

## Examrace

# Competitive Exams: Indicators of Development

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## Introduction

You may recall that we have defined economic development as a process but also referred to it as a level. In this subunit, our attention would be focused on the level of development achieved at a given point of time (given year) . In fact, in this conception, you may note that growth is a quantitative change between two levels of development or levels of development at two points of time. Growth is basically an inter-temporal comparison. For comparison between two economies, which we often resort to, there exists no such term. But such a comparison is often made. Most people would agree that development is a process and the process is multi-dimensional. When any process is conceived as multi-dimensional, it becomes difficult to adequately capture its character through any index. However, some attempts have been made to measure the level. We shall discuss four alternatives to measure the level of development: Per Capita Income, Physical Quality of Life Index, Human Development Index and Quality of Life Index.

## Per Capita Income

Gross domestic product is supposed to measure the level of output produced by the economy during an accounting period. However, the command of people over goods is somewhat different than GDP. We have our property outside our own national economy and some of our nationals work in other countries. As a result, we earn wage income or property income outside the country. Similarly, foreigners have property in our economy and some foreigners do work here. Adjusting for these incomes, we get gross national product (GNP) . In the case of large countries and countries having little interaction with other countries for factors of production, GDP and GNP are not very different. But, there are economies where GNP and GDP are quite different. In our case, GNP is somewhat less than GDP. It may be noted that GNP better represents the entitlement of the nationals of a country (individuals and their collectivities) while GDP actually shows the output of the activities carried out within the economic boundaries of the country.

Still further, we should take account of consumption of fixed capital in the process of production. We should ensure that the capital stock is kept intact during the year; otherwise, we shall, one day, eat away the whole of our fixed capital. So, we should subtract that amount of capital, which we think has been consumed in the process of production. Then, what we shall get is known as Net National Product (NNP) . Net national product is also known as the national income. We shall use a particular version of net national product known as net national product at factor cost and designate as NNPFPC.

Now, if we want to compare the welfare of people at two points of time or of two economies at the same point of time, it becomes necessary to find out the size of population. From the view point of welfare or well-being of the people, for which development is pursued, it is suggested that the NNPF, valued at constant prices, should be divided by the size of the population. NNPF divided by population is popularly known as per capita income. It helps us to compare the level of development of the country in 2001 when we are 100 crore with that in 1961 when we were 43 crore only. In order to render international comparisons meaningful, national incomes should be divided by sizes of their respective populations. Otherwise a country like Canada, which by all standards, is considered a rich country, could be found to be poorer than India. The population of India may be 30 times that of Canada.

Such a division (deflation/normalisation) is needed even to assess the progress over time. For example, our NNPF has grown a little more than eight fold over the last fifty years but the population has also almost trebled during this period. As a result, per capita income has grown less than three times. Our living conditions can be expected to have become better by a factor of three rather than by a factor eight.

With this in view, per capita national income has come to be increasingly used. In short, it helps us to compare the development of India with that of the USA or with that of Pakistan for any given year as also our own development over time. We may further note that it is this indicator, which is often used to categorise countries as developed/underdeveloped countries or high/middle/low income countries. In the case of international comparison, per capita incomes of different countries have to be brought to a common currency.

However, it is very often pointed out that its scope is quite limited. Most of the limitations arise from the numerator whatever it may be, namely, GDP, GNP or NNP. These concepts do not account for the economic activities performed inside the household, which are non-marketed. Bulk of women's household work gets ignored, while it is equally important from the point of view of well-being and welfare of people. It does not adequately capture activities performed even outside household. As production is valued in terms of market prices, activities for which there does not exist market do not adequately get accounted for. It is also pointed out that economic welfare, which it can measure, even though imperfectly, is not the total welfare that the people look for:

The following three suggestions have been made for correcting the weaknesses of the measure of per capita income:

- Distribution of national income over individuals is an important dimension, which cannot be ignored. National income and its distribution, both, have to be considered together. It has been argued that the welfare of a society depends on what is the size of the cake and how it is distributed over people.
- Over time, people have come to enjoy more leisure, which, according to many, may be the ultimate aim of all activities. It has, therefore, been argued that its value needs to be

added to the national income in order to make it yield a better measure of welfare.

- A suggestion was also made to deduct the social cost of harmful effects in terms of variety of pollutions that many economic activities entail.

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