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INCOME AND PRODUCT IN UNDER-DEVELOPED COUNTRIES

Comments on The Paper by Professor Frankel[1]

by Frederic Benham

THIS paper raises two general questions. What is the value of national income estimates, especially for undeveloped countries? And how can economic progress best be promoted, especially in undeveloped countries?

The second question may be thought outside our scope. But Professor Frankel will not let us ignore it. 'The mere calculation of certain statistical aggregates,' he says, and we can almost hear his sibilant scorn as he says it, 'is clearly worthless unless they are intended as guides to social action or to our understanding of social and economic situations.'

I propose therefore to consider national income estimates, especially for undeveloped countries, first as a measure of welfare and then as a guide to public policy.

I. NATIONAL INCOME ESTIMATES AS A MEASURE OF WELFARE

We used to say, or at any rate economists such as Irving Fisher and Pigou used to say, that people desired goods and services not for their own sakes but for the sake of the satisfaction which they yielded. Irving Fisher brought in satisfaction mainly because he wanted to distinguish between Capital – the stock of all goods of all kinds existing at a given moment – and Income – the flow of satisfaction arising from the consumption of goods and services over time. But this distinction can be made just as well without introducing a 'psychic income' of satisfactions. A house built in 1951 is part of the Investment of 1951 – and if you don't want to count it as income, and Fisher didn't, then you needn't: the house, at its current value, is part of the Capital of the country as long as it lasts; and the services rendered by the house, the services of providing accommodation and shelter, are part of the National Income for every year that the house continues to be used.

The main reason why Pigou and others introduced satis-

[1] See No. 6, above. It should be noted that No. 6 is not the complete paper: part is now published in the *Oxford Economic Papers*, 1952. Dr. Benham replies to the complete paper.

faction was, I think, to provide an allegedly 'scientific' support for their view that the inequality of income should be reduced. The same aggregate of goods and services, they thought, would yield more total satisfaction if it were more equally distributed. But this cannot be proved. As Marshall pointed out, satisfaction cannot be measured. Those who would like inequality to be reduced can bring forward plenty of arguments in support of their view without resorting to the so-called 'Law' of Diminishing Marginal Utility of Income, which is an unprovable assertion about an immeasurable object.

When it became realized that there is 'no bridge' by which the satisfaction of one person can be compared with the satisfaction of another, a number of economists fell back on indifference curves. They said that at any rate we can say that one collection of goods gives more satisfaction than another collection to the same person at the same time. He buys one collection, or he would buy it if he could, rather than another, therefore the former gives him more satisfaction than the latter. But this last phrase is an unjustified addition. All we are really saying, and all we really know, is that he buys one collection rather than another. If we assert indignantly that of course this must mean that he prefers the former and therefore that it gives him more satisfaction, this last phrase is pleonastic – it is simply saying the same thing over again in different words. We can therefore agree with the conclusion of Professor Frankel: 'Meaningful measurement ceases at the point at which persons acquire objective goods and services; to get beyond is to enter the realm of hope and fancy.'

Having got rid of satisfaction, can we treat as 'meaningful' statistics of the quantities of goods and services produced and consumed, and of the amounts added to physical assets?

Here again Professor Frankel is discouraging. 'How can one attempt,' he asks, 'to assess whether the pre-industrial community is "better off" when, as in South Africa for example, it has undergone a rapid process of urbanization and has been integrated into a modern economy in a quite different social framework?' 'The very question,' he says, 'is itself illegitimate.'

I agree that we cannot say whether or not, taking everything into account, the community has gained by the change. Nor is it our job, as economists and statisticians, to pass any such judgement. But what we can say, and what many people will find of interest, is what the average family consumes now as compared with what it consumed before. That is a question of ascertainable fact, not a question of making a value-judgement.

Exactly the same point applies, of course, to a comparison between an undeveloped and a developed country, for example between India and the United States. Opinions may differ on whether the Indian way of life or the American way of life is the better, but what the average family consumes in each country is a question of objective fact.

It is relevant, I think, to point out here that most leaders in undeveloped countries, certainly all those I have met, assert most strongly that their peoples do desire higher standards of living. They would be most resentful if improvements in standards of living were held back because some Western pundits thought this would be bad for them.

There is, of course, the technical difficulty of comparing standards of living when consumption-habits differ widely. But surely it would be foolish to throw up our hands in despair and to say that no comparison is possible. We know perfectly well that average standards of living are much higher in the United States than in India. Surely, therefore, we should try to get some measure, as free from imperfections as possible, of how great the difference is?

The sternest critic will admit, I hope, that at least the statisticians could list the quantities of the various items consumed per family and let the reader make the comparison for himself. If the reader wished, he could resolve the food items into a common denominator of calories or follow any similar devices which seemed to him appropriate for his particular purpose.

As estimators of national incomes, we do more. We value the goods and services consumed at their current prices. And we ive other information also. We show to what extent a change n consumption over time was due to a change in output; or to change in the terms of trade; or to a change in loans and gifts eceived from or paid to other countries; or to a change in the nount of investment, which of course may affect standards of ving in the future.

Valuing the goods and services at current prices, however, erely shifts the comparability problem to the question of price-vels. At what rate are rupees and dollars, for example, to be nverted into one another for this purpose?

I think that the most general practice is to deduct indirect taxes from market prices, thus removing one cause of differences in price-levels, and then to convert at the current rate of exchange between the two currencies. Admittedly, this often gives a somewhat misleading result. But why try to get everything into a single figure, that of national income per head of population?

Surely a partial solution, which should to some extent appease the critics, would be to follow the general practice but to supplement the national income statistics by other information relevant to comparisons of welfare. I may perhaps be allowed to illustrate from my conclusions on the national income of Malaya, which in 1949 was around £60 a head. I say: 'The national income per head in Malaya is much higher than in most neighbouring countries. For example, for India in 1949 Gross National Product (at factor cost) was estimated at only £23 a head. But the cost of living was higher (because wages and other money incomes were higher in relation to productivity) in Malaya than in India. Malaya took fuller advantage of both external and internal trade, and in consequence the costs of transporting and distributing exports and imports, and of trade between country and town, swelled the national income of Malaya more than that of India. There is no doubt that standards of living were substantially higher in Malaya than in most neighbouring countries, but the difference was less than was indicated by a mere arithmetical comparison of national income per head.'

Again, when comparing Malaya with the United Kingdom, I point out that 'the people of the United Kingdom need to spend more on substantial houses, warm clothing, and fuel than the people of a land of eternal summer. Moreover they are spending some 10 per cent of their National Income on Defence. Hence although standards of living for the bulk of the people (notably the manual workers) are higher in the United Kingdom, the difference is less than the national income figures indicate.'

Other differences to which attention might be drawn, where they are important, are differences in working conditions, especially hours of work, and in the proportion of women working for pay.

Before leaving this part of my remarks, I would like to touch on another point. Some writers assert that for primitive economies based on self-sufficient 'households' or direct barter of goods and services national income estimates are completely inapplicable. They declare that if estimates are contrived for such inarticulated economies, they are devoid of economic meaning.

This is banging the door in our faces. But I think we can push in. If we list the goods and services consumed and can find another economy, with markets, where consumption patterns are very similar, why not price the goods and services of the former at the prices ruling in the latter? In fact, the usual situation is that the country has some exports and imports, and some local markets, as well as goods and services produced by families for their own consumption. Surely we must include such goods and services; to leave them out would give quite a false picture. And if we include them we should value them, in my view, at local market prices. For that is what the neighbours of the producers have to pay to get them. Even if there is no local market for a particular good or service, I do not think we should leave it out. It probably has an opportunity-cost; instead of growing, say, maize for their own consumption, the peasants might have used their land and their efforts to grow something else, for sale.

II. NATIONAL INCOME ESTIMATES AS A GUIDE TO PUBLIC POLICY

I turn to the second of the two general questions raised by this paper. How far are national income estimates useful as a guide to public policy?

The first point I want to make is that different people have different views on what public policy ought to be. They may agree on some general aim, for example, 'a continuous and permanent improvement in the well-being of the people', but only because it is expressed in such general terms as to be virtually meaningless. When it comes to definite and detailed proposals, men of good will often find themselves in opposite camps; that, of course, is one reason why there are political parties.

For example, some want to spend more on defence than others. Again, while possibly most of us would accept the conclusion that the economic problem of transforming backward areas is one of effecting a lasting and continuous rise in the ratio of reproducible capital to population, some people in those areas strongly oppose the most important steps towards that end. In some countries no permanent economic progress is possible, in my view, without a reduction in numbers through birth control; all other measures can be only palliatives. Yet many of those who would benefit object to birth control on religious, nationalistic, or other grounds. In the short run, the best way of putting the above conclusion into practice is often external loans. Yet some people in undeveloped countries are very suspicious of accepting external loans. They fear that external loans would lead to too much foreign control of their economies; they prefer their independence to a rise in their standards of living.

Even when certain aims are generally accepted, they often conflict with one another to some extent, and people differ in the relative weight which they attach to each, and therefore disagree on specific proposals. For example, increased output, full employment, less inequality, and social security are all regarded as desirable by many people. But to some extent these four aims conflict with one another. Some undeveloped countries have refused, at different times, to take advantage of technical progress (usually in the form of increased mechanization) because although it would have increased output it might have caused some unemployment. Some people think that the British income-tax, which undoubtedly reduces inequality, has also reduced incentives to work and invest and should be modified. Again, a policy of providing full employment and social security may keep down output by reducing incentives and mobility.

Professor Frankel appears to suggest that disagreements on public policy might be avoided, or resolved, by an expert enquiry into the content of 'welfare'. 'One of the main tasks,' he says, 'which now confront economists, statisticians, and sociologists emerges more clearly, namely, to determine what factors constitute the welfare pattern.' I doubt very much whether economists, statisticians and sociologists would agree among themselves, let alone persuade others to agree, if they went into detailed and specific proposals. Some place more weight on a general improvement in standards of living, others on less inequality, others on full employment, others on social security and stability, others again on maintaining a certain way of life. Professor Frankel himself has pointed to the question-mark in the case of a primitive tribe which may rapidly become industrialized. I do not think that the most expert opinions would do away with the differences of view between those who would say 'leave them as they are' and those who would say 'we have no right to refuse them higher standards of living'.

As an example of the type of specific proposal on which we might disagree among ourselves, we can take protection for local industries. It is sometimes urged that a national income estimate should show imports and exports in detail so that we can draw conclusions as to what import items can be produced locally, what real investments should be made in the various sectors of the economy for replacing imports and for increasing the standard of living, and so forth. I am fairly certain that on some specific proposals to establish certain local industries which cannot, at any rate for the present, stand on their own feet some of us would be in favour and some of us against.

If you agree with me that there are and always will be differences of opinion on public policy, it seems to follow that a national income estimate should not be designed to assist in carrying out some particular policy. It should be neutral. It would set out the relevant facts, showing the method of arriving at each figure and the degree of accuracy which it possesses, in such a way that the figures can be re-arranged if that is appropriate for any particular purpose, and in such a way that people of different views can all use them to base their arguments on knowledge rather than on 'hunches' or on fragmentary and incomplete statistics. It should give a comprehensive view of the economy as a whole and of the relation of different parts of it to one another.

Having said this, however, I come to my second point, which is that there are many things which a national income estimate cannot do and should not be expected to do. A thorough and informed discussion of any particular proposal usually requires knowledge of facts far more detailed than those which can or should be included in a national income estimate. If you study the development plans of any country, for example those included in the Colombo Plan or the Monnet Plan for France, you will find detailed discussions of proposed engineering and other projects, with little or no reference to national income figures. In Jamaica, for example, the Economic Policy Committee made a very detailed investigation into the areas which might be suitable for irrigation. They considered soil types, what crops could be grown, and what methods of irrigation were technically possible in each area. Then they considered whether the consequent increase in yield, expressed as an average annual sum of money, would exceed the costs of installing and maintaining the irrigation system and supplying the water, plus the additional costs of working the land in order to obtain the increased output, all these costs being expressed as an average annual sum of money. The Committee made similar detailed inquiries into a number of other projects. Not once did they need to refer to the estimate of national income. That came in only at the end, when they considered how much could be raised in increased taxation, and from whom, in order to pay for their proposals.

As, in my view, there should always be detailed and technical inquiries into specific proposals, I feel that we should not try to cram too much into national income estimates. For example, I do not agree that we should try to show who gains and who loses by discriminatory charges imposed by public utilities and other enterprises. It is by no means easy to say exactly how much discrimination there is. Some lower charges may be justified by greater ease of handling (rail transport, for example) or by off-peak consumption (for example, electricity). Nor is it easy to say who finally gets the benefit or bears the cost. In my view, a question such as this is best left out of national income estimates and made the subject of a special inquiry.

I am not saying that national income estimates are useless. Perhaps I may give one or two examples of how they may help in framing public policy.

The national income estimates for India have brought out the fact that output per head of population, and standards of living, have been *falling* – despite technical progress and new investment – over the last ten years. They may well have played an important part in leading Pandit Nehru to his conclusion that Family Planning is essential in India.

In most undeveloped countries, the paramount economic need is to increase output by increasing real capital per head, improving methods of production, getting more trained men, and so forth. As their national incomes expand, more can be spent on social services. But in some countries, the Windward Islands for example, the local demand for expanded social services has been so strong that external assistance has been diverted largely to social services. These involve large annually recurrent expenditures, on teachers, nurses, and so forth, which their national incomes are not large enough to bear. This fact, and the need therefore to modify their policy, is brought out by estimates of their national income.

Some of you may think that although national income estimates are not adequate for micro-economic decisions – which particular investments projects are most likely to be fruitful, for example – they can nevertheless be used for macro-economic decisions. They can show the margin available for increased taxation, how much local saving is available, and so on. In Great Britain they are used partly to show the extent of the inflationary gap. But even in these fields I would not claim too much for them. For my third point, an obvious but important one, is that national income estimates relate to the past. Even if the Government is quite clear as to what policy it wants to follow, forecasting is necessary. It is not easy to forecast what wage-levels will be or what the prices of imports and exports will be. Indeed, it is quite possible to be seriously wrong, as post-war experience in Great Britain has shown. Some underdeveloped countries rely heavily on exports of one or two main products. Their future national income will depend to a considerable extent on the prices of those products, which may change very considerably in a short time. The most complete and accurate estimate of last year's national income is not much use as a guide if this year's national income turns out to be very different from last year's.

My conclusion, then, is that although national income estimates are useful, as Dr. Kuznets has said, in giving a comprehensive view of the economy as a whole, they should be supplemented by other information when making economic comparisons between countries or for the same country over a period of time and by detailed technical investigations for particular developmental projects. We should not try to cram too much into them or claim too much for them. As they say on the New York Stock Exchange: 'Bulls get something; bears get something; hogs get nothing.'