

National Income:

- (a) Ignores the non-market and unofficial market (parallel/black) economy. Thus, income underestimates the material well-being.
- (b) Measures the output of the services' sector erroneously. Thus, material well being is poorly measured by income.
- (c) Ignores the quality of products, which may not be accurately measured by their prices. Hence, income is an erroneous measure of material well being.
- (d) Is valued at the official exchange rate, for international comparison, and is thereby often over or under valued. For example, in July 1991, India devalued its currency by about 25 per cent and accordingly her national income, in terms of the US \$, fell by 25 per cent. No output was destroyed and yet income fell! This is due to the somewhat arbitrary nature of the foreign exchange rate.

The latter factor (viz. income as an imperfect measure of economic welfare), which is caused by the absence of price tags on several items that have a bearing on economic welfare:

- (e) Ignores the benefits due to leisure and the loss due to the increased level of stress over time. Leisure is considered as a normal good in economics while stress is unwanted.
- (f) Equates goods (education) and bads (weapons); public (defence), merit (education) and non-merit (air conditioner) goods' classification. Production of a gun is equated to that of wheat in equal value. However, such goods have varying values for the economy.
- (g) Ignores income distribution. Social welfare is perhaps the maximum when income is distributed equally among all the inhabitants.
- (h) Counts both addictions (drinking) and cures (medicines for drunks). The former are responsible for the latter.
- (i) Ignores costs of growth, associated with traffic congestion, pollution, accidents, use of natural resources, environment degradation, crimes and so on. These costs adversely affect economic welfare.
- (j) Ignores weather. Edward Denison once remarked that perhaps nothing affects national economic welfare so much as the weather. For example, people prefer to live in Bangalore over Delhi or Kolkata, other things being equal.
- (k) Includes incomes generated through non-productive activities such as defence, police and courts, which are considered 'regrettable' or 'necessary evil' goods. They may be necessary but do not contribute to the standard of living or quality of life.
- (l) Ignores the quality of life, which is influenced by education, health, living together, love to own land, human freedom and so on. All these factors contribute to social welfare.
- (m) Ignores ethics, values, customs, traditions, habits, religions, spirituality, emotions and so on. All these factors have positive values for economic welfare.

The relative size of these factors varies across countries and, hence, they do affect the relative welfare of people. Due to this, efforts are on to develop indices to evaluate the quality of life by measuring the status of economic welfare. Currently, we have the Corruption Index, 'Competition Index', and so on. However, efforts