COMMENTS ON DAN USHER'S "THE MEASUREMENT OF REAL INCOME"

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Although Usher's paper[1] is full of insight into many of the theoretical and practical problems faced by those who compile national accounts at constant prices, his proposal that real income should be regarded as the sum of real consumption and real saving—the latter to be measured in terms of the quantity of consumer goods foregone in order to achieve the level of saving observed—does not seem to fully resolve the problems involved.

It may be that the measurement of long-term economic growth, rather like the comparison of income levels in two countries at different stages of economic development, can at best be impressionistic only. Reliance on Usher's "representative consumer" does not fill one with confidence, and there is much to be said for chaining together short-term changes rather than attempting to make direct comparisons over long periods of time. This point apart, however, there are other aspects of his proposals which deserve comment. First, and most important, if we were to accept that saving (domestic or national) should be developed as he suggests, how do we define saving? Clearly, any gross concept which ignores the rate at which capital assets are being depleted cannot give us acceptable results. Thus we are forced into a position of defining net saving in current value terms before any question of how to define arises. It seems to me that even if we were to adopt the procedure of measuring capital stock and capital consumption in terms of consumption goods equivalents many of the problems which Usher points to as reasons for rejecting the first three approaches to measuring real investment arise again in the context of deciding how much of the stock of capital assets is deemed to need replacing each year.

Secondly, there appears to be come confusion between charges in real income and changes in real output. Usher states (in the final section of the paper) that real income reflects economic activity and can be thought of as current output attributable to the factors of production at hand. But changes in real income represent changes in the quantity of goods and services which may be purchased with the money income available; this may differ from changes in real output because of changes in the terms of trade (or income flows other than those generated by output). An important feature of measuring real income is that one must decide on which goods and services income should be deemed to be spent. Usher's solution is to say that all income is to be regarded as spent on consumption but unfortunately he has not determined how income itself (after providing for the replacement of capital consumed) should be measured.

[1]Published in this journal, Series 22, No. 4, pp. 305–329.