

Book Review

# Measurement of Well-being

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**Infirmities of Per Capita National Income Estimate When Employed to Compare Levels of Living between Developed and Retarded Areas**, By Hurry Stark, Published by University of Miami Press, Florida. Pp 32, Price, not mentioned.

HOW can one accurately assess the standard of living of a developed or an under-developed country? There are various statistical measures, but per capita income has been taken as the most reliable and comprehensive indicator of the economic progress of a region. However, there are some complex questions connected with the reliability of the per capita national income figures when employed to measure the material well-being of a country or to compare the levels of living in developed and under-developed areas.

Professor Stark asks: why have per capita national income estimates of different countries indicated differences in levels of living much wider than exist in fact, thereby influencing the allocation of the limited aid-funds amongst the various retarded areas? He finds the answer to his question in nine statistical infirmities which vitiate the per capita income estimates when employed to measure the living conditions, leading to mistakes in the formulation of policy. All these infirmities do not lend themselves to numerical measurement nor can they be corrected by subsequent adjustments. But Professor Stark outlines methods whereby some of these infirmities, the most distorting ones, may be measured and remedied or circumvented, and draws attention to the presence and distorting effect of other infirmities which defy quantitative measurement or adjustment.

## Non-Monetary Income

Some of the infirmities noted by Professor Stark may be mentioned here. Infirmity C—failure to take account of non-market income, i.e. non-monetary part of the real income,—is the most distorting element in an underdeveloped country with a predominantly rural population. Items which do not enter the market, like home-produced meals, beverage and clothing, home laundering, self-constructed dwellings, self-performed services or those rendered for relatives and friends, etc, repre-

sent a significant proportion of real income values for which should be imputed to arrive at comparable per capital income data.

Professor Stark notes, this is rather a sin of omission, and given enough time and funds, it is possible to uncover, list and impute values to most of the non-market items with the help of investigations and special studies. But infirmity D—understatement of income with a view to avoid taxes and circumvent control laws—which may conceal a considerable part of the total real income, cannot be overcome by the questionnaire technique. Pending availability of the necessary data, rough assumptions based on indirectly related information have been recommended.

Infirmity H—unevenness of income distribution—underlines a very interesting point, viz. that per capita income data do not take into account differences in the unevenness of the distribution of income in different countries. In most of the underdeveloped countries a large percentage of national income goes to a very small percentage of the population; the rest of the population receive a very small part of the national income. Thus, per capita income figures do not reflect the welfare of the average person. Disparities in the distribution of income arise from various reasons, from such long established features of the society as feudal rights and tenures, or from the privileges and handicaps associated with the social structure from lack of social mobility and also as a result of inflationary influences. Further, in a growing economy, high incomes are mainly due to the accrual of capital gains and to trailing and speculative profits. Hence, the Use of per capita income figures, for comparing the standard of material well-being of various countries, has serious limitations unless we know the trends of distribution of the total income and the differences in their skewness. In developed countries, per capita income comes closer to reflecting the

welfare of the average inhabitant. As such, this infirmity tends to narrow down the differences in the so-called levels of living between developed and under-developed countries, in contrast to the other infirmities mentioned above, which widen it.

Infirmity J—influence of accumulated wealth in the material well-being of an average inhabitant of a country also distorts the real picture. But few countries have so far been able to collect data about infirmities H or J, and no adjustments are possible without the necessary information.

Amongst the three infirmities which, according to Professor Stark, cannot be quantitatively measured and adjusted, the most important one appears to be the "essential and non-essential income components (E)". Essentials make a more substantial contribution to well-being than the non-essentials, and the overall per capita figures which do not make any distinction between these lead to a faulty conception of disparity. The only adjustment suggested for these distortive elements is to "emphasize the importance of calling attention to and of making allowances for them."

## Regional Disparities

The book seeks to raise some fundamental issues connected with the difference between real per capita income and the published estimates and suggest means to bring official per capita estimates, especially those destined for use in international comparisons, into closer agreement with real incomes. Some of the difficulties can be circumvented by "building up totals mainly through the use of production statistics." But that does not solve the problem in full. Professor Stark looks at the question from the point of view of the policy makers. The discussions will help statistical authorities in underdeveloped countries in improving their estimates of national and regional income, and in their policy decisions relating to balanced regional development. In

India, for example one of the objectives of our Plans is to reduce disparities between regions and to assist the States that have lagged behind and to bring them upto the level of the other States and close to desirable national standards. Here also, the per capita income estimates of the different States would no doubt

constitute the most pertinent single measure, but for the infirmities noted by Professor Stark. In practice all available indicators of the level of economic activity have been pieced together to arrive at a reasonably comprehensive and comparative picture of the level of economic and social development in the

various States. Professor Stark suggests studies on the wide variation in the levels of living between different parts of an underdeveloped country and expects that financial support would be readily made available to researchers for this purpose.



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operating a sinter plant. Today, Pathak is operator-in-charge of the sinter plant added under the two million ton expansion programme.

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