

# **Standard of Living – an Indicator of Economic Success**

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## **Abstract/Summary**

Assuming that the individual's quality of life is the goal of economic activity, how can the economic performance be judged? We need to know the individual values (preferences) to find out to what extent they have been reached. On basis of the utility concept, nothing can be said about the origins of preferences (value judgments). Even in Amartya Sen's concept of "Functionings and Capabilities" it is not explained how the "central" Functionings or Capabilities are identified. Hugo Pipping tries to show that preferences depend on the milieu and the "social hierarchy". In his concept 'Standard of Living' consists of four part-standards (standard of family, standard of work and leisure, standard of consumption and standard of saving) which form an organic whole of different styles of living (called Standards). Development in this case refers to the relations of different standards.

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## Introduction

The following questions are fundamental in economic theory: what, how and for whom goods should be produced. In their famous textbook Samuelson and Nordhaus put it like this: “Every society must have a way of determining *what* commodities are produced, *how* these goods are made, and for *whom* they are produced.” (Samuelson and Nordhaus, 1998, p. 8) Obviously, possible answers to these questions do have a heavy impact on our daily lives.

How may possible (different) answers to these three questions be assessed? Or what is necessary to evaluate economic policy measures aiming at answering these questions? Let me assume that the goal of economic activity is to improve the living conditions of people. Probably most economists would agree with that. Economists should only support measures that lead to an improvement of the living conditions. To do so they have to have an idea about what quality of life means and how quality of life (for a whole society – as a macroeconomic concept) is affected by economic policy measures. Therefore it has to be found out whether contemporary macroeconomic indicators (that guide economic policy) are able to reflect quality of life within a country.

This paper aims at finding an indicator that puts the living conditions in relation to economics! Such an indicator would allow making the economy working for an improvement of the living conditions.

## Living Conditions and Contemporary Economics

### GDP

GDP is the most important macroeconomic indicator. It tries to give a picture of the whole economy.

“The ultimate objective of economic activity is to provide the goods and services that the population desires. What could be more important for an economy than to produce ample shelter, food, education, and recreation for its people? The most comprehensive measure of the total output in an economy is the **gross domestic product** (GDP). GDP is the measure of the market value of all final goods and services – oatmeal, beer, cars, rock concerts, airplane rides, health care, and so on – produced in a country during a year. ... Despite the short-term fluctuation in GDP seen in business cycles, advanced economies generally exhibit a steady long-term growth in real GDP and an improvement in living standards; this process is known as *economic growth*.” (Samuelson and Nordhaus, 1998)

In contemporary mainstream economics, the idea behind GDP is that only consumption (of goods and services) is relevant for the living conditions.<sup>1</sup> The question arises whether this assumption is proper and accurate.

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<sup>1</sup> Consumption is the most important matter in economics although problems associated with production dominate economic theory since David Ricardo. On basis of the utility concept, nothing can be said about the origins of preferences (value judgments). Decisions for a certain consumer good are thought to reveal the underlying individual preferences. Consumption of more consumer goods therefore indicates more satisfied needs and utility.

“In the Neoclassical system consumption is a generally flawless thing to be maximized by any honest and socially benign means. It is also a curiously trouble-free enjoyment. Thought must be given to the selection of goods and services. No problems arise in their use. None of this is true, and what is omitted from view deeply shapes the patterns of individual, family and social life.” (Galbraith, 1973)

Comparing per capita GDP at current prices (in US dollars)<sup>2</sup> of 2001 (OECD, 2003) with the World Index of Social Progress (WISP 2000) (Estes, 2003)<sup>3</sup> a huge difference in respect to many countries is found. The World Index of Social Progress is lead by Denmark and Sweden followed by Norway, Finland and Luxembourg, Germany and Austria. The “rich” USA ranks together with Poland on Place 27. Having a look at the GDP figures shows another picture. Ignoring the incomparable countries Luxembourg and Norway<sup>4</sup>, USA ranks first (\$ 35,200) followed by Ireland (\$ 30,100) and Switzerland (\$ 29,900). Poland’s per capita GDP is \$ 9,900. Comparing the GDP per capita based on current exchange rates the US GDP is almost eight times higher than Poland’s. If both indicators intend to tell us something about the living conditions, how can these differences be explained?<sup>5</sup>

GDP only contains information about the market value of legally consumed goods and services. Despite the problem of including black markets, many important things are provided by other institutions. Even though Gary S. Becker aimed at something completely different than I do, he required to recognize: “... housework as part of the goods and services in a nation’s GDP. ... Much cruder calculations by the U. N. in its latest Human Development Report indicate that household production is worth more than 40% of world output” (Becker, 1995, p. 29)

More goods to be produced mean not only more consumption but also more pollution and more use of exhaustible resources. These costs for society (negative externalities) associated with production do not reduce GDP. It is even worse. To clean polluted water or landscape increases GDP once more.

The idea that only consumption matters neglects other objects of value like meeting with friends, spending time with family, reading an interesting book and so on. Also not included are the working conditions.<sup>6</sup> As people spend much of their time at work it is important how they feel about their job. Maybe there is the danger of being seriously injured or too less time for relaxing.

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What Galbraith tries to say by this is that consumption must be organized. There must be the ability to earn enough money, enough time for consumption and so on.

Another reason for the important role of consumption (and the required production) in Neoclassical economics is the dichotomy between consumption and production. While consumption is always positive in economics, production is generally negative. Work is thought about something associated with “negative utility” (disutility theory of labor). To work may be experienced as burden, but it is obviously nonsense that acting (to work) in general does not itself yield anything positive to the living conditions. The question arises whether it is useful to distinguish between ends (consumption) and means (work) at all. For K. Schönheyder it is much more appropriate to consider activity as the fundamental concept in Economics. PIPPING, H. E. (1953) *Standard of Living*, Helsinki, Societas Scientiarum Fennica.

<sup>2</sup> Figures for OECD member countries are available based on current exchange rates or based on current purchasing power parities. I used figures based on current purchasing power parities.

<sup>3</sup> “World Social Report 1970 - 2000” figures released by Richard Estes of the University of Pennsylvania, School for Social Work, at the Fifth International Conference of the International Society for Life Quality Studies in Frankfurt at July 21<sup>st</sup> 2003; The “Index of Social Progress (ISP2000, WISP2000)” contains 40 indicators and 10 sub indices. The sub indices consist of the following classes: Education SI, Health Status SI, Women Status SI, Defense Effort SI, Economic SI, Demography SI, Social Chaos SI, Environmental SI, Cultural Diversity SI and Welfare Effort SI.

<sup>4</sup> Norway is not comparable because of the large contributions of oil production to GDP. Luxembourg is not comparable because of the size of the country.

<sup>5</sup> GDP has been criticised for many reasons. Here I just want to mention a few aspects that show the inadequacy of GDP as an indicator for the living conditions.

<sup>6</sup> The important role of activity in economics was already mentioned above.

The last critical point about the GDP as an indicator of the living conditions I want to mention is probably the most important. Imagine two countries (A and B) with two people (c and d)<sup>7</sup> and a national GDP of \$ 100,000 each. In country A each person (c and d) consumes goods and services for \$ 50,000. In Country B, c consumes goods and services for \$ 95,000, d for \$ 5,000. What about the living conditions in these countries? Some people would argue that the living conditions in country A are better because consumption is more equally distributed. GDP says both are equal in respect to living conditions.<sup>8</sup> Which of the two statements is more reasonable?

Does the term living condition in relation to a country make sense at all? Quality of life means how far someone gets with meeting the things she/he is aspiring. The consequence associated with this is that it does not make sense just to compare how much people are consuming but how successfully they are in leading the life they want. Imagine that c (consuming goods for \$ 95,000) aspires a life that is very expensive (large cars, extensive holidays ...). d (consuming goods for \$ 5,000) is much more interested in reading and thinking about environmental problems which is less expensive. In this case the living standard of country B is higher than that of country A (equal distribution). Another case for country B would be that person c likes reading and contemplating but as she is very rich she does not care about her expenditures and consumes \$ 95,000. Person d would like to consume much more than 5,000 and feels very sad about being not able to consume more. Obviously, the living standard in country B is lower than that in country A (equal distribution).

I do not question the central role of GDP in economics but as a result of the above mentioned arguments, it is not appropriate to think of GDP as a satisfying indicator of the living conditions. It turned out that the crucial point in assessing the living conditions within countries, information about wants (or preferences) and how far they may be reached is urgently required.

### Social Welfare Functions

Letting aside the methodological problems associated with gathering data about individual preferences<sup>9</sup> another problem emerges. How to aggregate all the individual information concerning the living conditions and preferences. Welfare economics tries to deal with that problem by using so called “social welfare functions”. There is a wide range of different welfare functions, trying to solve that problem. But which one of them has to be applied? No one is able to decide this question. In fact social welfare functions do not have an impact on economic policy.

### Methodological Challenges

Is it at all possible to create an indicator that allows an evaluation of the living conditions for all people within a country? Asking people for generally relevant aspects for the living conditions (wants, value objects), they come up with things like: working conditions, job and income opportunities, social security, time for relaxing/meeting with friends... How can the

<sup>7</sup> Such cases of a “two person’s world” are used in economic textbooks very often. Here it is applied just to show an interesting problem. I am not aiming at giving an answer through this example, because I am aware of the fact that it is not able to deal with social phenomena and economics is a social science.

<sup>8</sup> In addition to distribution GDP does not say anything about the goods consumed (it is just the sum of market values of the consumed goods). It sounds reasonable that it makes a difference to the living conditions whether \$ 300 000 that make part of the GDP were spent on one Ferrari or on 100 000 kilogramme of bread.

<sup>9</sup> Why we do not simply ask people about their living conditions and preferences? The result would be an interesting picture of how different people feel and think about their lives. The problem associated with that data is that moods of people are interesting but not comparable. Seeing it from a technical point of view it has to be said that there is no common denominator.

effects on the living conditions be assessed in case that one of those factors increases while another decreases (which is the case for almost all economic measures)? Looking at actual questions of economic or social policy, the problem becomes clear. Should contributions to national health insurance be increased? Higher contributions would decrease income opportunities while social security increases (at least for those who do not have any kind of private health insurance policy). This questions, whether to increase contributions or not, can only be answered in case you know about the relations of the associated value objects (which one is more important).

Such enumerations (of value objects) do not make sense at all if value objects are different within the population (or different value objects refer to different groups within society). It sounds reasonable that urban PhD students have other value objects than much older rural farmers. In this case again information about individual/group/social wants is urgently required to assess the quality of life to become clear about the results of the proposed measures.

But how to find out about preferences and their relative importance even in respect to different members of society. May be an explanation of the emergence and origins of value objects may help. In case those dynamic effects are relevant the emergence of preferences must be explained.

### **Challenges for an Economic Indicator: Standard of Living**

The ultimate goal of an assessment of the standard of living within a country is to evaluate the discrepancy between living conditions and aspired living conditions (revealed by aspired individual preferences in respect to actual living conditions – fulfilled preferences). In other words the standard of living tells us something about how far the individual preferences have been reached.

It turned out that this is only possible in case of being able to make interpersonal comparisons. What conditions have to be complied to be able to make such interpersonal comparisons? May be an explanation for the emergence and sources of preferences is able to reveal the relative importance of preferences (in respect to a person and also interpersonal). A theoretical concept is needed that allows solving the above mentioned problems. As a result it should be possible to make statements about the living conditions within a country.

“Standard of living” in this paper refers to such a theoretical concept that tries to create an understanding of what the living conditions of somebody mean to him/her. In other words, it needs to be able to tell us something about the value judgments (preferences) of a person/group/society. Knowing about them makes it possible to compare the actual living conditions with the aspired living conditions.

The next step will be to investigate two concepts named “standard of living”. The first one was developed by Amartya Sen and published in 1985. The second one is from Hugo Pipping and was published in 1953.

### Amartya K. Sen's Concept: Standard of Living<sup>10</sup>

For Sen the problem associated with standard of living is to capture the variety of aspects contributing to it. Although many people seem to have a picture of what contributes to their living conditions it is very difficult to capture all those factors. In case you know about them it is a question of how they are related to each other. Sen distinguishes between competitive and constitutive plurality. "One type of diversity may be called 'competitive plurality'. Here different views stand as alternatives to each other. We can choose one of the rival views but not all of them (indeed not more than one). The other type is, in a sense, an internal diversity within a view, which may have different aspects that supplement but do not supplant each other. This may be called 'constitutive plurality'. (Sen, 1985c, p. 2) He rejects concepts of competitive plurality like opulence or the utility concept. They are not able to capture all relevant aspects. In constructing his own concept of constitutive plurality, Sen finds himself confronted with two major challenges. Determining the standard of living includes answering the following questions: "There are at least two basic questions in any evaluative exercise: (1) *What* are the objects of value? (2) *How* valuable are they?" (Sen, 1985c, p. 3)

These questions show that Sen is only interested in finding relevant aspects and not in explaining them. But it will become clear that it is crucial to a concept of the living standard to be able to explain where different aspects get their relevance from. Otherwise you get into trouble with finding out about their relations and interactions.

#### Major influences on the quality of life

One important influence is that different people have different requirements. "Consider two persons A and B. Both are quite poor, but B is poorer. A has a higher income and succeeds in particular in buying more food and consuming more of it. But A also has a higher metabolic rate and some parasitic disease, so that despite his higher food consumption, he is in fact more undernourished and debilitated than B is. Now the question: Who has the higher standard of living of the two?" (Sen, 1985c, p. 15) Individual circumstances have to be taken into account by the living standard.

Quality of life is also not to be seen out of the social and cultural norms people are confronted with. "In fact, Adam Smith went well beyond the standard characterizations of living conditions and considered such functioning's as not being 'ashamed to appear in public', and analyzed how the commodity requirements for this achievement – clothing, shoes, etc. – varied with social customs and cultural norms." (Sen, 1985c, p. 17) The term functioning will have to be explained later on. What people expect for their lives depends on people around them. Also John Mühlbauer (1985) writes about the origin of objects of value and their social dimension. The result is that the living standard is to be seen as something relative in respect to others and society as a whole.

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<sup>10</sup> Amartya Sen was speaking about his concept in the so called "Tanner Lectures". They were published in a book edited by Geoffrey Hawthorn together with a few contributions of other authors concerning this topic. In addition to quoted works of Amartya Sen the following writings have been used:

DRÉZE, J. & SEN, A. K. (1995) *India: Economic Development and Social Opportunity*, Delhi, Oxford University Press.;

SEN, A. K. (1977) Starvation and Exchange entitlements: a general approach and its application to the great bengal famine. *Cambridge Journal of Economics*, S. 33-59.;

SEN, A. K. (1985a) *Commodities and Capabilities*, Amsterdam, North-Holland Publ. Co.;

SEN, A. K. (1985b) Reply. IN HAWTHORN, G. (Ed.) *Standard of Living*. Cambridge, Cambridge University Press.;

SEN, A. K. (1993) *Lebensstandard und Lebenserwartung. Spektrum der Wissenschaft*, S. 35-45.;

SEN, A. K. (2001) *Development as Freedom*, New York, Alfred A. Knopf.

Quality of life was so far characterized as something that is in addition to material things influenced by personal characteristics, and environmental circumstances like social customs and cultural norms. After identifying important influences the question about the objects of value and their relations is still unsolved. Sen tries to give an answer by introducing his theoretical concept based on functionings and capabilities.<sup>11</sup>

### Functionings and Capabilities

Functionings are concrete circumstances concerning life of a specific person. It is not important whether you feel good about them or not. The term functioning only makes sense in case you are aware of the term capabilities. “A functioning is an achievement, whereas a capability is the ability to achieve. Functionings are, in a sense, more directly related to living conditions, since they are different aspects of living conditions. Capabilities, in contrast, are notions of freedom, in the positive sense: what real opportunities you have regarding the life you may lead.” (Sen, 1985d, p. 36) The objects of value now are the ability shaping functionings (=capability). The important role of capabilities is the reason for Sen to call his concept “capability approach”.

### Functionings

Is this approach able to explain the required value judgments (wants, preferences)? In other words, does it allow identifying central functionings and their relations in respect to each other?

In his theoretical work on that topic Sen does not give an answer on how to derive functionings or how they can be explained. No enumeration of functionings is to be found. He only speaks about concrete functionings in respect to examples: “The Chinese achievement in the living standard is clearly higher than India’s in terms of many of the more important functionings. In terms of life expectancy, the Chinese get 67 years, the Indians a miserable 55, according to one estimate (World Bank 1984: Table 1) and lower still according to others. The Chinese have more than two-thirds literacy, while the Indians hover around a third (World Bank 1983: Table 1). ... Information on the important functioning’s tells us more than the oddly precise picture of aggregated GNP.” (Sen, 1985d, p. 34/35).<sup>12</sup> Life expectancy and literacy seem to be “important functionings” - but what else? To answer this question, many different viewpoints of what counts in human life are possible. In one of his later works about “Development as Freedom” Sen gives a more comprehensive picture about his ideas concerning central functionings (see footnote 15 at the end of this chapter).

Sen proposes three different ways to answer the question how functionings are related. One of them is “dominance partial ordering”. The problem here is that it is not able to tell us anything in case where one capability increases while another decreases. He also speaks about empirical ways of answering the how question. “Self-evaluation would tell us what the person would judge to be his standard of living in comparison with other positions (in line with his own valuations), whereas standard-evaluation places that person’s living conditions in a general ranking in terms of some social standard (as it is reflected by commonly accepted values in

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<sup>11</sup> Therefore he distinguishes between three kinds of value objects: “agency achievements”, “well – being” and “standard of living”. Agency achievements means wishes that may also refer to others. Well being includes the living conditions of others (relatives, friends, compatriots...). Standard of living refers to objects of value that have influence on the persons own living conditions. To me this distinction does not make very much sense because all three kinds of value objects are interrelated.

<sup>12</sup> In another example about part-standards Sen speaks about the “standard of nourishment” and the “standard of being sheltered” as important aspects.

the society).“ (Sen, 1985d, p. 30) The theoretical problem associated with the second question (how capabilities relate to each other) is, that it can only be performed on basis of the first question (to know about functionings). As Sen is not able to explain what the central functionings are, it is not possible to explore their relations.

### Capabilities

The important role of capabilities is shown by an example. “Consider two people both of whom are starving – one without any alternative (since she is very poor) and the other out of choice (since he is very religious in a particular style). In one sense their functioning achievements in terms of nourishment may be exactly the same – both are undernourished, and let us assume that they are so even to the same extent. But one is ‘fasting’ and the other is not.” (Sen, 1985d, p. 37) It is the ability to shape my life in a way I want it to be that counts. John Muellbauer describes the concept of Sen shortly by saying: “He (Sen; Note W.F.) views the standard of living as determined by the opportunity set of basic capabilities to function which a person has available. This capability set in turn is determined by goods, environmental factors and personal characteristics. Sen further argues that the freedom to choose, that is the extent of the opportunity set rather than merely the point in it that happens to be chosen, is an important ingredient of the standard of living.“ (Muellbauer, 1985, p. 57)

John Muellbauer (1985) further asks how functionings of today are related with functionings of tomorrow. Is there any possible change? He speaks about the social dimension associated with the development of functionings. Sen’s concept does not have the time or space dimension. His functionings and capabilities, although not clearly specified, refer to all times and all people. From an historical point of view this assumption is not quite realistic. Bernard Williams (1985) makes clear that there is no other way to find out about central functionings and capabilities than by using general social theory: „We have to correct the local expectations of what count as relevant opportunities and lack of opportunities in the light of general social theory and general ethical criticism of these societies. We may well have to do that in terms of some doctrine or other of real interests; traditionally at least, such criticisms have used a doctrine of real interests, which of course in turn may not cycle back to theories of human nature and the grounding of the enterprise in terms of what we count as basic capacities, interests and so on.” (Williams, 1985, p. 102)

An important feature of Sen’s concept is that “central functionings” (and capabilities) refer to all people. Differences in valuation (between people or groups of society) can not be addressed. What counts as important functioning (and capability) can not be explained. It has to be determined. Concludingly the three central questions stated above can not be answered only by functionings and capabilities. The consequence associated with this is probably the most important result – economics needs assistance by general social theory - that allows estimating the living standard (on basis of Sen’s concept). Another important result is that people have to be treated differently. Not only consumption possibilities matter. Personal characteristics and environmental factors that people are confronted with have to be taken into account within economics.<sup>13</sup>

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<sup>13</sup> Having an idea about quality of life is related to an idea of what has to be seen as development (social and economic). Therefore I just add a few concluding remarks concerning Amartya Sen’s ideas about development. Sixteen years after the publication of the Tanner Lectures with Sen’s theoretical work on functionings and capabilities, he wrote the book “Development as Freedom” that is very much inspired by his former works about the standard of living. Freedom in this context means the individual ability to shape life in respect to central aspects (functionings).

In this book he becomes clearer about what he formerly called “central functionings”. He speaks about it as five instrumental freedoms. “Five distinct types of freedom, seen in an “instrumental” perspective, are particularly



## Hugo E. Pipping's Concept: Standard of Living

By trying to explain demand behavior and demand Pipping developed the concept standard of living. This shows the importance of economics as a social science. R. Mukerjee wrote in the year 1925: "It is in the field of life as a whole that economics must be discovered and studied". (Pipping, 1953, p. 31) Pipping is quite clear about the fact that a theory of consumption requires an explanation for value judgments and their sources.

In economic theory wants are thought to be given. Pipping does not accept this "psychological empty" viewpoint and asks for possible influences on wants. Income seems to have an important impact on the creation of wants. Another important aspect is that in relation to wants the time factor has to be taken into account. Probably the most interesting question referring to wants and their origins is whether and how society (or groups within society) influences them. The existence of wants implies that satisfaction is achievable (in principle). As a consequence, wants relate to specific goods.

For Pipping the problem associated with explaining demand is how humans are thought of in economic theory. In respect to this he writes about the role of ethical and psychological hedonism, economic man, rational behavior and the relation of ends and means. For Pipping these concepts lead to a mechanism of wants and their satisfaction that is not satisfactory for describing human behavior. "The task of this book is to prove that instead of starting from unmeasurable, undivisible, incommensurable, timeless wants we should use standard of living as our basic concept in the theory of consumption. The present writer does not deny the existence of wants or understate their importance, but he prefers to start from a level where they have been transformed into something that is more tangible from the economic point of view, with dimensions in space and time." (Pipping, 1953, p. 73)

How does this transformation of wants and instincts into something "more tangible", like Pipping puts it, take place? First of all he asks about the characteristics of demand and criticizes the theory of demand behavior. They do not take into account that in many situations there is no choice at all. The decision making process has to be seen not only as a mechanism (utility concept) but as a time consuming activity. In this case the importance of customs and habits for our daily lives become clear. "In short, institutions govern the economic choices of man to a large extent" (Pipping, 1953, p. 81) How are these important factors associated with wants and instincts? "The essential thing, however, from the point of view of economics is that customs are expressed wants and instincts and that they can be represented by numerical facts with which we deal in a system of economic choices when given effect to on the market." (Pipping, 1953, p. 82) The question now is where these customs come from?

This question refers to the process of social group making. The smallest and probably most important level of social group making is the family. Customs and habits are transferred from parents to their children. Family is also the central unit of consumption. Most of household expenditure is spent by one person (it is still in these days the "housewife"). The conse-

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investigated in the empirical studies that follow. These include (1) political freedoms, (2) economic facilities, (3) social opportunities, (4) transparency guarantees and (5) protective security." SEN, A. K. (2001) *Development as Freedom*, New York, Alfred A. Knopf. These five areas are of particular interest concerning capabilities and the reduction of bondage. Political freedoms mean the ability to participate in public discussion and to vote. In respect to economic facilities Sen argues for free access to markets (freedom to exchange) especially in labor markets. Social opportunities mean the existence of institutions complementing markets like a school system or medical care. By mentioning transparency guarantees Sen puts emphasis on specific ethical aspects (like the prohibition of corruption). Protective security stands for social institutions like unemployment insurance or minimum wage.

quences of changing family structures throughout the last decades led to a stronger outward orientation and faster changing habits and fashions. But does it make sense to speak about customs in relation to family? “Living in families is a universal custom. Habits are individual, but since a family is a separate social unit directed by one or at most by two individuals, there may, in each family, be habits that are not customary in a larger sense. But the habits of the family which is a sub-group are influenced by the customs of the larger group to which it or its leaders belong. The family is ‘the touchstone of class’”. (Pipping, 1953, p. 88)

What does Pipping mean by class and is class related to customs? Different authors have stressed things like occupation, economic bonds and different kinds of power or behavior in relation to class distinction. MacIver argues that class cannot be defined in purely objective criteria, which he thinks rather sustain the feelings. Pipping is convinced about the fact that outward marks of class (customs) and feelings run parallel. “It seems however that the objective criteria are so important and run so parallel with the subjective that the former, the outward class distinctions, can be connected with customary ways of living and consumers’ practices.” (Pipping, 1953, p. 13)

The following table shows what is meant by standard of living and how it is related to factors discussed so far. The left column relates to the individual, the right to class or stratum. Pipping says that these aspects (right and left column) run parallel. I am of the opinion that he would even argue that they can be seen as cause and effect. Feelings of status (class) – which are relevant aspects of identity – lead to feelings of wants and satisfactions expressed in class customs. These class customs cause customary choice for the outward marks of class. These outward marks can be analyzed and measured and as a result tell us something about the living standard. “There is a correspondence between group, status and standard. Standards are so clearly reflected in the items belonging to them that we may define standards in those items. All items cannot be standardized, but most of them can. Wants cannot become standardized.” (Pipping, 1953, p. 14)

Table 1: Criteria for class and individual run parallel

|                                                            |   |                                  |
|------------------------------------------------------------|---|----------------------------------|
| feelings of wants, satisfactions                           | ← | feelings of status (class)       |
| customary choice                                           | ← | class customs                    |
| measurable expression of customs, i.e. standards of living | ← | outward marks of class (stratum) |

Source: (Pipping, 1953, p. 99); arrows added by W. F.

Distinguishing marks of standard of living

What are the distinguishing marks of different standards? It has already been mentioned that activity and occupation are of central importance. The role of occupation is diverse. It is inter-related with class and also an important agent for social mobility. While occupation used to be largely “hereditary” it is less restricted these days. Education is probably the most important agent in raising occupational status. Other distinguishing marks are emulation power and prestige. “The outward characteristics of class are so important because there is a tendency to make comparisons and to emulate (Veblen) and to shine in consumption and leisure. Power and prestige are related to emulation in consumer goods and services. It is difficult to prove which is primary and which is secondary. But outward marks and symbols cannot be kept apart from status (and from feelings of status).” (Pipping, 1953, p. 14) The role of different kinds of leisure activity in relation to class was shown by Thornton Veblen in his famous work “The Theory of the Leisure Class”.

The concept Standard of Living – a new starting point for economic theory

Wants/preferences are explained the following way. Belonging to a specific social class is associated with feelings of status that lead to feelings of wants and satisfactions (preferences). Therefore wants/preferences can be explained by feelings of status (class). These feelings of status are associated with a measurable expression of customs called standard of living (for details see Table 1). Different classes therefore have different wants/preferences that can be researched. Pipping speaks about different standards (plural) of living representing specific valuation standards associated with class and expressed by customs. “The existence of standard values and value standards is the background, the milieu, and gives us a measuring rod.” (Pipping, 1953, p. 111) How are different standards (classes) related? Different standards are hierarchically structured within society. Aside of the milieu the social hierarchy is the second important factor in explaining value judgments.

Not the items belonging to a specific standard are important. It is the standard itself and the ability to reach or hold a specific standard through these items.

Accepting that standards are associated with value judgments (represented by items customarily used) the question remains what the concrete outward marks of different standards are that allow an evaluation of different standards. What aspects of life have to be captured? Pipping therefore divides standard of living into four part standards. Family standard, standard of leisure and working time, standard of consumption and standard of saving.

The important role of the family as a major source of customs has already been mentioned. The size of the family is itself a standardized and important aspect of the living standard. Standard of leisure and working time means that the standard is not only determined by the outline of a profession. Working conditions and especially working time have to be regarded. Two aspects seem especially relevant: the ratio between working time and leisure and between consumption and leisure. That working time is largely standardized these days leaves the importance of these questions unchanged. The standard of consumption gets its importance to a large extent from its role in class distinction. “Following the customary patterns or emulating them becomes one of the greatest driving forces in consumption. Falling behind in the social competition means a minus that may gradually become irreparable.” (Pipping, 1953, p. 171) Standard of living as a combination of the four part standards can be described in the following way: “The hypothesis that lies behind it is that some parts of the general standard have an independent value; that the combinations chosen or inherited are present, balanced, evaluated and standardized in practice; that they relate to the various groups in society and that these groups are arranged by society itself in scales of status. The valuation of status takes place in a very complicated way: according to birth, occupation, income etc., and according to the items belonging to the standard.” (Pipping, 1953, p. 216) Standard of living has to be something durable. This feature is captured by the standard of saving. It shows the importance of the time factor in economics.

Relevant aspects for the measurement of the standard of living

Standards are to be evaluated by looking at the four part-standards. Standard of consumption and standard of living involve qualities too. They can be read of the measurable proportions in which the items (goods and services) appear in different standards. Another quality refers to the relations of standards. “We may behavioristically draw conclusions from the direction of social mobility from one status and standard to another, according to their attractiveness.” (Pipping, 1953, p. 20) It is the nature of standards that they are looked at from different angles. “Valuations are not the same among farmers as among school-teachers and are so far

relative. But the valuations are provable by means of their effects. The standardized valuations, as revealed by their effects, are the basis of standards of living.” (Pipping, 1953, p. 20) Some parts of the standard are to be seen as ends in itself like work or leisure.<sup>14</sup>

## Conclusions

The goal in this paper was to find out whether one of the two examined concepts is able to solve the methodological problems associated with an economic indicator that allows an assessment of the living conditions within a country. It turned out that the measurement of economic success (quality of life) has to go far beyond the measurement of consumption.

One of the curtail questions was, whether it is possible to assess the living conditions in case wants/preferences can be explained. Evaluating the difference between wants/preferences and actual living conditions would give us a comparable picture of the standard of living.

Amartya Sen’s concept of functionings and capabilities is not able to explain the objects of value/wants/preferences. As “central functionings” (and capabilities) refer to all people, differences in valuation (between people or groups within society) can not be addressed. It turned out that (on basis of Sen’s concept) economics needs assistance by general social theory that allows estimating the living standard. Another important result is that people have to be treated differently. Not only consumption possibilities matter. Personal characteristics and environmental factors (people are confronted with) have to be taken into account within economics. The possibility of social mobility is of central interest. For Amartya Sen an increase in the living standard means an improvement of capabilities in respect to central functionings.

Hugo Pipping explains value judgments through feelings of status (class). Affiliations for a specific milieu (family, class) and the social hierarchy of different styles of living are the driving forces. Standards are the measurable expressions of these “styles of living” expressed in the items belonging to them. There is only one object of value which is the standard itself. Goods and services belonging to the standard get their relative importance through making a specific standard (way of life) possible. Wants are not given but socially produced and transferred. Economics is a social science and the social sphere (status/class) turned out to be crucial in explaining the living standard and demand. For Hugo Pipping an increase in the living standard means the ability to rise in standard.

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<sup>14</sup> Like in the case of Amartya Sen I want to add a few remarks concerning Hugo Pipping’s ideas about development.

In respect to the goal of economic activity Pipping raises three important questions:

- 1) Whose standard of living should increase?
- 2) In which relations should standards of living increase?
- 3) How fast should they increase?

Without discussing these socio-political questions in detail I just want to quote a general statement concerning them: “In conclusion: a sensible goal of economic activity would be to raise standards in all groups without injuring any of them absolutely and rather to give the lower strata a chance of improving, ...” PIPPING, H. E. (1953) *Standard of Living*, Helsinki, Societas Scientiarum Fennica.

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