Usher, Dan, *The Price Mechanism and the Meaning of National Income Statistics*, Oxford Univ. Press, 1968, 180 pp, 45s.

Dr. Usher's book seeks to explore the reasons for the unacceptably low figures for national income per head in the underdeveloped countries that have gained such wide currency. "Something is very wrong with these statistics", he writes, and most of us would be inclined to agree. Where we might part company with him, however, is in his assertion that there are "strong economic reasons associated with the purchasing power parity doctrine for believing that the method of comparing real national income used by the U.N. ought to yield the right results". Since the United Nations employs official exchange rates, much of Dr. Usher's book consists of an exhaustive analysis of the shortcomings of this procedure.

Curiously, he appears oblivious to the fact that an equilibrium rate should be expected to balance more than just the trade account. As a result, his attention is focussed on such factors as the pricing of products that do not enter into international trade, differences in transport and other distribution costs of internationally traded goods, and trade taxes. His analysis of why the retail price of rice is nearly five times as high in the U.K. as in Thailand making use of a "chain of prices" showing the costs that are added as rice moves from the Thai farm to the Thai and English consumer is highly revealing, as indeed are a good many of his other computations and observations. In view of the ease with which he demolishes comparisons through exchange rates — an outcome that most of us would have anticipated — it is puzzling that he has chosen to take on a straw man in a very one-sided battle.

However that may be, he succeeds in throwing a good deal of light on various aspects of international comparisons, e.g. on the sources of bias that cause poor countries to appear poorer than they really are by comparison with rich countries when exchange rates are used, on the determination of relative prices, on the effects of aggregating commodities into groups (he takes "fruit" as an illustration) as opposed to treating the commodities separately when some of the latter are common in one country but rare in the other, and on the nature of intermediate products. The divergent results obtained in comparing Thai and British income per head by exchange rates and by weighting quantities in both countries by a common set of prices (binary comparisons à la Gilbert-Kravis) are examined in detail and commented upon with an insight born of first-hand knowledge. Almost all his observations are sound and genuinely illuminating, although here and there Usher lets his guard down or borders on the provacative, as when he suggests that an allowance be made for "human depreciation". Thus, he argues that as "virtually all primary and secondary education and part of university education in the rich industrial countries is a cost of maintenance of the stock of human capital . . . only improvements in the standard or extent of education can be accounted as net final product".

The author also delves into the meaning of comparisons of "real income". He explores systematically the relation of the usual binary comparisons to the unmeasureable indexes of comparative welfare. ("The income in Thailand that makes an Englishman as well off as he was at home is not his old consumption pattern valued at Thai prices, but an income just sufficient to keep him on his old indifference curve.") As elsewhere, the treatment is clear and his observations to the point. Unfortunately, the discussion of the four possible measures of real income is marred by errors in the values given for the welfare indexes on pp. 31 and 32 (actually, two different values are given for $Y_{ut'}/Y_{tt}$ on the two pages cited, and both are incorrect). There is also a small slip on pp. 6–7 where the meaning of Y_{tu}/Y_{uu} is discussed, the words Thai and U.K. being interchanged.

All in all, Dan Usher is to be congratulated on a solid contribution that extends into several areas, in some of which he has broken new ground. Moreover, he has written a book that can be read with pleasure. His sparing but effective use of diagrams and tables and his invariably clear and simple language set a high standard in communication with the reader.

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