

DISTORTION OF G. N. P. DATA DUE TO CONVERSION AT OFFICIAL EXCHANGE RATE

G. V. RAMANA MURTY

IN recent years, the World Bank Atlas has become a widely used source of information on population and per capita income in all countries of the world. The latest Atlas converts the G.N.P. figures of the individual countries expressed in local currencies, into U.S. dollars.¹ However, since many traditional goods which are not traded internationally and so do not affect the exchange rate tend to be cheap in relation to traded goods, the equivalent of a dollar tends to go further in meeting people's day to day wants in the low income countries than in the industrialized nations. Thus the Bank warns 'the figures (converted) tend to exaggerate the difference between the standard of living between the poorer and the richer countries, though these differences are nevertheless very great'.

Besides this major reason for the under estimation of National Income of poor countries and the consequent exaggeration of the difference in incomes between rich and poor countries, there are many other contributory reasons. These include the much greater quantitative importance of intra-family services and also of subsistence and near subsistence output in poor countries, categories which are either ignored or substantially under-valued in national income statistics. Further many goods and services conventionally included in national income are more nearly costs of production than income, for instance the journey to work and they are relatively more important in rich than in poor countries.²

¹ *Finance and Development*, Vol. X, No. 1, March, 1973, p. 25-27.

The Atlas uses the average exchange rates for 1965-71 for purposes of conversion, thus minimizing the effects of over or under valuation of particular exchange rates in particular years.

² P. T. Bauer, 'Dissent on Development' — studies and debates in development economics, *Vikas*, India, 1973.

Milton Gilbert and Irwing B. Kravis, 'An International Comparison of the National Products and the Purchasing Power of the Currencies', *O.E.C.D.*, 1954, p. 52-57.

The authors remarked on the fact that the prices of unmechanised services and particularly of the personal services, were low relative to those of manufactured consumer goods (especially consumer durables) in postwar Europe — by comparison with U.S. price structure.