

Is income per capita  
the best measure of  
human welfare?



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Is income per capita a narrow yet best measure of human welfare? Discuss.

As human beings, our greatest desire is prosperity, happiness, wealth and well-being. In short, we aim at a good quality of life and a high standard of living. This quality of life one aims to achieve is human welfare[1]. This is mainly dependent upon economic, social, political and other external factors. It is the development of human welfare that is at the core of the working of various development organizations including the UN and the World Bank. They use various tools for measuring human welfare for maintaining its stability and help its development. The focus on human welfare is very pertinent as it is through human beings that a country develops and a country with people who have poor standards of living may have little scope for development; economically, socially and even politically. Thus, human welfare development is synonymous to the growth and progress of any country. The measurement of growth helps determine strategies and policies for its development. If the very core of any country's well being is human welfare, how does one measure it? What is the criterion for the measurement tool(s)? And what is then the best tool for the measurement of development?

This paper focuses on the various tools for the measurement of welfare; particularly GDP and HDI (discussed later) and looks at their inadequacy and alternatives. The paper starts off by listing various tools for measuring human welfare used by various transnational organizations and countries in chronological order; Income per capita and Human Development Index being the largely mainstream tools, how these indices measure growth and welfare, their pros and cons. The next section focuses on the heterodox

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indices of growth which did not gain international prominence like the latter. This section expands on these indices and gives reasons as to why they did not gain much momentum. The paper concludes with a brief look at the future of welfare and growth measurement tools and how rather than a fixed orthodox way of measurement, there is a need for a new “ mashup” index (Ravallion, 2010) which is all encompassing in nature.

The first measurement of development, introduced in the US in 1934, by a team of economic experts headed by Nobel winner Simon Kuznets, was the Income per capita method. This one-dimensional method measures the income per person in an economic unit by measuring the living conditions and quality of life in different areas. It includes two measures, Gross Domestic Product (GDP) and Gross National Product / Income (GNP/I). GDP has two ways it can be measured, at market exchange rate and at purchasing power parity (PPP). The market exchange rate measures GDP at the local exchange rate of the economy vis-à-vis the US dollar and the PPP, calculates the ratio of domestic expenditures on goods and services to the international value of its output. The method gained momentum instantly and became a role model indicator. The UN and the World Bank along with a number of international organizations adopted this as a measure of welfare. Various countries measured their growth on the basis of their Income per capita. Its ascending popularity was accredited to its quantitative and statistical nature which simplified comparative measurement of growth as all countries are measured by a single one-dimensional index. The GDP revealed a person’s quality of life as a country with high GDP has people who have high income and the potential to achieve a good quality of life.

As is evident, the method was extremely economic in nature; so much so that economic growth and monetary welfare were equated with overall welfare, making other non-monetary factors, null. Ironically, it received a lot of criticism from economists including one of its founders Amartya Sen (2000). Apart from completely overlooking aspects like environment, health, education, social welfare, political stability etc., Income per capita also avoided investments which are central to any economy. The reliance on income per capita for calculation of development of any economy various questions; does good GDP ensure human welfare? I. e. are the top rankers in terms of GDP, US and China, having a population which has good quality of life? Is affluence synonymous to wellbeing? Another flaw of GDP is its inability to account for the inequality levels within a country. A country with high GDP has inevitable recorded a high Gini co-efficient, which shows positive correlation between the two which is not discussed.

The narrow notion of increase in wealth as the sole factor of welfare and development needed to be changed which created pressure to look at other measures of development which are not one-dimensional but are rather “ Mashup” indices (Ravallion, 2010). These indices take into consideration factors which are not solely economic in nature i. e. a multidimensional aspect of growth and development is taken into consideration (Ravallion, 2010). Factors which were important for development and welfare; life expectancy, death rate, birth rate, mortality rate, literacy rate, social arrangements, political factors etc. were looked at.

The econometric stance of GDP was raised by Amartya Sen who, along with Martha Nussbaum, developed an alternative approach called the Capability <https://assignbuster.com/is-income-per-capita-the-best-measure-of-human-welfare/>

Approach (Clark, 2005) which was adopted by the UNDP. This approach calculated the moral significance of any human beings capability of achieving the kind of life they value. Development of capabilities is the expansion of freedom as a means to an end (Clark, 2005). This approach was formed on the premise that individuals need both the availability and attainability of resources. (Sen, 2000). This formed the basis for HDI, discussed below.

The UNDP adopted a Mashup index called the Human Development Index (HDI) which measures the potential human development (HDR, 2010). Inequality- Adjusted Human Development Index (IHDI) which was the actual measure of human development of a country after the adjustment of inequality (HDR, 2015) grew out of HDI. The HDI, developed by Sen, Ul Haq, Ranis and Desai in 1990, includes capabilities in literacy, GDP and life expectancy. Ul Haq, who was the first to form the measure aimed for the development measurement to move away from national income to “ people-centred policies” (UNDP, 1990; Haq, 1995a). The main aim for the formation of the index was the dissatisfaction with GDP as a measure of welfare. After being adopted by the UNDP as a measure for development and welfare, the measure gained global currency and replaced Income per capita. Human development was seen as an end which can be attained by the means of economic growth: by process of enlarging people’s choices and serve as a rationale for economic growth (Ravallion, 1997). The index, which is still used by UNDP, was seen as a holistic tool which captured the multidimensional aspect of development by taking into consideration the key

aspects of human welfare; literacy, economic development and health. A better, broader picture of states' well being was brought to the fore.

Despite HDI being a popular welfare measure, it gathered a lot of criticism. It was criticized for ignoring the impact of unemployment on human security and welfare. It treated sustainable and unsustainable activity the same way, thus, natural capital and cost associated with it was treated in a similar manner. HDI overlooked any difference between the factors that contributed towards social progress (Jacobs and Slaus, 2010). Ravallion (1997) believed the concept of HDI lacked clarity as it lacks meaning of human development and does not incorporate human preferences, both of which are central to a human centred approach such as HDI. McGillivray (1991) thought the lack of “economic robustness” i. e. the inability to show impact of each component due to the mutual positive correlativity they have is the problematic loophole of HDI.

These were the two broad methods which gained global momentum. Apart from these, there were several other measurements which considered various other aspects of human welfare but did not gain a global currency as income per capita and GDP. This section will briefly discuss a few other measures of welfare development.

Green GDP, a measure by UNEP and UN global compact, measured economic growth with respect to the global environmental consequences associated with the growth, including things like loss of diversity, climate change etc. Though very broad, the problem with this measure was that it took into consideration values which were very qualitative and immeasurable. Another

measure was called the Genuine Progress Indicator (GPI) which is used by countries like Maryland and Vermont in the United States to, takes into consideration economic, environmental and social indicators of growth. The unique part about this tool is that it also includes negative factors too like income inequality, cost of underdevelopment, climate change damages, pollution, violence, crime, mental health deterioration etc. Gross National Happiness (GNH), a popular index used by Bhutan is the measure of the collective well being and the happiness of the population. GNH includes; sustainable, equitable socio-economic development, environment conservation, preservation and promotion of culture, good governance along with psychological wellbeing, health, education, standard of living and lastly, cultural and community vitality. A popular index mentioned in the HDR, 2010 is the Gender Inequality Index (GII) which measures welfare under four aspects- reproductive health, maternal mortality ratio and adolescent birth rate and empowerment, for example, parliamentary seats occupied by females above the age of 25. The framework used here is the same as IHDI, expose differences in achieving equal distribution of men and women. The human development cost of inequality was measured best by GII. There were many other measures of calculating growth and welfare; “ level of living index (Drewnowski and Scott 1966), “ development index” (McGranahan et al. 1972), “ physical quality of life index” (Morris 1979) , Index of sustainable economic welfare (Jacobs and Slaus, 2010) etc. (McGillivray, 1991) but none of them gained global significance and were used only by some.

Its true GDP was a narrow index and thus, was replaced by HDI which was more rounded and holistic. But with time it was revealed that the HDI

ranking of countries were similar to GDP rankings. This would not have come to light if HDI was not replaced as a growth measurement index and showed how the GDP was not as limited as it was perceived. Both measures have flaws and do not consider all that needs consideration. The unpopular narratives which have arisen provide a solution to this block. Almost all of them are founded on the broad basis of GDP and its components. The solution is not in one of them, but it is in all of them. The amalgam of the measures forms a new measure mentioned by Garry Jacobs and Ivo Slaus (2010) who introduces the concept of Human Economic Welfare Index (HEWI).

HEWI, Jacobs and Slaus says, is a new composite index which measures the economic dimension of human welfare (Jacobs and Slaus, 2010). The index is reliable, easy to calculate, available and robust. The components of this index include personal disposable income, human welfare expenditure, income inequality, full employment, combined education and enrolment and energy efficiency. The index is not perfect but combines useful elements which are needed for calculation of growth. The index's limitations are due to its novelty. Limited research has been done on this, and it is thus, a rough indicator of sustainable development. The scope of HEWI is very bright as it is a mashup index with limited sub-indicators which make it calculable and comprehensible. It has a huge potential for enhancing public policies and initiatives for growth with its broad base and thus, serves as an overall index for progress and performance of countries.

An index focused on end results and is one-dimensional is limited as it only tells us how close or far we are from moving in the right direction i. e how <https://assignbuster.com/is-income-per-capita-the-best-measure-of-human-welfare/>



close we are to achieving our goals. What will go a long way is a process-based approach i. e. HEWI, as Jacobs and Slaus (2010) says, “ Till the degree it is perfected, it will provide insight into the essential steps of the underlying social process as well as their sequencing and timing”. The next step I believe thus, is further research into this tool for a better measurement of growth and eventually, human welfare.

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1. [1]Development and human welfare will be used interchangeable. One of the components of development is human welfare. The other

components include education, health, economic progression, well being etc.