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SYSTEM OF NATIONAL ACCOUNTS (SNA)
SUPPLEMENTING THE NATIONAL ACCOUNTS FOR PURPOSES OF
WELFARE MEASUREMENT

INTRODUCTION

1. The Committee for Development Planning at its ninth session (2-12 April 1973) reviewed priorities for development in the context of the first over-all appraisal of the implementation of the International Development Strategy. The Committee was interested in the development of "welfare-oriented measures of output" and recommended that suggestions made along these lines be considered by other appropriate bodies, including the Statistical Commission. The Committee stated, "While the Committee recognizes that it is difficult to develop welfare-oriented measures of output, it applauds the Secretary-General's specific proposals for efforts to supplement the conventional measures of gross product with other measures of output that more accurately reflect genuine differences in economic welfare. The Committee hopes that the suggestions will be seriously pursued by the appropriate bodies, especially the Statistical Commission of the United Nations, and that any progress achieved in this regard will be reported in the course of the mid-Decade appraisal in 1975. As indicated in chapter III below, the Committee itself intends to give attention to this subject through one of its Working Groups. It needs to be emphasized at the same time that, in the search for improvements, care should be taken not to discourage efforts being made to strengthen the conventional measures of gross product and the United Nations System of National Accounts, especially in the case of developing countries".^{1/}

^{1/} Official Records of the Economic and Social Council, Fifty-fifth Session, Supplement No. 5, (E/5293), paragraph 17.

2. A number of suggestions for supplementing the national accounts for purposes of welfare measurement are discussed in detail in document E/CN.3/459. The Commission may also wish to consider this topic in the light of the following extract from document E/AC.54/L.60 which was before the Committee for Development Planning when it discussed this matter.

"Interpreting changes in the gross product"

"Since over-all economic growth will be one of the principal criteria by which progress is to be appraised in the 1970s, the nature of the measuring process should be kept in mind, along with the qualifications attaching to the result itself. Indeed, one of the aims of the biennial appraisals might well be the introduction into the International Development Strategy of supplementary targets and criteria designed specifically to meet the deficiencies of the gross product as a measure of economic and social progress. Uneasiness about the importance attributed, implicitly as well as explicitly, to changes in the gross product in development planning reflects the rising concern about the well-being of individuals and the realization that even a rapid increase in total output gives no assurance of the amelioration of any of the most distressing aspects of under-development.

"The deficiencies of the gross product as presently incorporated in the International Development Strategy thus lie in two areas. On the one hand, it is not a measure of welfare and, on the other hand, even if it were such a measure, as an aggregate it provides no indication of how the goods and services whose output it values have been distributed.

"The national accounts are compiled from records of transactions without regard to their end result in terms of human satisfaction. Inasmuch as the process of development involves an ever-increasing degree of specialization of the factors of production, the proportion of total physical production of goods and services accounted for in the transaction aggregate tends to rise. The gain in recorded output is most rapid in the earliest stages of development. This is when the movement of factors from the subsistence sector (whose production is not marketed) to the exchange sector (where market transactions are the rule) has its greatest relative effect.

"The illusory element in this growth of gross product can be moderated by imputing values to the (untraded) subsistence output. This is done in a number of countries in respect of agricultural crops, estimated production being valued at national prices derived from the market on which commercial output is sold. But other forms of production - hut building, for example, or fuel gathering, hunting, animal tending and the preparation of clothing and food and other household services - are rarely taken into the gross product.

"Statistically, one result of these practices is to overstate the rate of growth in gross product: the increase in the real volume of goods and services is likely to be less than that calculated on the basis of recorded transactions. And the divergence is likely to be inversely related to the degree of development. By the same token, the conventional measure of gross product is likely to understate the real volume of goods and services produced in countries in which a significant amount is consumed by the producer himself. Thus the range of per capita product is made to appear wider than it actually is.

"Working more powerfully to the same effect is the all-inclusiveness of the transactions concept. Not only does the welfare content of production differ markedly from one item to another but many of the goods and services that are produced are actually welfare-reducing or at best intended to prevent or mitigate a nuisance or dis-utility. Thus the gross product is augmented by military expenditure and by the efforts made to maintain internal security, by the increasing need to move people and things around as the division of labour intensifies, and by the use of resources to offset the ill effects - such as congestion or pollution - of other forms of production. In a welfare-oriented system of accounting such expenditures would have to be regarded as costs incurred in producing the usable output rather than as increments to that output.

"In the present context these qualifications of the gross product as a measure of growth have a twofold significance. The first lies in the changing composition of the gross product over time; the second relates to the interpretation of inter-country comparisons of per capita production.

"As an economy develops, and its production structure or life styles become more complex, the proportion of output not yielding any ultimate satisfaction tends to rise. Like the monetization of the economy, this also means that a straightforward calculation of the rate of increase in gross product overstates the growth in material welfare. The disparity is probably smallest at the early stages of development when most output is for beneficial use, either directly or over time. It tends to widen as industrialization proceeds: in the more advanced countries an appreciable growth in gross product is required merely to prevent the quality of life from deteriorating. However, even under-developed countries may produce an undue proportion of unusable goods and services - in the form of military expenditure, for example.

"In these circumstances, the spread of recorded per capita gross product is likely to be significantly greater than that of the per capita output of usable goods and services. A narrowing of the range of this indicator could have important psychological consequences. The ratio of more than 10 to 1 that exists between the average per capita gross product in the developed countries, on the one hand, and the developing countries, on the other, tends to be a discouraging feature of the world economy rather than a challenge to remedial action. Conventionally measured, no achievable rate of growth in the developing countries is likely to reduce that disparity: the developing countries are doomed to lag further and further behind in absolute terms of dollars of gross product per person.

"Measuring the supply of basic consumption necessities

"In actuality, however, the differences in the supply of usable goods and services per person is appreciably smaller and is probably narrowing, at least in certain key areas, and could be made to narrow much faster. It would be helpful if this process were carefully measured and the result used as a supplementary indicator of progress in the Development Decade. No ready-made data are available nor has agreement been sought on the most relevant components of such an indicator or the way in which they might be combined. But it should be possible to take into account the basic elements in the standard of living - foodstuffs, cloth and clothing

and footwear - plus accommodation, health care and education (when satisfactory methods of measuring them are devised). Subsequently other consumption items could be added to the indicator in some approximate order of importance, tempered always by the availability of data.

"A rough calculation of per capita consumption of foodstuffs, beverages and apparel (measured as cloth equivalent) at uniform international prices, rather than actual national prices, suggests that the spread between low-income countries and high-income countries may be of the order of 1 - 5, which is about one tenth of the spread measured by per capita national income.

✓ "As a supplement to the conventional unit of measurement - per capita national income - an indicator of this nature based on the production and supply of consumer necessities common to all societies would be useful both for intercountry comparisons and for assessing changes over time. In due course, this indicator, which has the defects as well as the advantages of its simplicity, could in its turn be supplemented or even replaced by a more sophisticated one deriving from national accounts components recombined to yield what might be called a "net beneficial product". The elaboration of such a set of welfare accounts within the national accounting framework would require agreement on a new series of conventions regarding the treatment of many items, now regarded as end products, which might more properly be viewed as costs incurred in the production of the net beneficial product".

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