purchasing power parity (PPP) benchmarks. For example, the latest PPP benchmark figures published in the first half of 2014 dramatically change the poverty landscape (Box 2.2). According to calculations by Brookings researchers, the poverty headcount in South Asia is cut in half from around 500 million in 2010 to 250 million when using the new PPP benchmark, while poverty in East Asia and Pacific as well as in sub-Saharan Africa would be reduced much less (Chandy and Kharas, 2014). For example, for India, the new PPP benchmark reduces the poverty headcount from around 400 million to just 180 million in 2010. Overall, this large discrepancy between poverty figures calculated using different PPP benchmarks illustrates that poverty is indeed very difficult to quantify; figures should therefore be taken with a pinch of salt.

Box 2.2. The limitations of PPP-based poverty measures

Standard exchange rates measure the relative values of different currencies for goods, services and financial assets traded internationally. In contrast, PPP exchange rates measure the relative values (purchasing power) of currencies in domestic markets, including the cost of services – haircuts, housing, local transportation, etc. – that are not traded across international borders. Consumption PPPs – which are used to convert the international poverty line into local currencies – measure the relative cost of a representative bundle of goods and services in each country, weighted by the share of each item in overall consumer spending. Using PPP exchange rates to convert the international poverty line into local currencies helps ensure that the calculated values correspond to a similar standard of living in each country. The key word here is “helps,” because there is much room for error in this calculation. In addition, a particular problem with PPP exchange rates is that they are only valid for the year in which the price comparisons were made. For this reason, they must be treated with caution when looking at changes over time (OECD, 2013d).

The International Comparison Program (ICP) updated purchasing power parities around the world in 2014 based on detailed price data for the benchmark year 2011. The previous benchmark was 2005. The ICP 2011 estimates benefited from a number of methodological improvements over past efforts to calculate PPPs. More details on this update can be found online: www.worldbank.org/en/news/press-release/2014/04/29/2011-international-comparison-program-results-compare-real-size-world-economies.

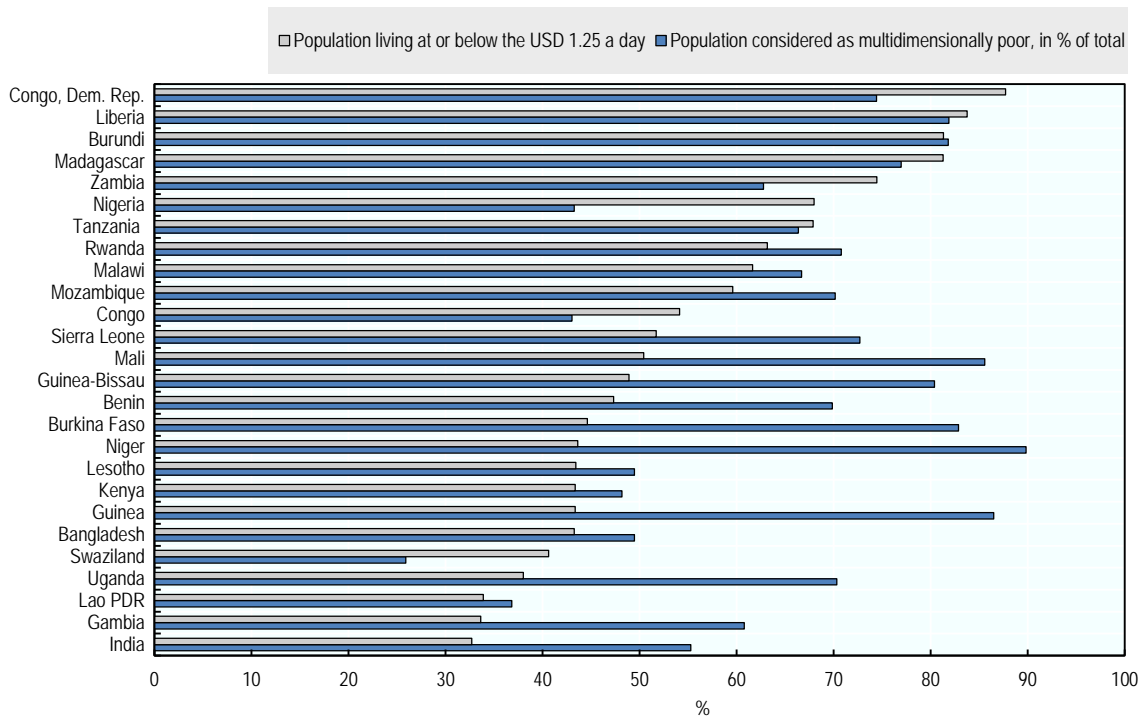
How does the poverty picture change when using the multidimensional poverty index (MPI)? Although multidimensional poverty headcounts across countries are often closely tied to counts using the standard USD 1.25 a day poverty line, some significant deviations can be observed (Figure 2.5). For example, none of the five poorest countries identified using the standard poverty line (Burundi, Democratic Republic of Congo, Liberia, Madagascar and Zambia) is among the poorest when using the MPI. Instead these are Burkina Faso, Ethiopia, Guinea, Mali and Niger. Around 1.5 billion people in the 91

countries covered by the MPI live in multidimensional poverty. This exceeds the estimated 1.2 billion people in those countries who live on USD 1.25 a day or less (UNDP, 2014a), and accounts for more than one-third of their population.

The alternative measures of poverty discussed above provide valuable insights into the situation of people who may not immediately appear to be poor according to the USD 1.25 extreme poverty line. It is also important to consider the vulnerability of such people, revealed by their deprivations in basic services or risk of falling back into extreme poverty.

**Figure 2.5. A mismatch in poverty measures:
Multidimensional and the “USD 1.25-a-day” poverty measures compared**

In % of total population



Notes: The Multidimensional Poverty Index complements a purely monetary measure of poverty by considering overlapping deprivations suffered by people at the same time. The index identifies deprivations across education, health and standard of living. A person is considered as multi-dimensionally poor if they are deprived in 33% or more of the weighted indicators (see Endnote 2 of this chapter for more details). The most recent year is used (from 2000-12) for which the MPI is available.

Source: UNDP (2014a), *The 2014 Human Development Report – Sustaining Human Progress: Reducing Vulnerabilities and Building Resilience*, United Nations Development Programme, New York, <http://hdr.undp.org/sites/default/files/hdr14-report-en-1.pdf>.

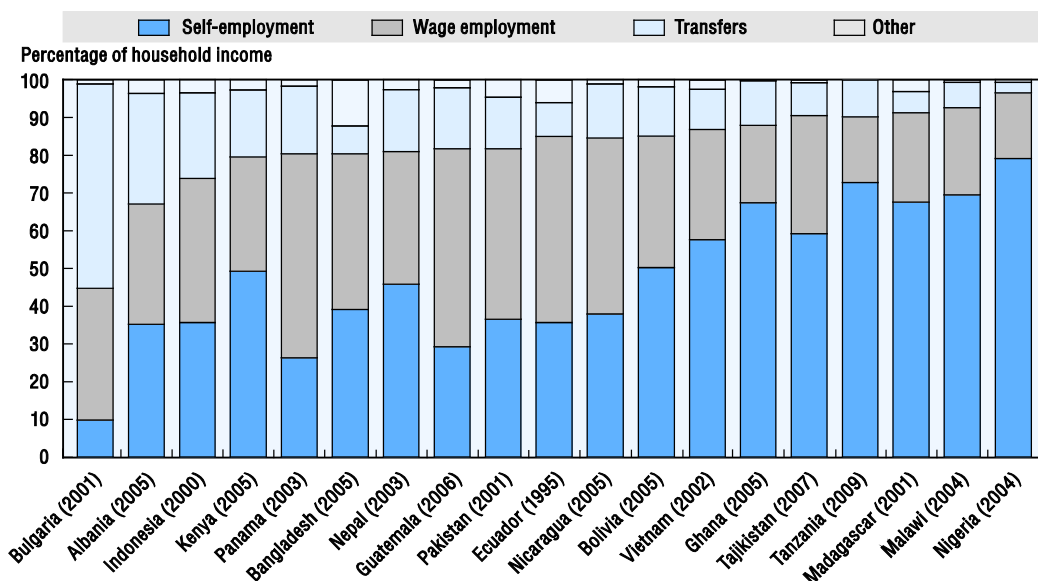
Global unemployment is on the rise

Increased employment is the largest contributor to poverty reduction (Figures 2.6 and 2.7). The significant reduction of poverty around the globe was made possible by the creation of millions of new productive jobs, particularly in the developing world. Indeed, South Asia created on average 8.5 million new jobs every year between 2009 and 2014 (ILO, 2014a). Africa has created over 37 million wage-paying jobs within the past 10 years (UNECA, 2013).

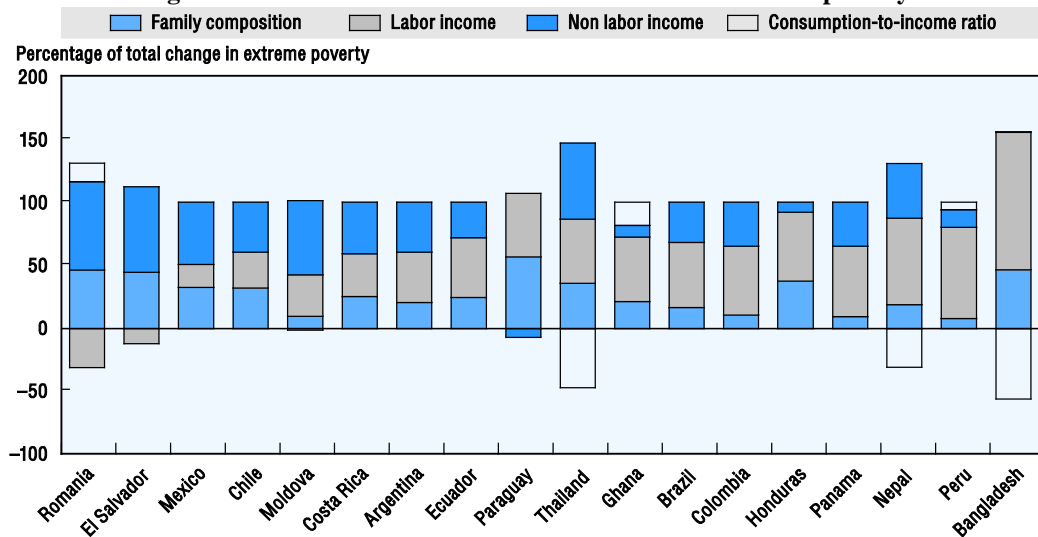
Today there are about three billion people who have jobs around the world, of which around half are working for a wage or salary and the other half are working in farming or are self-employed (World Bank, 2012a). But there are almost two billion working-age adults who are not participating in the labour force; that is, neither working nor looking for work.

In 2013, 202 million people were unemployed worldwide, up five million from the year before. Forty-five percent of these jobseekers are from East Asia and South Asia, followed by sub-Saharan Africa and Europe (ILO, 2014a). Since the economic crisis, the global unemployment rate has stabilised at around 6% – a level expected to remain constant until 2017 (ILO, 2014a). Almost 30 million net jobs were lost during the financial crisis and have not been recovered (Oxford Martin School, 2013).

Figure 2.6. Jobs are the most important source of household income



Source: World Bank (2012a), *World Development Report 2013: Jobs*, The World Bank Group, Washington DC, http://siteresources.worldbank.org/EXTNWDR2013/Resources/8258024-1320950747192/8260293-1322665883147/WDR_2013_Report.pdf.

Figure 2.7. Jobs account for much of the decline in extreme poverty

Notes: Extreme poverty is defined as people living at or below USD 1.25 a day. Family composition indicates the change in the share of adults (ages 18 and older) within the household. Labour income refers to the change in employment and earnings for the each adult. Non-labour income refers to changes in other sources of income such as transfers, pensions, and imputed housing rents. If a bar is located below the horizontal axis, it means that the source would have increased, instead of decreased, poverty. The changes are computed for Argentina (2000-10); Bangladesh (2000-10); Brazil (2001-09); Chile (2000-09); Colombia (2002-10); Costa Rica (2000-08); Ecuador (2003-10); El Salvador (2000-09); Ghana (1998-2005); Honduras (1999-2009); Mexico (2000-10); Moldova (2001-10); Panama (2001-09); Paraguay (1999-2010); Peru (2002-10); Nepal (1996-2003); Romania (2001-09); and Thailand (2000-09). The changes for Bangladesh, Ghana, Moldova, Nepal, Peru, Romania, and Thailand are computed using consumption-based measures of poverty, while the changes for the other countries are based on income measures.

Source: World Bank (2012a), *World Development Report 2013: Jobs*, The World Bank Group, Washington DC, http://siteresources.worldbank.org/EXTNWDR2013/Resources/8258024-1320950747192/8260293-1322665883147/WDR_2013_Report.pdf.

The economic recession has affected employment in developed countries more severely

The economic crisis and low growth have affected countries differently in terms of employment. After an increase during the crisis, unemployment in developing countries has decreased to around pre-crisis levels of 5.5% today. Meanwhile, advanced economies are still suffering from unemployment rates of 8.5% on average, higher than the pre-crisis 5.8% rate.

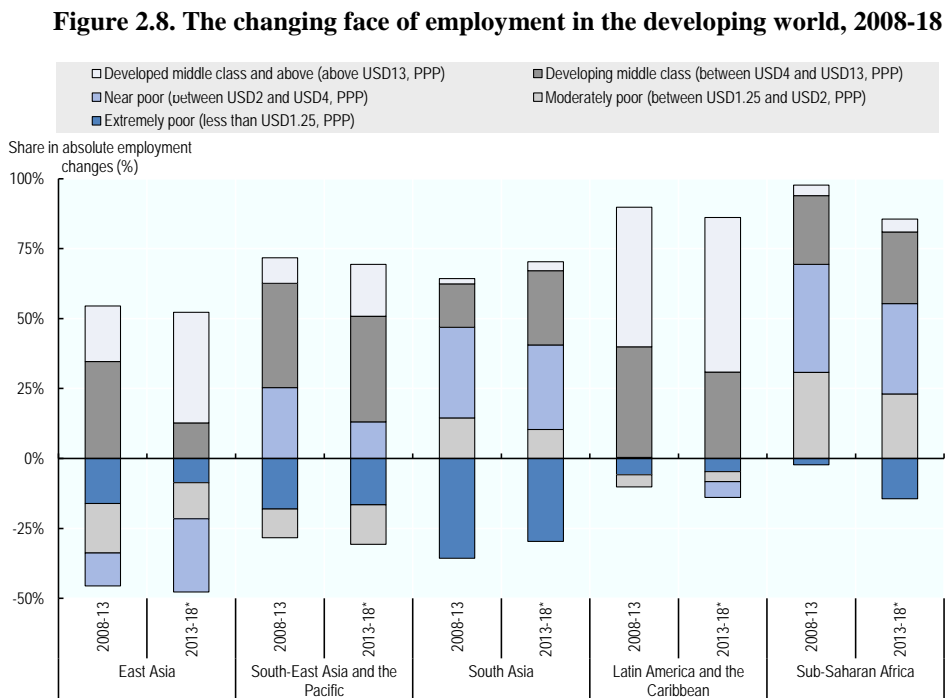
A number of high-income countries are facing serious unemployment problems. They vary in their capacity to adapt to such problems. On the one hand, countries that have traditionally flexible labour markets, such as the US and UK, are better able to adapt to business cycles, albeit with potentially significant losses of income for laid-off workers. On the other hand, countries with rigid labour markets and significant compensation for jobless people, such as France, are experiencing persistently high levels of unemployment.

People living in advanced economies also struggle with precarious employment. The financial crisis has led to a significant increase in temporary employment as employers have become cautious about hiring permanent workers. Employees under temporary

contracts tend to be the first to be laid off. Moreover, employment protection legislation is weakening (OECD, 2013b).

Unemployment affects the poorest most

In developing and emerging countries, trends since 2008 reveal that it is the poor who have been the most affected by job losses (Figure 2.8). The middle classes have fared much better, benefitting the most from job creation. Job creation in Latin America and Africa has been particularly remarkable, benefitting all income groups except the extreme poor. The situation is not as positive in East Asia and South Asia. Projections for 2013-2018 suggest a continuation of past trends, with employment growth mainly benefitting the middle classes (ILO, 2014b).



Note: * 2013 to 2018 are projections. The absolute changes in employment add up to 100%.

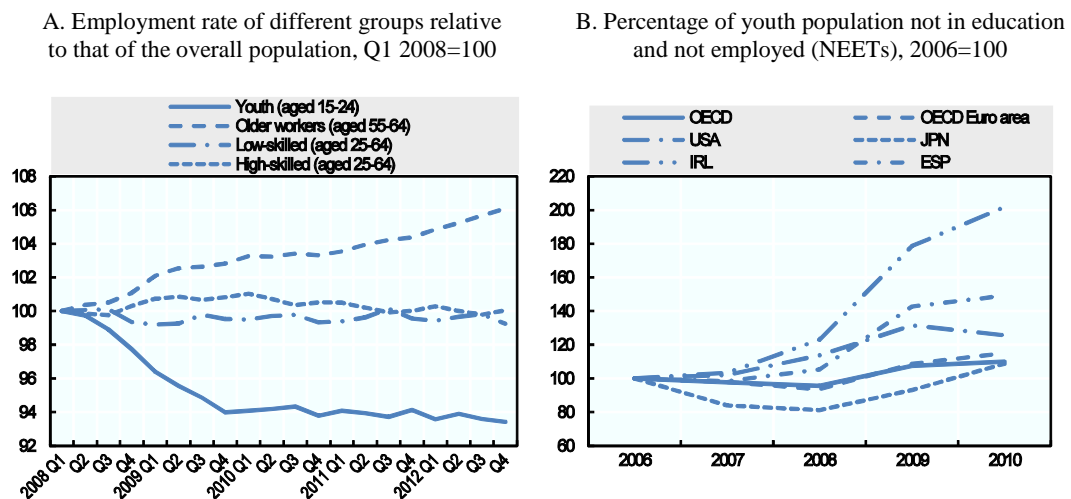
Source: ILO (2014b), *Global Employment Trends 2014: Risk of a Jobless Recovery?* International Labour Organization, Geneva, <http://ilo.org/global/research/global-reports/global-employment-trends/2014/lang--en/index.htm>.

Unemployment is particularly high among the young

Worldwide, unemployment is particularly high among the young (aged 15-24), with the youth unemployment rate reaching 13.1% – three times as high as the adult unemployment rate in 2013 (ILO, 2014a). The number of young people who are not in employment, education or training (described as “idle”) has also increased since the start of the crisis, to 621 million. In certain countries, almost a quarter of young people aged 15 to 24 are not in employment, education or training (Figure 2.9 for the situation in OECD countries).

In OECD countries, low-skilled young men have been the most affected by declining employment and labour force participation, while low-skilled men are seeing the greatest increase in unemployment (OECD, 2013b). Employment rates among low-skilled men were 7 percentage points lower at the end of 2012 than at the start of the crisis. In contrast, the employment rate among older individuals increased, continuing a trend apparent before the crisis. Furthermore, the young (aged 18 to 25) in OECD countries have suffered the most severe income losses, suggesting that their risk of income-poverty is higher than for people over 65. Analysis by household type also shows the most vulnerable to be jobless or single-worker households, and single parent households (OECD, 2014a).

Figure 2.9. The young and low-skilled are worst affected by unemployment in OECD countries



Note: In the left-hand panel the OECD is the weighted average of 34 countries for data by age, and 30 countries for data by education (excluding Australia, Chile, Japan and New Zealand).

Source: OECD (2012a), *Employment Outlook 2012*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2013-en (Panel A); OECD (2012b), *Education at a Glance 2012: OECD Indicators*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/eag-2012-en> (Panel B).

Conditions are precarious for the working poor in developing countries

In developing countries, labour markets have three main characteristics. First, there is the prevalence of self-employment, which often makes measures of unemployment inadequate. Second, the coexistence of traditional and modern modes of production leads to large variations in the nature of work, from subsistence agriculture and menial work to technology-driven manufacturing and services. Finally, the majority of workers in the poorest countries are engaged in informal working relationships (World Bank, 2012a).

In many developing countries, most poor people can barely earn a living despite long working hours. Around 400 million people aged 15 and older were estimated to be employed but still living in households earning less than USD 1.25 per person a day – the so-called working poor. Three-quarters of the world's poor live in rural areas. The regions with the highest rate of the working poor as share of total employment are South Asia (25.7%) and sub-Saharan Africa (41.7%). Their number, according to the International Labour Organization, is estimated to have increased by 50 million with the financial crisis (ILO, 2012).

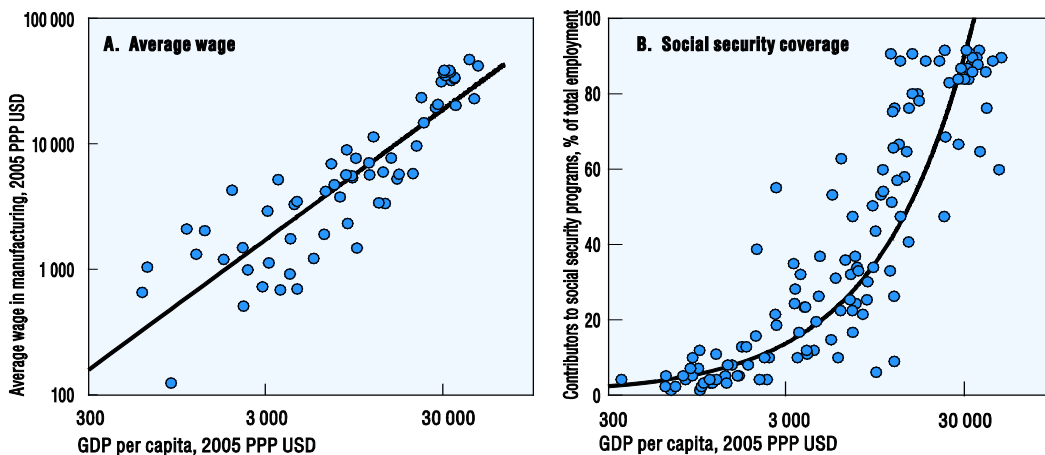
The economic crisis has had a significant impact on the working poor. There were 50 million more working poor in 2011 than in 2007. Of these, only 24 million climbed above the USD 1.25 a day poverty line between 2007 and 2011, compared with 134 million between 2000 and 2007 (UNDP, 2014a).

People in such precarious forms of employment usually have lower and more volatile earnings, lack social protection, and often work outside the jurisdiction of labour legislation. Worldwide, of the more than 3 billion people who have jobs, only 1.65 billion have regular wages or salaries. Another 1.5 billion work in farming and small household enterprises (World Bank, 2012a). Agricultural workers suffer the highest prevalence of poverty. They are caught in cycles of low productivity, seasonal unemployment and low wages and are particularly vulnerable to changing weather patterns.

People's working conditions therefore deserve special attention. Salaries, and the benefits associated with jobs, tend to increase with economic development (Figure 2.10). Part of the change stems from the greater skills that people gain as their economies become more developed, and part comes from improved wages and benefits for people at any skills level.

Working conditions are particularly important as the share of labour in national GDP is declining in a majority of countries, both developed and developing. This trend, which has been observed since the mid-1980s, has been attributed to various factors, from technological progress biased towards skilled workers to global competition undermining workers' bargaining power. The entrance of China and India into world trade has doubled the size of the globalised labour force, reducing the price of labour relative to other factors of production (see Chapter 3 for more on this).

Figure 2.10. Jobs provide higher earnings and benefits as countries grow



Notes: GDP is gross domestic product; PPP is purchasing power parity. Each dot represents a country.

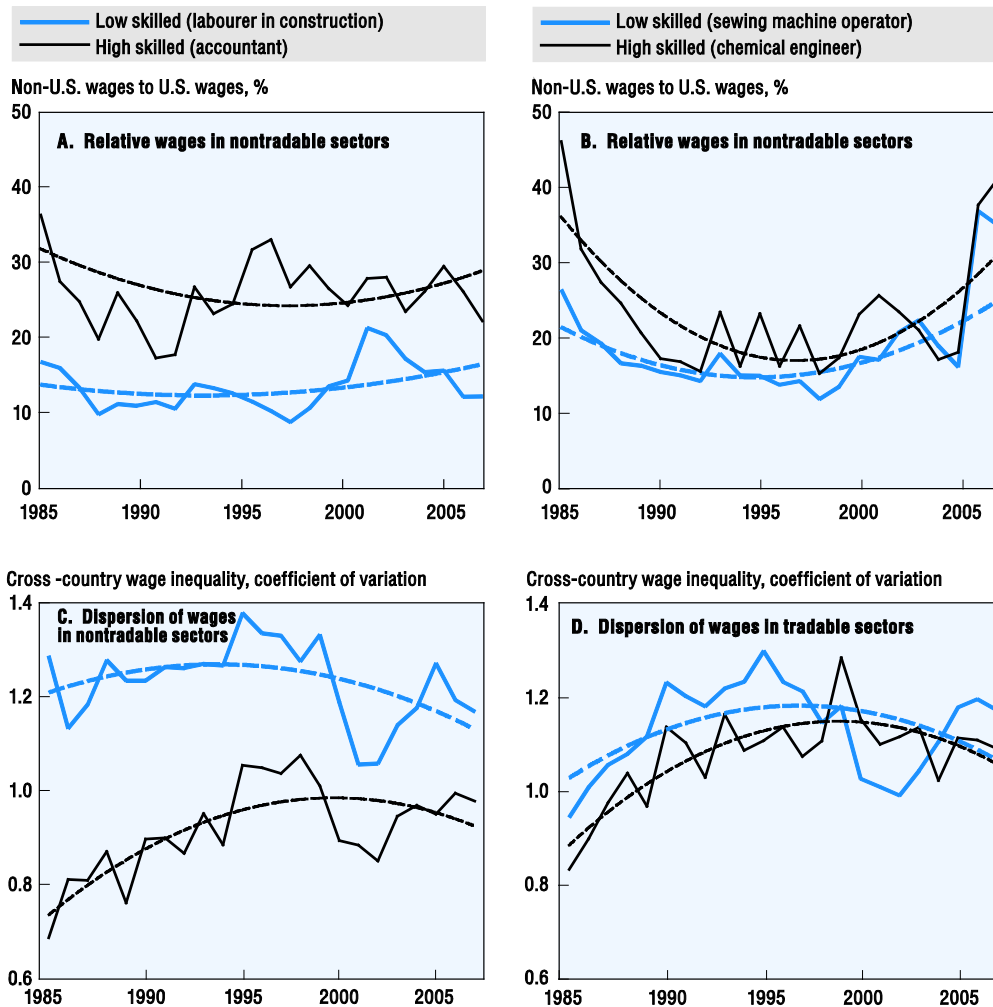
Source: World Bank (2012a), *World Development Report 2013: Jobs*, The World Bank Group, Washington DC, http://siteresources.worldbank.org/EXTNWD2013/Resources/8258024-1320950747192/8260293-1322665883147/WDR_2013_Report.pdf.

Wages in developing countries are catching up with developed countries

Since the mid-1990s, wages in developing countries have begun to grow faster than in developed countries, regardless of skill levels. This trend is more pronounced for tradable products and services, whereas low-skilled workers in non-tradable sectors (e.g. traditional

service sectors such as housekeeping or hairdressers) remain the most disadvantaged (Figure 2.11). The lower wages for low-skilled workers, particularly in non-tradable sectors in developing countries, underline the importance of better education.

Figure 2.11. Wages in developing countries are catching up



Notes: For details on the calculations, see World Bank (2012a), Figure 1.8.

Source: World Bank (2012a), *World Development Report 2013: Jobs*, The World Bank Group, Washington DC, http://siteresources.worldbank.org/EXTNWDR2013/Resources/8258024-1320950747192/8260293-1322665883147/WDR_2013_Report.pdf, p.59.

Women's access to paid work remains low

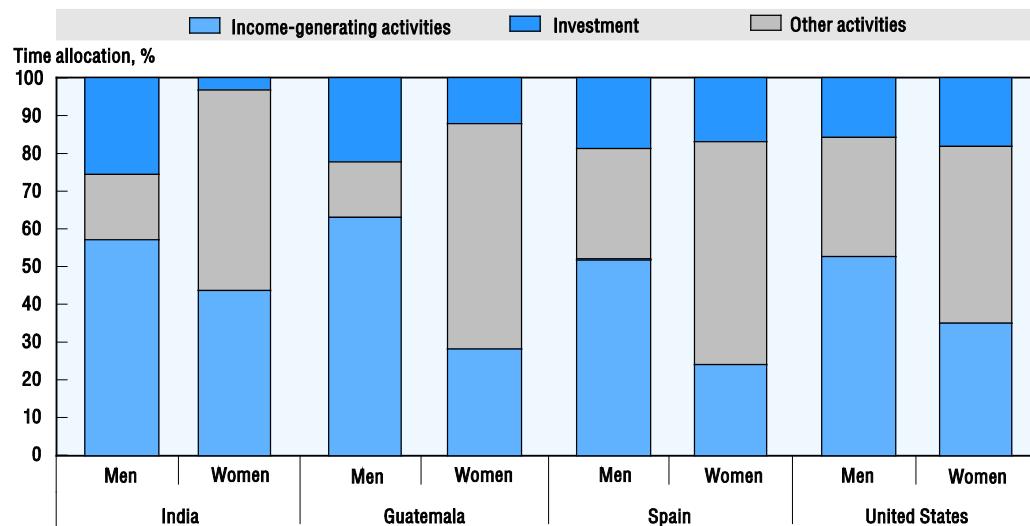
Recent work shows that circumstances of birth and education play important roles in explaining unequal access to jobs. A study of 29 countries in Europe and Central Asia indicates that factors such as gender, ethnicity, parental education attainment and political affiliation contributed substantially to inequality (World Bank, 2012a).

Gender differences in employment are striking. Worldwide, fewer than 50% of women have jobs, compared to about 75% of men. Women are significantly underrepresented in wage employment in low and lower middle-income countries. Non-

wage work represents more than 80% of women's employment in sub-Saharan Africa, whereas it is less than 20% in Eastern European and Central Asian countries. Furthermore, women continue to earn significantly less than men – even when they are equals in terms of education, experience or work sector (World Bank, 2012a).

Unpaid employment and self-employment account on average for more than half of total women's employment; the shares are particularly high in Southeast Asia (61%), South Asia (77%), and sub-Saharan Africa (77%). Non-income generating activities are shown to be a high proportion of women's total activities in countries as diverse as India, Guatemala, Spain and the US (Figure 2.12). According to the UNDP, women perform 66% of the world's work, but earn just 10% of the income and own only 1% of the property (UNDP, 2011, cited in Oxford Martin School, 2013).

Figure 2.12. Women spend more time in activities that do not directly generate income

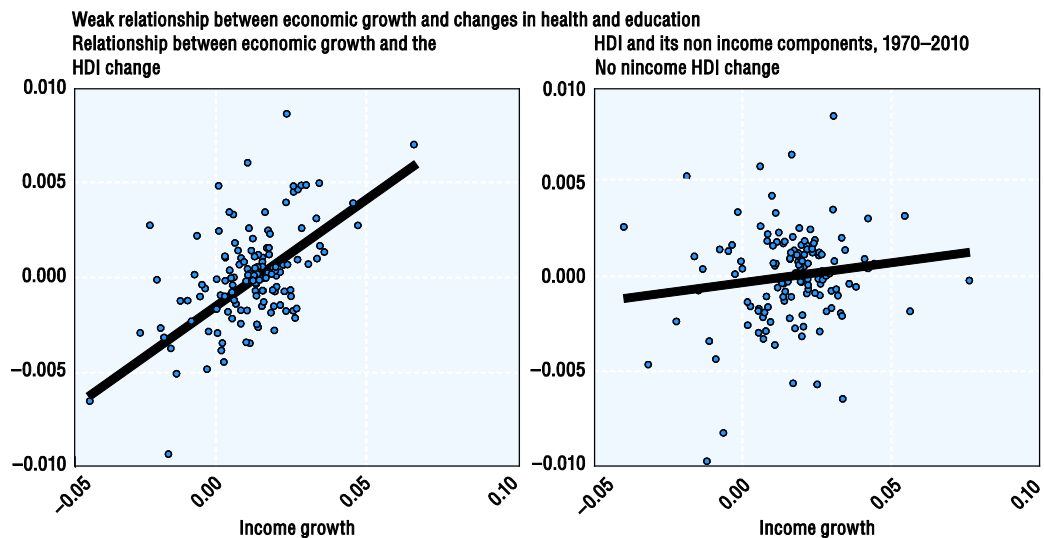


Notes: The figure refers to people aged 15 years and more. *Income-generating activities* is the time devoted to wage or salaried employment; farming, own-account work, self-employment with hired labour, and unpaid family labour in household enterprises; *investment* refers to time allocated to education, health care, and job search; *other activities* included work outside the system of national accounts, for example child care, housework. Leisure and other activities associated with consumption (for example, shopping and social interactions), as well as sleep, are not included.

Source: World Bank (2012a), *World Development Report 2013: Jobs*, The World Bank Group, Washington DC, http://siteresources.worldbank.org/EXTNWDR2013/Resources/8258024-1320950747192/8260293-1322665883147/WDR_2013_Report.pdf.

Progress towards basic needs is variable

Certain basic needs are essential for people to survive. These include education, health (including good nutrition) and infrastructure (water and sanitation, shelter, electricity, and information and communication technologies). However, basic needs provision does not automatically increase with economic growth (Figure 2.13). To secure basic needs, additional specific policies are required, as proposed in Chapters 4 and 5.

Figure 2.13. The relationship between economic growth and changes in health and education is weak

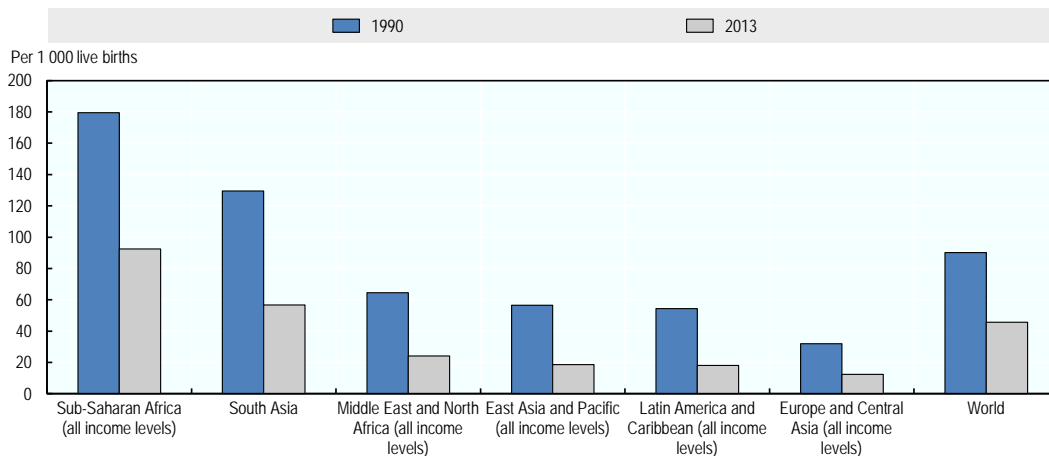
Notes: HDI – Human Development Index, which complements GDP per capita with some indicators of basic needs (life expectancy and education level). Thicker regression line in the left-hand figure indicates that the relationship is statistically significant.

Source: UNDP (2010), Human Development Report 2010, United Nations Development Programme, New York, http://hdr.undp.org/sites/default/files/reports/270/hdr_2010_en_complete_reprint.pdf, Figure 3.1.

Most significant progress has been made in health

Health is the basic need towards which greatest progress is being made. For example, maternal mortality fell by 45% between 1990 and 2013 worldwide, from 380 to 210 deaths for every 100 000 live births. An estimated 3.3 million deaths from malaria were averted worldwide between 2000 and 2012 thanks to the substantial expansion of malaria interventions. About 90% of those averted deaths (3 million) were children under five living in sub-Saharan Africa (UNDP, 2014b). The global under-five mortality rate has declined by nearly half (49%) since 1990, dropping from 90 to 46 deaths for every 1 000 live births in 2013. In 1990, 12.7 million children under five died. In 2013 that number fell to 6.3 million (UNICEF, 2014a). Progress is accelerating in some regions of the world, particularly in East Asia and the Pacific, Latin America and the Caribbean, and sub-Saharan Africa (Figure 2.14).

There are still important discrepancies among countries, however. While the under-five mortality rate in sub-Saharan Africa has improved, it is nearly 15 times the average rate of high-income countries. Half of all under-five deaths in 2013 occurred in just five countries: India (21%), Nigeria (13%), Pakistan (6%), Democratic Republic of the Congo (5%) and China (4%) (UNICEF, 2014b).

Figure 2.14. Good global progress in reducing under-five mortality rates, 1990-2013

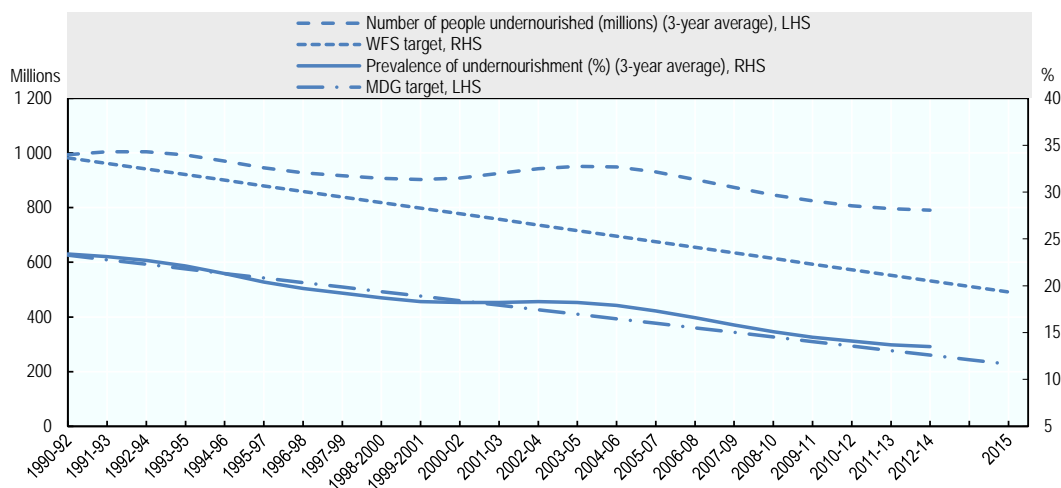
Source: World Bank (2014), *2014 World Development Indicators*, The World Bank Group, Washington DC, <http://data.worldbank.org/indicator>.

Hunger still affects the developing world

Although the *share* of the population in developing countries that is undernourished, (according to UNICEF) has fallen significantly over the past two decades – from 23% in 1990/92 to 15% in 2010/12 (Figure 2.15) – population growth has meant that the total *number* of undernourished people in developing countries has fallen more slowly. Around 12% of people globally (850 million) have no secure source of food, and one in four children are still affected by chronic malnutrition (162 million children) (UNICEF, 2014a).

Around 70% of the world's undernourished live in middle-income countries. Asian countries accounted for 65% of the world's total in 2010/12, with China and India alone contributing 40%, despite significant progress in China in the last ten years. On the other hand, the prevalence of undernourishment is highest in low-income countries. Countries in Africa are the worst affected, with 34% of people undernourished on average (OECD, 2013c). Developed countries may not be completely spared from undernourishment. In OECD countries, rising numbers of families also say they cannot afford enough food (OECD, 2014b).

In low-income countries, food consumption expenditures typically account for 50% or more of households' budgets. In lower middle-income countries, such as China and India, the figure is about 40% (OECD, 2013c). As countries develop, the challenge of ensuring food security and good nutrition becomes progressively less a question of income, and more one of modifying behaviour: unhealthy eating is a significant issue in both developed and developing countries.

Figure 2.15. The number of undernourished people is unacceptably high

Note: WFS: World Food Summit; MDG: Millennium Development Goals.

Source: OECD (2013c), *Global Food Security: Challenges for the Food and Agricultural System*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264195363-en> using FAO data.

Access to basic infrastructure remains very uneven in the developing world

The Millennium Development Goal (MDG) target of halving the proportion of people without access to an improved drinking water source was achieved in 2010, five years ahead of schedule. In 2012, 89% of the world's population had access to an improved source, up from 76% in 1990. This means that worldwide, over 2.3 billion more people have access to an improved source of drinking water. However, in Africa, fewer than 60% of people have access to a clean water source (WHO/UNICEF, 2000). Between 1990 and 2012, almost 2 billion people gained access to an improved sanitation facility. But 2.5 billion still do not have access to an improved sanitation facility (UNDP, 2014b).

Infrastructure that is essential for people's basic needs includes shelter, electricity, transport, telecommunications and the technology that can enable people to access vital services such as education and health. Infrastructure is often transversal and affects many areas. For example, electricity not only enables us to heat our houses, but it also allows people to make better use of time at night (including working, reading, and education) and can also power hospitals and refrigerators for vaccines. Roads in rural areas can boost movement of goods, school attendance, and access to health services. Information and communication technology (ICT) can provide education and training opportunities, and transmit a wealth of information and knowledge to people. Water systems, electricity, roads, and ICTs all have implications for the environment.

Low and middle-income countries have the greatest gap in infrastructure provision (Table 2.1). In Africa, only 30% of the population has access to electricity. Of the estimated 7 000 megawatts (MW) of new power generation capacity required, only 1 000 MW has been achieved in recent years.⁵ While only 10% of the continent's population uses the Internet, 56% of people are already covered by a mobile cellular network (World Bank, 2012b).

Table 2.1. Global variations in access to infrastructure

	Access to utilities services and communication technologies			
	% of population with access to			
	Electricity	Improved water sources	Improved sanitation facilities	Mobile phone subscribers (%)
Low-income countries	32.9	69	37	53
Lower middle-income countries	72.9	88	48	85
Upper middle-income countries	98.2	93	74	100

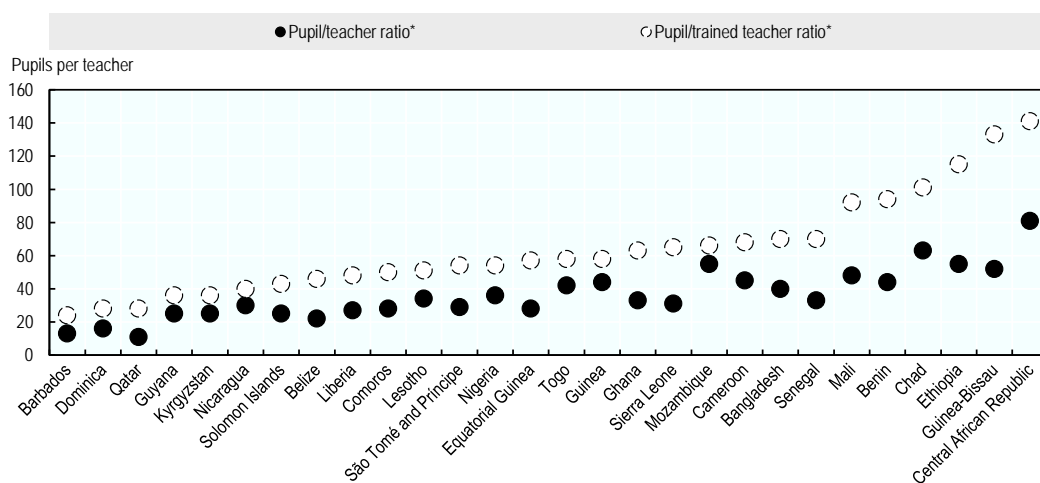
Source: World Bank (2014), *2014 World Development Indicators*, The World Bank Group, Washington DC, <http://data.worldbank.org/indicator>.

Education attainment improved but quality concerns remain significant

Enrolment in primary education across the developing world increased from 83% to 90% between 2000 and 2012. By 2012, all developing regions had almost achieved gender parity in primary education. The number of out-of-school children has fallen from 108 million to 60 million in the past 20 years, largely thanks to a 66% reduction in South and West Asia (Oxford Martin School, 2013).

However, high inequalities persist, particularly in South Asia, the Arab states, and sub-Saharan Africa. In 2012, of the around 60 million out-of-school children, more than 50% were in sub-Saharan Africa or in conflict-affected areas (Oxford Martin School, 2013). Three-quarters of illiterate adults lived in just 10 countries; 37% of all illiterate adults lived in India (Oxford Martin, 2013). Of the 781 million adults and 126 million youth worldwide lacking basic literacy skills, more than 60% are women (UNDP, 2014a).

Figure 2.16. In 29 countries there is a big gap between the number of pupils per teacher and per trained teacher



Note: * Based on headcounts of pupils and teachers.

Source: UNESCO (2014), *EFA Global Monitoring Report 2013/4 – Teaching and Learning: Achieving Quality for All*, United Nations Educational, Scientific and Cultural Organization, UNESCO publishing, Paris, <http://unesdoc.unesco.org/images/0022/002256/225660e.pdf>.

Even in countries that have reached a fair level of educational attainment, quality can still be a problem. Out of 250 million children globally who are unable to read, 130 million are in school (UNESCO, 2014). In low and lower-middle income countries, one in three children is still not able to read despite five or six years of schooling. Teacher recruitment lags behind growth in pupil enrolment: in 2011, 16% of all countries in the world had a pupil/teacher ratio exceeding 40:1 in primary education. Twenty-three of these countries were in sub-Saharan Africa (Figure 2.16).

In secondary schools, in half of the countries for which data is available, at least 25% of all teachers lack appropriate training. In one fifth of the countries, more than 50% of all teachers lacked appropriate training (UNESCO, 2014); similar trends can be seen in primary schools (Figure 2.16). Good quality material is also scarce in developing countries. In Tanzania, only 3.5% of all grade 6 pupils had sole use of a reading textbook. Poor physical infrastructure is another problem, with young children squeezed into overcrowded classrooms. In Malawi, there are on average 130 children per class in grade 1. In Chad, only one in four schools has a toilet.

Progress in life satisfaction stagnates, but optimism remains

The previous sections have outlined the status of more objective measures of livelihoods (income, employment, access to basic needs). But as we have seen, people's subjective evaluations of their own livelihoods can complement these measures. This section analyses how people's own perceptions of and satisfaction with their lives vary according to region and over time, and how they correlate with more objective livelihood conditions (such as income and inequality). The data are mainly derived from the Gallup Worldwide Research Indexes (Box 2.3 and Annex 2.A1).

Box 2.3. The Gallup Worldwide Research Indexes: Measuring people's perceptions around the world

All the indexes used for the analysis in this chapter were directly derived from the Gallup Worldwide Research Indexes; except for the Environmental Index, which was created by the authors of this publication using individual Gallup questions (Gallup, 2014). Most of the analysis presented here draws on data from the Life Evaluation Index. The Life Evaluation Index measures respondents' perceptions of their own quality of life, now and in the future. Gallup measures life satisfaction by asking respondents to place the status of their lives on a "ladder" scale, using the following questions:

Please imagine a ladder, with steps numbered from 0 at the bottom to 10 at the top. The top of the ladder represents the best possible life for you and the bottom of the ladder represents the worst possible life for you. On which step of the ladder would you say you personally feel you stand at this time?

Just your best guess – on which step of the same ladder do you think you will stand in the future, say about five years from now?

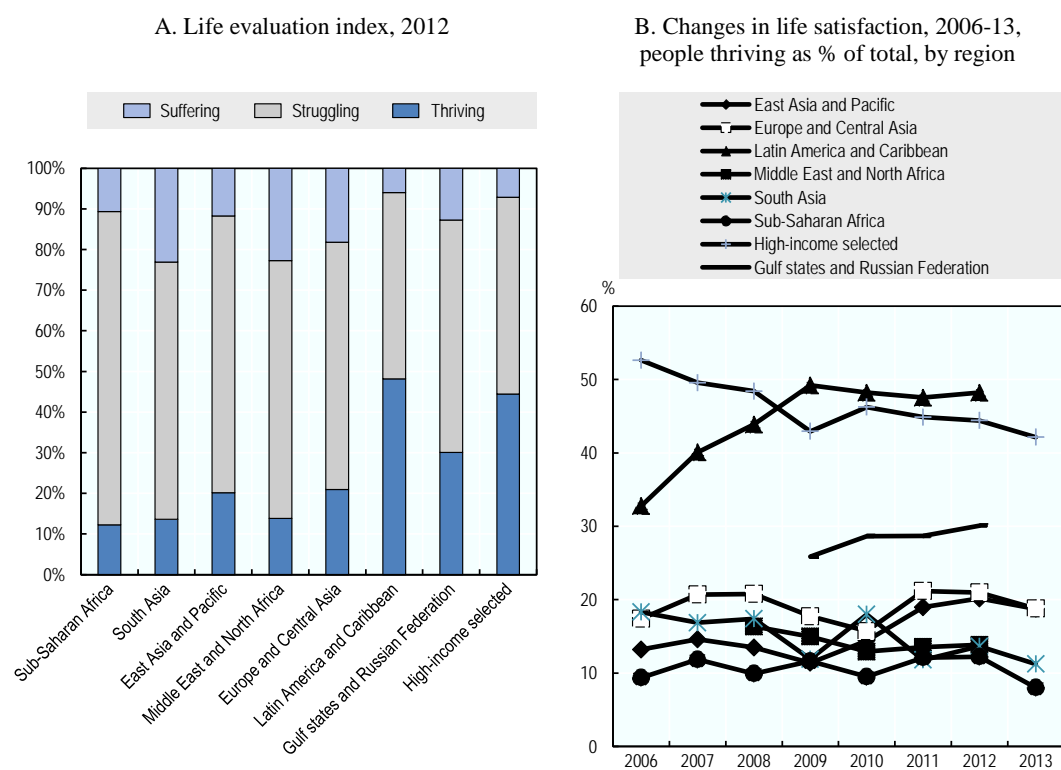
Individuals who rate their current lives a "7" or higher AND their future an "8" or higher are "thriving". Individuals are "suffering" if they report their current AND future lives as "4" and lower. All other individuals are "struggling". A respondent must have answered both questions to have indexes calculated. The final country-level index is a variable that codes respondents into one of these three categories of well-being and represents the percentage of respondents in each category. Country-level weights are applied to this calculation.

For more detail on the Gallup research methodology, see Annex 2.A1 and Gallup (2013), *Worldwide Research Methodology and Codebook*, Gallup Inc., Washington DC.

Most people in the developing world are struggling or even suffering

In most developing regions, 80% of people – in some regions even more – feel they are struggling or even suffering in their daily lives (Figure 2.17, Panel A). In developing South Asia, Middle East and North Africa, and Europe and Central Asia, around 20% of people feel they are suffering. In all other regions (including the high-income group of countries), this share is around 10%.

Figure 2.17. Thriving, struggling or suffering? Regional perceptions



Notes: The regions correspond to the 6 developing regions as defined by the World Bank, plus the Gulf states (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and UAE) and the Russian Federation, and other high-income countries. Sub-Saharan Africa includes data for 28 countries, Middle East and North Africa for 11, Europe and Central Asia for 21, Latin America and Caribbean for 18, South Asia for 6, East Asia and Pacific for 10, high-income countries for 38 and the Gulf states and the Russian Federation for 6. The regions are ordered by their average GDP per capita in purchasing power parity (PPP). The index is weighted using the Gallup country weights for each observation and countries' population to calculate regional averages. For more, see Box 2.2 and Annex 2.A1.

Source: Adapted from Gallup (n.d.), Gallup World Poll, Gallup Analytics, Gallup Inc., Washington DC, www.gallup.com/services/170945/world-poll.aspx (accessed 19 January 2015).

In Latin America and the Caribbean, people appear to be more satisfied than in all other regions of the world. Here, 50% of people consider themselves to be thriving – a higher share than in high-income countries. In the high-income group (excluding the Gulf states and the Russian Federation) around 45% feel they are thriving, while in the Gulf states and the Russian Federation, the share is 30%. Between 2006 and 2009 the share of people increased in Latin America and the Caribbean who feel they are thriving (Figure 2.17, Panel B).

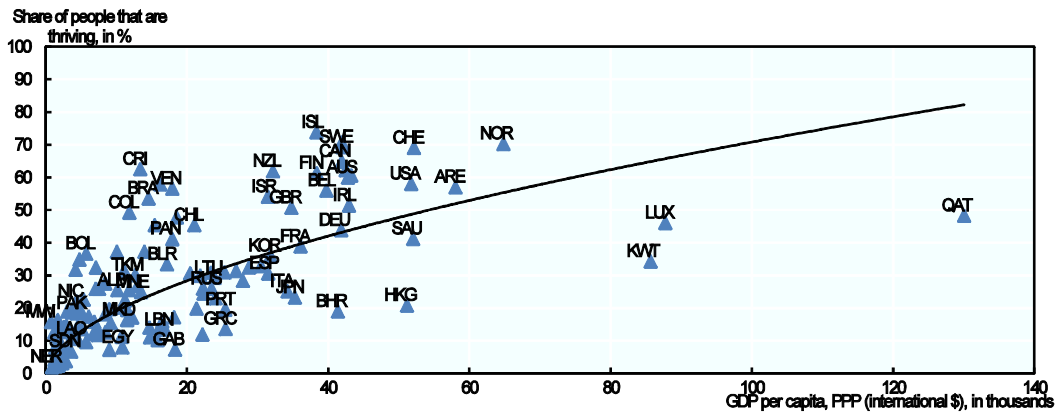
Since 2009, life seems to have become harder for most people. More and more people in the developed world feel they are either struggling or suffering. While more than half of all people in the developed world felt they were thriving in 2006, the share had fallen to just over 40% in 2013. It is only in the Gulf states and the Russian Federation that more people have become satisfied with their life in recent years.

Wealth is not enough to achieve life satisfaction

Generally, the richer a country, the more people are satisfied with their life. But additional income in poorer countries plays a more important role than additional income in richer countries (see Figure 2.18's concave trend line in Panel A, and convex trend lines in Panels B and C).

Figure 2.18. Additional income plays a greater role in life satisfaction for people in poorer countries

A. Share of people that are thriving compared with GDP per capita



B. Share of people that are struggling compared with GDP per capita

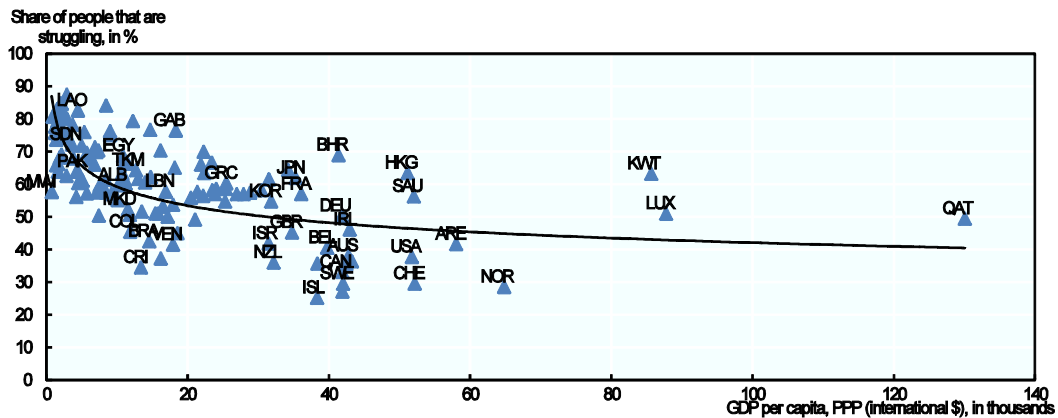
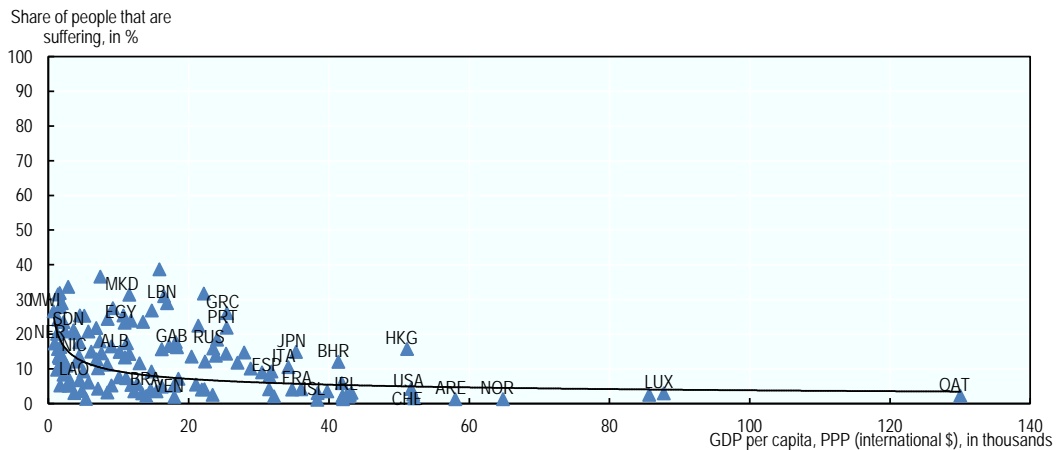


Figure 2.18. Additional income plays a greater role in life satisfaction for people in poorer countries (cont.)

C. Share of people that are suffering compared with GDP per capita



Notes: The reference year is 2012. For more information on the life satisfaction index, see Box 2.2 and Annex 2.A1. For a key to the 3-letter ISO country codes see <http://unstats.un.org/unsd/methods/m49/m49alpha.htm>.

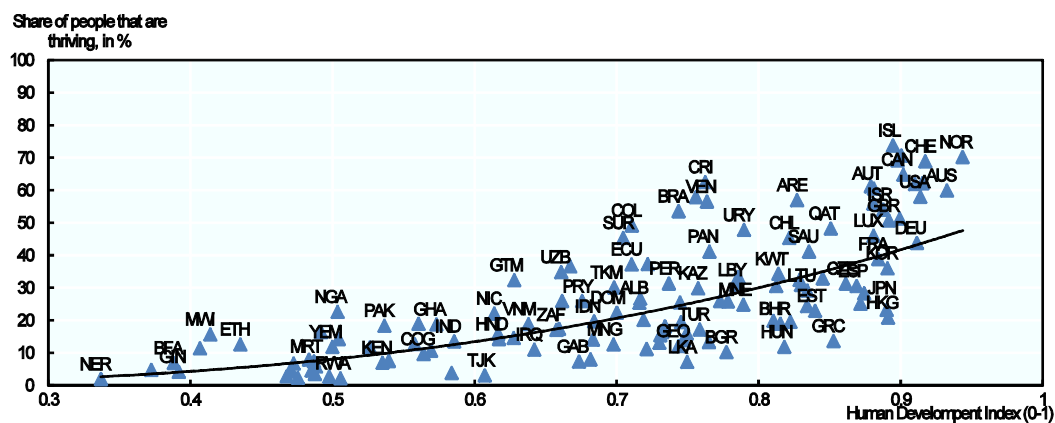
Source: Adapted from Gallup (n.d.), Gallup World Poll, Gallup Analytics, Gallup Inc., Washington DC, www.gallup.com/services/170945/world-poll.aspx (accessed 19 January 2015) and World Bank (2014), *2014 World Development Indicators*, The World Bank Group, Washington DC, <http://data.worldbank.org/sites/default/files/wdi-2014-book.pdf>.

Factors other than income also matter for people's well-being. For example, people in many Latin American countries – such as Brazil, Chile, Colombia and Panama – seem to be clearly more satisfied with their lives than people in other countries at similar per capita income levels; the same holds true for people in European countries such as Iceland, Norway, Sweden and Switzerland. People in high-income countries like Kuwait, Luxembourg and Qatar, on the other hand, seem to have more difficult lives than would be expected given their high per capita incomes.

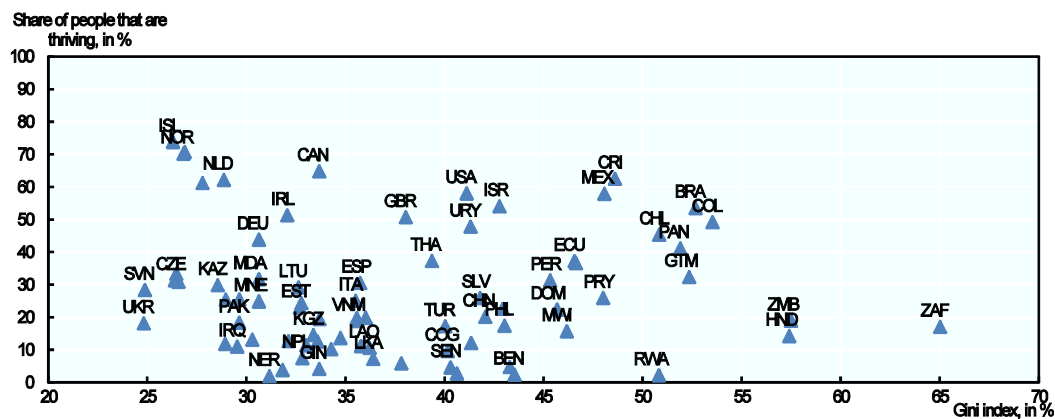
Comparing people's life satisfaction with the more multidimensional Human Development Index (HDI) also shows a clear positive relationship (Figure 2.19, Panel A). However, there are still significant deviations from this overall trend, calling for an even deeper exploration of the other factors that affect people's life satisfaction. The *World Happiness Report 2013* shows that community trust, mental and physical health as well as the quality of governance and rule of law also matter for life satisfaction and potentially offset the benefits felt from higher income (Helliwell, Layard and Sachs, 2013). Inequality, measured by the Gini index, is – surprisingly – a very bad predictor of a country's average life satisfaction (Figure 2.19, Panel B).

Figure 2.19. The links between life satisfaction, human development and income inequality

A. People's life satisfaction tends to be higher in countries that score well on the Human Development Index



B. There is no clear link between life satisfaction and a country's level of income inequality



Notes: The reference year is 2012. For more information on the life satisfaction index, see Box 2.2 and Annex 2.A1. Income inequality is measured by the Gini coefficient. A Gini coefficient of zero expresses perfect equality, where all values are the same (for example, where everyone has the same income). A Gini coefficient of one (or 100%) expresses maximal inequality among values (for example, where only one person has all the income and all others have none). Link for 3-digit ISO country codes: <http://unstats.un.org/unsd/methods/m49/m49alpha.htm>.

Sources: Adapted from Gallup (n.d.), Gallup World Poll, Gallup Analytics, Gallup Inc., Washington DC, www.gallup.com/services/170945/world-poll.aspx (accessed 19 January 2015); World Bank (2014), *2014 World Development Indicators*, The World Bank Group, Washington DC, <http://data.worldbank.org/sites/default/files/wdi-2014-book.pdf> and UNDP (2014a), *The 2014 Human Development Report – Sustaining Human Progress: Reducing Vulnerabilities and Building Resilience*, United Nations Development Program, New York, <http://hdr.undp.org/sites/default/files/hdr14-report-en-1.pdf>.

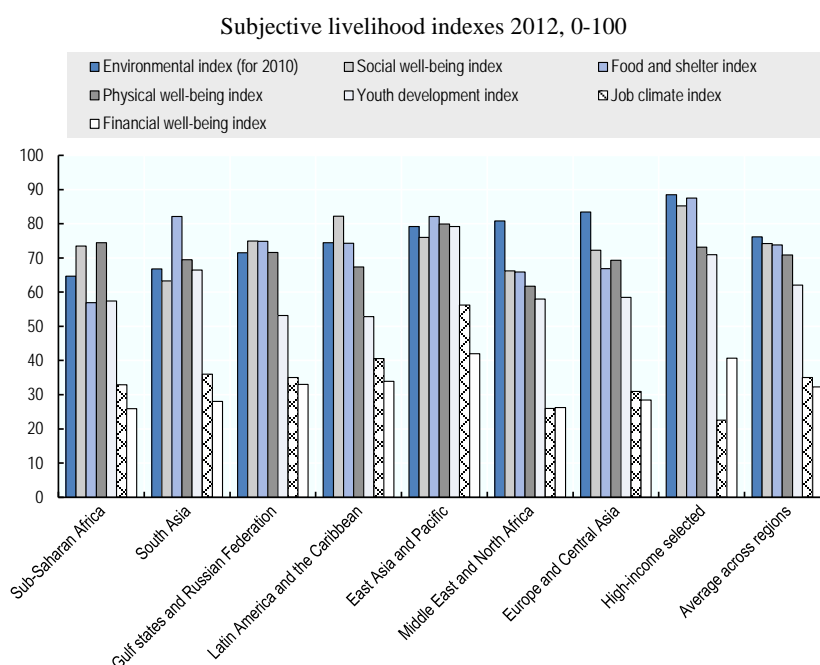
Lack of jobs and money are people's greatest concerns worldwide

In addition to the life evaluation index, this analysis has drawn on seven sub-indexes which explore individuals' perceptions of their livelihoods across a range of issues. Individuals' evaluations of these more specific aspects of their livelihoods provide

subjective proxies for the value of the various types of capital (social, human, economic and natural capital). The sub-indexes include the following (see Annex 2.A1 for details):

1. The Environmental Index indicates whether current and future local environmental issues (such as pollution, floods, droughts, heat or cold) are perceived as a problem.
2. The Social Well-Being Index shows whether individuals can count on relatives or friends to support them, if needed.
3. The Food and Shelter Index indicates whether people have enough money to buy food and provide adequate shelter or housing.
4. The Physical Well-Being Index gives an indication of people's physical and mental health.
5. The Youth Development Index represents people's evaluation of opportunities for younger generations in their home city or town.
6. The Job Climate Index gives an indication of people's perspectives of job prospects in their area.
7. The Financial Well-Being Index is an indicator of people's living conditions in terms of income or other financial means.

Figure 2.20. Jobs and money are people's greatest concerns



Notes: The higher the index score the more positive people feel.

Source: Adapted from Gallup (n.d.), Gallup World Poll, Gallup Analytics, Gallup Inc., Washington DC, www.gallup.com/services/170945/world-poll.aspx (accessed 19 January 2015).

For each country, the indexes can have values between 0 and 100, representing the percentage of people with favourable evaluations of a given aspect. The higher the score, the more positive the perception (see Annex 2.A1). Worldwide, the scores are most favourable for the Environmental Index, the Social Well-Being Index, the Food and Shelter

Index and the Physical Well-Being Index (all either at or above 70%), followed by the Youth Development Index, which scores around 60% (Figure 2.20). Jobs and income seem to be the biggest concerns for people around the globe, averaging less than 40%.

Looking more closely, however, concerns vary by country grouping. Individuals in high-income countries (except the Gulf states and the Russian Federation) feel most secure about the local environment, social well-being and food and shelter, yet they worry most about the job climate. The East Asia and Pacific region has the highest percentage of people who feel positive about several aspects of life, including physical and financial well-being, youth development and the job climate. While people in sub-Saharan Africa worry most about almost all seven aspects, they seem to be less worried about their physical and mental health than almost any other region.

Most people are optimistic about the future, except in high-income countries

Looking to the future (five years ahead) and compared to their past (five years before) and present situation, people around the world provide interesting insights (Figure 2.21). In all middle and low-income countries, people generally think that the future will be better than the past or the present, except in Central Asia, where the past is now perceived as better than the present. The greatest optimism is in the East Asia-Pacific region. In Latin America, optimism about the future has been increasing. This positive perception, confirmed by other evaluations, can be explained by the good economic and job performance experienced by most economies on the continent. There is also a positive trend in the Gulf States, which enjoy wealth generated by their oil and gas reserves; and to a lesser extent in the Russian Federation (although its economy changed significantly in 2014).

However, in those high-income countries that have been affected by the economic crisis or in regions with other problems (such as the Middle East and North Africa), there is little optimism about the future.

To conclude, despite significant progress to improve people's livelihoods around the world and particularly in low-income countries, there are still important efforts to be made. Moreover, with slow economic growth continuing to affect most parts of the world and shocks potentially increasing, it is likely that much of this progress could be threatened by some of the emerging trends described in the next chapter. This underlines the need to build more resilient and inclusive societies.

Figure 2.21. Life perceptions – past, present and future

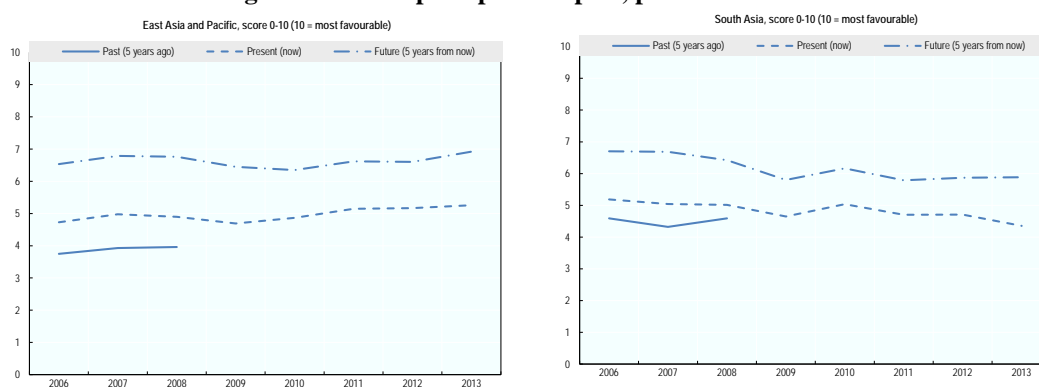
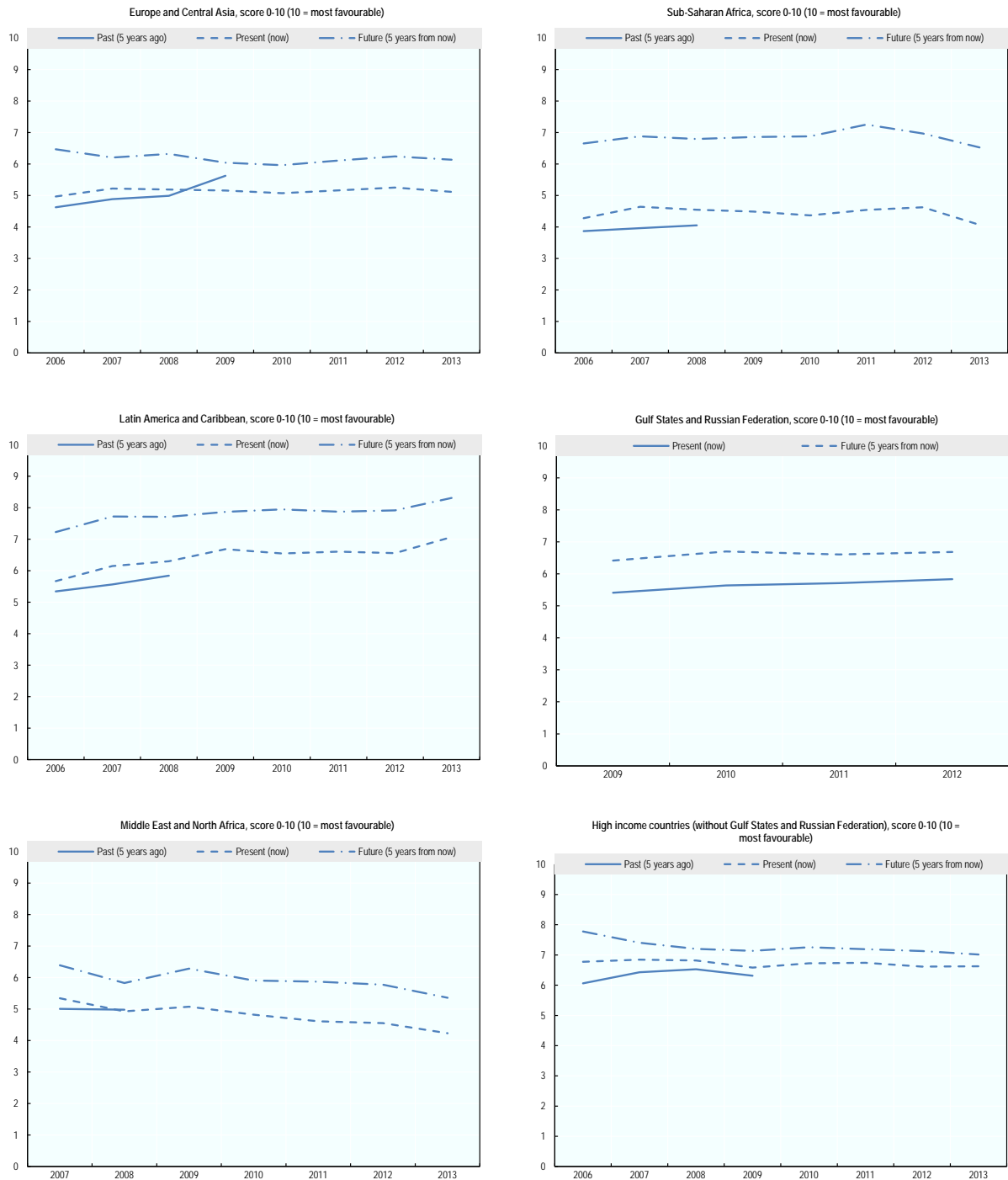


Figure 2.21. Life perceptions – past, present and future (cont.)

Source: Adapted from Gallup (n.d.), Gallup World Poll, Gallup Analytics, Gallup Inc., Washington DC, www.gallup.com/services/170945/world-poll.aspx (accessed 19 January 2015).

Notes

1. <http://hdr.undp.org/en/content/human-development-index-hdi>
2. The Multidimensional Poverty Index is an internationally comparable measure of multidimensional poverty based on ten indicators of education, health and standards of living, published on a yearly basis since 2010 by the UNDP in its Human Development Report. A person is considered “multidimensionally poor” if they are deprived in one-third of the weighted indicators. Each of the three dimensions – education, health and living standards – receives an equal weight of 1/3. Deprivations in education are based on (a) school attendance for school-age children and (b) school attainment for household members. The two indicators receive a weight of 1/6 in the total index. Deprivations in health are based on (a) child mortality and (b) nutrition. The two indicators receive a weight of 1/6 in the total index. Deprivations in living standards are based on (a) access to electricity, (b) access to improved drinking water sources, (c) access to improved sanitation, (d) use of solid fuel for cooking and heating, (e) having a finished floor and (f) assets that allow access to information (radio, TV, telephone), support mobility (bike, motorbike, car, truck, animal cart, motorboat), and support livelihoods (refrigerator, own agricultural land, own livestock). These six sub-indicators receive a weight of 1/18 in the total index (Alkire and Santos, 2010). See <http://hdr.undp.org/en/content/multidimensional-poverty-index-mpi> to download the index and its components.
3. The UN’s World Happiness Report also attempts to measure happiness across nine areas: psychological well-being, time use, community vitality, cultural diversity, ecological resilience, living standards, health, education and good governance (for example, see Helliwell et al., 2013). This Happiness Report makes extensive use of Gallup World Poll data to measure “happiness”/ life satisfaction.
4. Personalized Better Life Indexes can be constructed here: www.oecdbetterlifeindex.org.
5. See http://siteresources.worldbank.org/INTAFRICA/Resources/aicd_factsheet_energy.pdf

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Annex 2.A1. Methodology for the subjective well-being indexes

Gallup Worldwide Research continually surveys residents in more than 150 countries, representing more than 98% of the world's adult population, using randomly selected, nationally representative samples. Gallup typically surveys 1 000 individuals in each country through face-to-face or telephone interviews, using a standard set of core questions that has been translated into the major languages of the respective country.

The Gallup Worldwide Research measures key indicators such as law and order, food and shelter, job creation, migration, financial well-being, personal health, civic engagement, and evaluative well-being and demonstrates their correlations with world development indicators including GDP. These indicators assist leaders in understanding the broad context of national interests and establishing organisation-specific correlations between leading indexes and lagging economic outcomes.

All the indexes used for the analysis in this chapter were derived from the Gallup Worldwide Research Indexes (Gallup, 2014), except for the Environmental Index, which was created by the OECD based on Gallup data. For more detail on the methodology and the Gallup research, see Gallup (2013), *Worldwide Research Methodology and Codebook*, Gallup Inc., Washington DC.

Life Evaluation Index

As explained in Box 2.1, the Life Evaluation Index measures respondents' perceptions of their own quality of life, now and in the future. Gallup measures life satisfaction by asking respondents to place the status of their lives on a "ladder" scale:

- Please imagine a ladder, with steps numbered from 0 at the bottom to 10 at the top. The top of the ladder represents the best possible life for you and the bottom of the ladder represents the worst possible life for you. On which step of the ladder would you say you personally feel you stand at this time?
- Please imagine a ladder, with steps numbered from 0 at the bottom to 10 at the top. The top of the ladder represents the best possible life for you and the bottom of the ladder represents the worst possible life for you. Just your best guess, on which step do you think you will stand in the future, say about five years from now?

Index scores are calculated at the individual record level. For each individual record the following procedure applies. Individuals who rate their current lives a "7" or higher AND their future an "8" or higher are "thriving". Individuals are "suffering" if they report their current AND future lives as a "4" and lower. All other individuals are "struggling". A respondent must have answered both questions to have indexes calculated. The final country-level index is a variable that codes respondents into one of these three categories of well-being and represents the percentage of respondents in each category. Country-level weights are applied to this calculation.

Food and Shelter Index

The Food and Shelter Index measures whether a respondent has experienced deprivation in the areas of food and shelter. It is composed of two questions that ask about respondents' ability to afford food or shelter in the past year:

- Have there been times in the past 12 months when you did not have enough money to buy food that you or your family needed?
- Have there been times in the past 12 months when you did not have enough money to provide adequate shelter or housing for you and your family?

Index scores are calculated at the individual record level. For each individual record the following procedure applies: The two items are recoded so that positive (or favorable) answers are scored a "1" and all other answers (including don't know and refused) are assigned a score of "0." If a record has no answer for an item, then that item is not eligible for inclusion in the calculations. An individual record has an index calculated if it has valid scores for both questions. A record's final index score is the mean of valid items multiplied by 100. The final country-level index score is the mean of all individual records for which an index score was calculated. Country-level weights are applied to this calculation.

Lower scores on this index indicate that more respondents reported struggling to afford food and shelter in the past year, while higher scores indicate fewer respondents reported such struggles.

Financial Well-Being Index

The Financial Well-Being Index measures respondents' personal economic situations and the economics of the community where they live. The subjective measures of financial well-being that make up the index are an important complement to traditional macroeconomic indicators such as GDP and unemployment rates, particularly in cases in which these data are difficult to obtain or the quality is suspect.

- Which one of these phrases comes closest to your own feelings about your household's income these days: living comfortably on present income, getting by on present income, finding it difficult on present income, or finding it very difficult on present income?
- Are you satisfied or dissatisfied with your standard of living, all the things you can buy and do?
- Right now, do you feel your standard of living is getting better or getting worse?
- Right now, do you think that economic conditions in the city or area where you live, as a whole, are getting better or getting worse?

Job Climate Index

The Job Climate Index measures the attitudes about a community's efforts to provide economic opportunities.

- Right now, do you think that economic conditions in the city or area where you live, as a whole, are getting better or getting worse?

- Thinking about the job situation in the city or area where you live today, would you say that it is now a good time or a bad time to find a job?

Physical Well-being Index

The Physical Well-Being Index measures perceptions of one's own health. Attempts to assess the state of a country's overall health usually involve the accumulation of health-related statistics such as life expectancy, infant mortality, and disease infection rates. Additionally, many government studies in individual countries collect health data via surveys from their own residents. Less numerous are survey projects that collect consistent health-related data from respondents across several countries, and in most cases those multinational efforts focus on Western countries. Gallup Worldwide Research has now measured self-reported personal health using the same questions and representative sample frames in more than 150 countries and areas. The object of the Physical Well-Being Index was to produce an overview of respondents' perceptions of their own health status. Individuals with high Physical Well-Being scores also tend to be more optimistic about the future and in terms of well-being are less likely to be "suffering."

- Do you have any health problems that prevent you from doing any of the things people your age normally can do?
- Now, please think about yesterday, from the morning until the end of the day. Think about where you were, what you were doing, who you were with, and how you felt. Did you feel well-rested yesterday?
- Did you experience the following feelings during a lot of the day yesterday? Physical pain? Worry? Sadness?

Social Well-being Index

The Social Well-Being Index assesses a respondent's social support structure and opportunities to make friends in the city or area where he or she lives.

- If you were in trouble, do you have relatives or friends you can count on to help you whenever you need them, or not?
- In the city or area where you live, are you satisfied or dissatisfied with the opportunities to meet people and make friends?

Youth Development Index

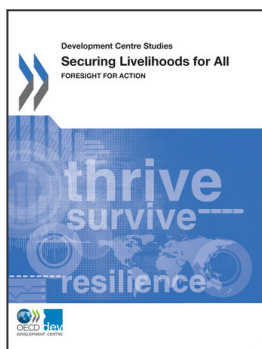
The Youth Development Index measures a community's focus on the welfare of its children. This index includes general measures of development of youth and respect for youth, along with satisfaction with the educational system.

- In the city or area where you live, are you satisfied or dissatisfied with the educational system or the schools?
- Do you believe that children in (country) are treated with respect and dignity, or not?
- Do most children in (country) have the opportunity to learn and grow every day, or not?

Environmental Index

This index was constructed by this book's authors, using data from individual Gallup survey questions. It was constructed in exactly the same way as the indexes described above.

- In the past 12 months, have there been any severe environmental problems in your city or area, or not? For example, pollution, floods, droughts, or long periods of extreme heat or cold?
- In the next five years, do you think you will need to move because of severe environmental problems?



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