National income and welfare[edit]

GDP per capita (per person) is often used as a measure of a person's welfare. Countries with higher GDP may be more likely to also score high on other measures of welfare, such as life expectancy. However, there are serious limitations to the usefulness of GDP as a measure of welfare:

- Measures of GDP typically exclude unpaid economic activity, most importantly domestic work such as childcare. This leads to distortions; for example, a paid nanny's income contributes to GDP, but an unpaid parent's time spent caring for children will not, even though they are both carrying out the same economic activity.
- GDP takes no account of the inputs used to produce the output. For example, if everyone worked for twice the number of hours, then GDP might roughly double, but this does not necessarily mean that workers are better off as they would have less leisure time. Similarly, the impact of economic activity on the environment is not measured in calculating GDP.
- Comparison of GDP from one country to another may be distorted by movements in exchange rates. Measuring national income at purchasing power parity may overcome this problem at the risk of overvaluing basic goods and services, for example subsistence farming.
- GDP does not measure factors that affect quality of life, such as the quality of the environment (as distinct from the input value) and security from crime. This leads to distortions - for example, spending on cleaning up an oil spill is included in GDP, but the negative impact of the spill on well-being (e.g. loss of clean beaches) is not measured.
- GDP is the mean (average) wealth rather than median (middle-point) wealth. Countries with a skewed income distribution may have a relatively high per-capita GDP while the majority of its citizens have a relatively low level of income, due to concentration of wealth in the hands of a small fraction of the population. See Gini coefficient.

Because of this, other measures of welfare such as the Human Development Index (HDI), Index of Sustainable Economic Welfare (ISEW), Genuine Progress Indicator (GPI), gross national happiness (GNH), and sustainable national income (SNI) are used.

Difficulties in Measurement of National Income[edit]

There are many difficulties when it comes to measuring national income, however these can be grouped into conceptual difficulties and practical difficulties:

Conceptual Difficulties[edit]

- Inclusion of Services: There has been some debate about whether to include services in the counting of national income, and if it counts as output. Marxian economists are of the belief that services should be excluded from national income, most other economists though are in agreement that services should be included.
- Identifying Intermediate Goods: The basic concept of national income is to only include final goods, intermediate goods are never included, but in reality it is very hard to draw a clear cut line as to what intermediate goods are. Many goods can be justified as intermediate as well as final goods depending on their use.
- Identifying Factor Incomes: Separating factor incomes and non factor incomes is also a huge problem. Factor incomes are those paid in exchange for factor services like wages, rent, interest etc. Non factor are sale of shares selling old cars property etc., but these are made to look like factor incomes and hence are mistakenly included in national income.
- Services of Housewives and other similar services: National income includes those goods and services for which payment has been made, but there are scores of jobs, for which money as such is not paid, also there are jobs which people do themselves like maintain the gardens etc., so if they hired someone else to do this for them, then national income would increase, the argument then is why are these acts not accounted for now, but the bigger issue would be how to keep a track of these activities and include them in national income.

Practical Difficulties[*edit*]

- Unreported Illegal Income: Sometimes, people don't provide all the right information about their incomes to evade taxes so this obviously causes disparities in the counting of national income.
- Non Monetized Sector: In many developing nations, there is this issue that goods and services are traded through barter, i.e. without any money. Such goods and services should be included in accounting of national income, but the absence of data makes this inclusion difficult.

Source: https://en.wikipedia.org/wiki/Measures_of_national_income_and_output