

TG Narayanan Memorial Lecture 2014

**TIME POVERTY AND
THE POVERTY OF ECONOMICS**

by

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It is a tremendous honour to be asked to deliver this prestigious lecture in memory of someone who throughout his varied and successful professional life was deeply concerned with issues of distribution, deprivation, well being and economic justice. As a war correspondent who was a votary of peace, as a journalist seeking to penetrate complex realities to understand the essence of what determined material destitution, and as an international diplomat working for the cause of nuclear disarmament, TG Narayanan clearly covered a wide range of issues that remain of pressing concern for us today.

In this lecture, I would like to take up one particular aspect of deprivation that is often ignored or given less significance in discussions relating to poverty and inequality: that of time poverty. I will argue that ignoring this important dimension of poverty results from a related and possibly more substantive deficiency: the inadequate conception of what constitutes work that underlies much of our empirical data collection and our policies and programmes. This in turn has many adverse implications in terms of gender differences in recognised and unrecognised work as well as the health and productivity of the workers themselves. Ignoring this critical issue of time poverty generates misconceived policy formulation that can even worsen the well-being of those that the policies are intended to benefit.

II. Time poverty

So what exactly is time poverty? At its most banal level, it is the shortage of time available to devote to purely personal requirements, including leisure and relational activities. There is a perception that time poverty, or the sense of not having enough hours in the day or week to perform all the activities one is required to perform or desires to undertake, is something common among middle class professionals or those involved in high-stress managerial activities. Indeed the expressions “money rich, time poor” or even “influenza” have been increasingly used in developed countries over the past decade to describe those with relatively high disposable incomes from well-paid jobs, who nonetheless lack time for leisure because of the time pressure of such jobs. These problems are usually particularly acute for professional women, who face difficulties in achieving what is euphemistically called the “work-life balance” since they continue to hold responsibilities in their households in addition to their paid employment. Such time

poverty is often seen almost as a lifestyle disease, reflecting the way that those who are the beneficiaries of the current economic system choose to or a forced to organise their time in a rat race, from which individual choice can make them choose to opt out.

But I will argue that such time poverty among the better off accounts for very little of the total, and that genuine time poverty is more than a qualitative loss resulting from individual choices. Rather, most people who are time-poor are also income poor and suffer from other (often multiple) deprivations. Further, the presence of time poverty adds to overall deprivation in a significant way that is rarely captured even in newer multidimensional measures of poverty.

The basic point is this: the poorer people are, the more they cannot afford to buy various goods and services from the market, and if these are not provided by public policy, then they can only consume them if they produce these goods and services themselves. This means that typically, in addition to having to work often long hours for relatively low wages, or paltry remuneration for self-employment, they must also engage in unpaid labour to meet the essential consumption needs of themselves and their family members. So we find that the incidence of unpaid labour increases sharply as the income of a household falls. The better off a household is, the more likely that it can afford to buy many goods (such as, say processed foods, prepared fuel, labour-saving devices) and outsource certain services (related to care and housework). The more impoverished a family is, the more likely that members of that family will have to go out and work to deliver such goods and services to richer families, and then come home and provide for themselves these essential items through their own unpaid labour. This obviously means greater time deprivation in terms of less leisure time available.

But there is a further concern. Suppose that the conditions of work available to the members of a poor family are such that they are forced to spend long hours working for very low pay. They are still required to perform many unpaid activities – say purchasing and processing food, cleaning the home to maintain a minimally sanitary environment, fetching water and or fuel other such essentials for daily use, caring for the young, the old and the sick members of the family, and so on. But imagine that the working hours (and possibly the hours of transport required from home to workplace) are such that they are simply not

able to perform all of these activities, or at least do not have the time to perform them to a minimum satisfactory standard. Then time poverty translates into more than just loss of leisure – it adds to the material deprivation of that family because of loss of the consumption that would have been enabled by the unpaid labour that there simply isn't enough time for! And it certainly also reduces quality of life because of loss of relational time within the family.

As it happens, standard poverty measures, which typically refer to money income as the relevant variable, effectively assume that all households have enough time to perform the (usually unpaid) activities required and do not take into account the variations in requirements of unpaid work that may well be driven by the money income available. This is why it has been argued (for example by Vickery 1977) that if the threshold for determining the minimum non-poor consumption implicitly requires both money income and unpaid work products, then the official poverty standards do not correctly measure household needs. Since poorer households are less likely to be able to purchase goods and services to substitute for unpaid labour at home, they are therefore much more likely to have household members who have time deficits, in other words who experience time poverty.

In many developing countries, including India, the problems is even starker: there are many unpaid work activities that simply cannot be outsourced because market substitutes or state provision simply do not exist in adequate measure (Antonopoulus and Memis 2010). Consider, for example, the fact that nearly 80 per cent of households in rural India still rely on collected firewood as the primary source of their energy needs for cooking etc. Some households may simply be too poor to access processed fuel even when it is available – but in many parts of the country, this is not even available in sufficient quantity and therefore cannot be purchased. And it is hard to envision how much of the time-consuming activity of walking long distances to collect firewood to meet household needs can be outsourced within the village. So this is unpaid labour that has to be performed, and cannot be substituted by purchased goods and services. Similarly, in both rural and urban India, the process of collecting and carrying water for drinking and other household use is both arduous and extremely time consuming especially for poor families. In some cases, this activity

is necessary not only for family consumption but even for the small scale production involved in say, kitchen gardens or similar work. When such unpaid activities are necessary for household survival, they restrict the capacity of those involved in them to engage in paid work or remunerated activities, thereby adding to the income poverty of the household even as they are also associated with time poverty.

It is important to note that the existence of such unpaid work does more than add to the time poverty of those who must perform it. It also plays several important macroeconomic roles: it effectively subsidises the marketised part of the economy, which we tend to valorise through our obsession with GDP measures; and it subsidises state provisioning of goods and (especially) services, which are supposed to meet the social and economic rights of every citizen but end up getting delivered through such unpaid activities because of inadequate public delivery.

So far, I have only spoken of the household as a unit, but of course the time allocation among members of a household is also crucial. Here social constructions come prominently into play, particularly the gender construction of society that determines the allocation of both power and work responsibility within a household between men and women, boys and girls. It is well known (and now also sufficiently established by time use surveys across the world) that women and girls spend much more time on unpaid labour than men and boys, and that this contributes to their overall lack of status and empowerment because it also reduces their access to education and their ability to engage in paid work. Time use surveys conducted in different parts of the world tend to provide surprisingly similar results, with women and girls providing approximately 70 per cent of the total time involved in doing unpaid work for the household, in both “economic” and “care” activities.

The implications of time poverty for women in particular are immense, because they are associated with the “double burden” of paid and unpaid work (Elson 1995) and extend into changing the nature of poverty and its implications. Thus, the unemployment-poverty link which has been noted for men in developing countries is not so direct and evident for women: many women are fully employed and still remain poor in absolute terms, and adding to their workload will not necessarily improve their material conditions. And many women in comparatively better off households may well be time poor because of

the multiple demands imposed by meeting the requirements of unpaid domestic activities.

This is corroborated by time use surveys that link the time spent in various activities with the income level of the household. Consider the evidence from India. A time use survey conducted by the CSO in 1998-99 (unfortunately still the most recent such survey, although a new one is now being planned) covered 18,628 households and 77,593 people in six major states in India: Gujarat, Tamil Nadu, Madhya Pradesh, Haryana, Odisha and Meghalaya. Some of the results (as analysed by Hirway 2010) are not surprising. For example, poorer households show greater time spent on unpaid work (in non-SNA or not economically recognized activities) in a week and women in general show much greater time spent on this than men. Women in ultra-poor households rank at the bottom in terms of the burden of total work, making them very clearly time-deficit and therefore doubly poor. But there are also some more surprising results. Thus, the survey found that women in rich households work harder than ultra poor men in terms of the time put into work. (This partly reflects the lack of paid work for poor men as well as the greater burden of unpaid work borne by women in their own households.) The gender differences in time deficits indicated by the survey are quite stark: ultra-poor women have ten hours less of personal time per week than ultra-poor men; and even in non-poor households, women have 5.5 hours less of personal time per week than men.

These numbers sound relatively impersonal, but these numbers are just averages, so there are many whose total working hours are much longer. The ways in which these differences can play out in the actual lives of working women from poor families can be dire. There are extreme cases in which the double burden of work for poor women is so extreme as to be almost humanly unmanageable. The journalist P. Sainath (who delivered an earlier TGN memorial lecture) has documented how the requirements of commuting and then working for a pitiful wage can consume so many hours of the day that this affects not just the unpaid labour that must continue to be performed at home but also the ability of such women workers to afford even the minimum time necessary for sleeping. In one particularly telling example (Sainath 2007) he notes how women in Tiroda town of Gondia district in Maharashtra would rise at 4 a.m. to cook, wash, sweep and clean for their families, before setting out at 6 a.m. for the 5-kilometre walk to the railway station, from

where they travel several hours to rural areas (78 km to Salwa in rural Nagpur district) where they may find daily wage work as agricultural labourers. In 2007, when Sainath wrote this article, the daily wage they received was around Rs 30. The women return home only by 11 pm, to eat and possibly cook the meal for the next day, and then lie down for a few hours before starting the whole process again the next day at 4 a.m. One woman described how she had not spoken to her seven-year old son for more than 6 months: although they lived in the same house, he was naturally always asleep in the few hours when she could be at home.

So what does all this tell us about economic policies and the resultant material processes? First, it is evident that even for women's economic empowerment, the pressing policy concern is not that of simply increasing the volume of explicit female employment, since simply adding on recognised "jobs" may in fact lead to a double burden upon women whose household obligations still have to be fulfilled. Instead, concern has to be focused upon the *quality*, the *recognition* and the *remuneration* of women's work, as well as the *conditions* facilitating it, such as alternative arrangements for household work and child care. All of these are critically affected by broader economic policies as well as by government interventions at micro and meso levels. And these together determine whether or not increased labour market activity by women is associated with genuine improvements in their economic circumstances.

Too often, however, governments that do not consider time use do not give priority to goals that would reduce the tediousness and arduous nature of unpaid labour. So there is less emphasis on ensuring basic infrastructure and amenities (such as piped water and affordable fuel, for example) that would reduce the time involved in such work. Sometimes policies (inadvertently) have the opposite effect of increasing unpaid labour, as in afforestation programmes of the Government of India that have forced rural people (usually again women) to walk longer hours to collect fuel wood because nearby forest areas are cordoned off. Policies that reduce the affordability and access to health services also have the same effect of increasing unpaid work at home, since the required care has to be performed by someone, usually from within the family.

Some governments have actually become more aware of this and have explicitly incorporated this concern into their economic policies.

The National Plan for Good Living 2009-13 for Ecuador, which makes the improvement of quality of life of the citizenry a major priority, noted that liberating both work and free time are necessary elements. This clearly recognises the right to work, but it also recognises the right to “relational time” in addition to private leisure, the time that is used for being an active participant of a society, community, group or family. This in turn requires the pursuit of “a fairer social care regime in which care activities are valued, better distributed, meant to eradicate a sexual division of work so as to provide and receive care equitably”. (Government of Ecuador 2009 page 20)

II. The poverty of economics

Once we recognize the significance of unpaid work and its implications for poverty in its different dimensions, the relative poverty of the mainstream discipline of economics, and the way in which its logic is applied to economic policies, becomes strongly evident. I would like to highlight two areas in which current mainstream economic thinking is clearly inadequate and even misleading in understanding the real economic reality. The first relates to the definition and measurement of work and employment, and second to a rather different but nonetheless very important indicator of income comparisons across countries.

Defining and measuring work

Work is typically thought of as an economic activity, and economic activities are typically defined as actions that involve the production, distribution and consumption of goods and services at all levels within a society. This of course begs the further question of what constitutes “goods and services”. Pared down to its essence, it can be noted that any activity that can potentially be delegated is economic activity, which leaves only personal consumption and leisure as non-economic activities and requires a broadening of the common perception of what such activity is. For example, the activities associated with motherhood are typically seen as “non-economic”. Yet breastfeeding can be outsourced through the hiring of a wet nurse, which then makes it an economic activity, with the wet nurse engaged in paid work. An even more extreme but recently proliferating example is that of surrogate motherhood, in which a woman is paid to be impregnated, carry a child in her womb and go through child birth, making all these explicitly paid economic activities which in turn also contribute to national income

to the extent of the remuneration received. Yet a woman who does this for her “own” child rather than someone else’s, and without any monetary reward, is classified as “not in the labour force” in most if not all national statistical systems, including the Indian one. Indeed, the very notion of “maternity leave” from paid work suggests that the mother is in effect on some sort of holiday, rather than actively engaged in the work of producing a child.

Clearly, therefore, definitions of work and economic activity are not that simple. The standard definition of work is that used by the UN System of National Accounts (UN SNA 1993). Workers are seen as coterminous with economically active persons, and are those who are engaged in activities included within the boundary of production. This in turn includes (a) the production of all individual or collective goods or services that are supplied to units other than their producers, or intended to be so supplied, including the production of goods or services used up in the process of producing such goods or services; (b) the own-account production of all goods that are retained by their producers for their own final consumption or gross capital formation; (c) the own-account production of housing services by owner-occupiers and of domestic and personal services produced by employing paid domestic staff (OECD 1995). If this is taken to its logical conclusion, it should indeed include a very large range of human activity, especially once the second element of the production boundary is taken into consideration. Even so, some activities of social reproduction remain within an undefined and often shifting grey area, particularly the “production” of children and the tasks associated with this.

The revised SNA of 2008 restricted the scope of the production boundary. “Economic production may be defined as an activity carried out under the control and responsibility of an institutional unit that uses inputs of labour, capital, and goods and services to produce outputs of goods or services. There must be an institutional unit that assumes responsibility for the process of production and owns any resulting goods or knowledge-capturing products or is entitled to be paid, or otherwise compensated, for the change-effecting or margin services provided.” (UN 2009, page 97-98) Activities undertaken by households that produce services for their own use are excluded from the concept of production, except for services provided by owner-occupied dwellings

and services produced by employing paid domestic staff. (UN 2009 page 98) This effectively implies the exclusion of most services produced by households for their own use. Recognising that this makes quite a big difference, the UN Statistical Commission was at pains to explain why they were so excluded. It was noted that this exclusion was related *not* to any conceptual belief that these are not economic activities (indeed it was accepted that they are) but rather the result of the perceived difficulties of estimating and imputing values to such services, which were seen to be “self-contained” within the family. So such activities, while recognised to be economic in nature, were excluded from the national accounts computations because of “the relative isolation and independence of these activities from markets, the extreme difficulty of making economically meaningful estimates of their values, and the adverse effects it would have on the usefulness of the accounts for policy purposes and the analysis of markets and market disequilibria.” (UN 2009 page 99)

However, a big breakthrough has come recently from the 19th International Conference of Labour Statisticians (ILO 2013), which has distinguished between work and employment and expanded the concept of work. “*Work comprises any activity performed by persons of any sex and age to produce goods or to provide services for use by others or for own use.*” The inclusion of the last phrase “for us by others or for own use” provides the crucial difference, as it includes the production of goods and services performed in the home for other household members and for personal use. Several aspects of this definition are worth noting. First of all, work is defined irrespective of its formal or informal character or the legality of the activity. It only excludes activities that do not involve producing goods or services (e.g. begging and stealing), self-care (e.g. personal grooming and hygiene) and activities that cannot be performed by another person on one’s own behalf (e.g. sleeping, learning and activities for own recreation).

The significance of this definition is that it maintains that work can be performed in any kind of economic unit: government, corporations and enterprises and households. Employment – defined as “work for pay or profit” therefore becomes a subset of work. This new and enlarged concept of work should dramatically change the way in which work is both recognised and measured.

But what is the Indian approach? Given the historical context of vagueness and imprecision, it is not surprising that Indian definitions of work have also been characterised by some lack of clarity about what can be classified as “work” in the sense of economic activity. At one level, the NSSO from its inception has displayed a substantial degree of sophistication by introducing the concepts of “principal” and “subsidiary” activities, and seeking information on these in terms of “usual status”, “current weekly status” and “current daily status”. This was certainly an innovative way of trying to understand the nuances of work in largely informal economies, and it has since been emulated in several other developing countries. However, the NSSO has also had shifting definitions of work and economic activity, and these in turn still remain subject to substantial grey zones in which the classification into “work” and “non-work” remains arbitrary and often inconsistent.

In the early rounds of the NSS, until the 22nd Round (1967-68) the term “work” was used as the basic category, defined in general terms as any work done for production of goods and services. However, domestic work by the family members was not considered as “work”. Thereafter, from the 32nd (1977-78) to the 49th (Jan-June 1993) Rounds, the NSS shifted to the concept of “gainful activity”, which was defined as any activity pursued for pay, profit or family gain or, in other words, any activity which adds value to the national income. While normally these would be activities that result in production of goods and services for exchange, the NSS also included within this category of gainful work, all the agricultural activities in which a part or whole of the agricultural production was not sold but used for own consumption.

However, some activities that did result in earnings, such as prostitution, begging and gambling, were not considered to be “gainful”. It was argued that this was “by convention”, although that is hardly a precise conceptual basis on which to define work, especially as these activities do generate incomes that are then included in national income. It is worth noting that the NSS explicitly notes that the activity status of a person is to be judged irrespective of the situation whether such activity is carried out illegally or not, say in the form of smuggling. So clearly legality is not the basis for exclusion of activities from the realm of “economic” activities – rather it appears to be some inchoate and non-explicit notion of morality. The entire range of activities involved in social reproduction (described simply as “the execution of household

chores”) along with voluntary work for the community or for meeting social commitments, etc., was also not considered to be part of gainful activities.

From the 50th Round (1993-94) onwards, the NSS moved to a notion of “economic activity” rather than “gainful” activity. As in the previous Rounds, this included market activities and non-market activities in agriculture directed towards own consumption, including not only cultivation and post-harvest activities but also gathering of uncultivated crops, forestry, collection of firewood, hunting, fishing, etc. In addition, it included another set of activities that were previously not included: those related to the production of fixed assets on own account, such as the construction of own houses, roads, wells etc. and of machinery, tools etc. for household enterprises and also construction of any private or community facilities free of charge. Involvement in such own account construction either as labourer or supervisor has been construed as economic activity. However, the processing of primary products for own consumption has not been considered as economic activity. Once again, all domestic work has been excluded, as have been the miscellaneous activities such as prostitution, begging, gambling, etc., even though these generated earnings.

As a result, even to date and in the latest surveys, the NSS includes a broad category that it calls “neither working nor available for work (or not in labour force)”, which includes the following codes:

- 91 attended educational institutions
- 92 attended to domestic duties only
- 93 attended to domestic duties and was also engaged in free collection of goods (vegetables, roots, firewood, cattle feed, etc.), sewing, tailoring, weaving, etc. for household use
- 94 rentiers, pensioners, remittance recipients, etc.
- 95 not able to work owing to disability
- 97 others (including beggars, prostitutes, etc.)
- 98 did not work owing to sickness (for casual workers only)
- 99 children of age 0-4 years

Lumping these disparate groups together and classifying them all as “not working and not in the labour force” is deeply problematic for several reasons. It is very evident that Codes 92 and 93 are fundamentally different from the other codes listed here because they do involve the production of goods and services that are potentially marketable and are therefore economic in nature. Indeed, when they are outsourced for payment by any household, they are included in both national income and in estimates of employment and therefore “work”. Code 97 presents a different kind of anomaly: marketed activities that are not considered as work for undisclosed reasons (presumably moral, though this is not stated explicitly – and it is not clarified why, for example, smuggling should be acceptable if begging is not). The matter is further complicated by the fact that the NSSO also includes some unpaid work in its definition of work, by including “unpaid helpers in household enterprises” among those defined as working.

The NSS has itself recognised this issue to some extent, in that it recognises paid domestic workers as workers: “the procedure to be followed in ascertaining the activity status of a domestic servant who is a member of the employer’s household is different from that adopted for other members of the household. It may be noted that engagement in domestic duties by such household members is not considered economic activity as defined for the survey. On the other hand, although a domestic servant staying in the employer’s household and taking food from the common kitchen is, by definition, a member of the employer’s household, he/she is also *engaged in domestic duties in return for wages in cash and/or kind*. Thus, *as a special case, domestic duties pursued by a domestic servant will be considered as an economic activity* and the activity status code as is applicable will be assigned to him/her.” (NSSO 2014b) It is extraordinary that this is treated as a “special case” because there is no possible conceptual basis for denying that this is indeed work. And if it is work, then it should be work whether it is paid or unpaid.

Once we open our minds to this possibility, it is clear that we will have to rethink not only the way that our data are collected in the surveys, but also the interpretation of data that we already have from the previous and current surveys. In other words, and especially bearing in mind the definition proposed by the 19th ICLS (whose Chairperson also happened to be the Chief Statistician of India) Codes 92, 93 and 97 should be included within the definition of work, and contribute to the analysis of work participation rates.

But doing so dramatically changes the picture with respect to trends in work participation in the recent past. There has been much discussion on the evidence from recent NSS large sample surveys on employment, of the significant decline in women's workforce participation rates. Various explanations have been offered for this, including rising real wages that have allowed women in poor households to avoid or reduce involvement in very physically arduous and demanding work with relatively low wages and turn instead to more focus on "domestic duties". Implicit in this discussion is a notion of a household-level backward bending supply curve, which allows women especially in poorer families to choose not to "work" when their economic conditions allow it.

But once we include Codes 92, 93 and 97 in the definition of work, then such a decline is no longer evident: rather it is simply that there is a shift from paid to unpaid work. Charts 1 to 4 provide some evidence of this by looking at the different elements of work separately for males and females (all for the age group 15+ years) by rural and urban location. The data relate to usual principal activity status over the survey periods since 1999-2000. Once such work is factored in, and other paid but unrecognised work (the category "others") is also included, then there is less evidence of significant decline in female work participation in recent times. Indeed, the decline in male work participation then appears to be stronger than that for women – and both declines can then be explained dominantly by increasing involvement in education.

Charts 1 and 2 provide evidence of this for rural and urban females (age 15 years and above) respectively. Once all the different forms of work – both paid/recognised and unpaid/unrecognised – are taken into account, then aggregate work participation declined by only 6.1 percentage points in rural areas and 3.8 percentage points in urban areas – and this decline can be mostly explained by increased involvement in education.

Arguably the more interesting point that emerges from both these charts is just how many women are involved in working, in both paid and unpaid activities. Indeed, judged by this more expansive definition of work, many more women work than men in India – the work participation rate for all women in India has been consistently higher than for men. In 2011-12, across both rural and urban areas,

the total female work participation rate (even after declining over the decade) was as high as 86.2 per cent, compared to 79.8 per cent for men. This is a very different picture from the conventional one that sees most women in India as “not working”.

Chart 1.

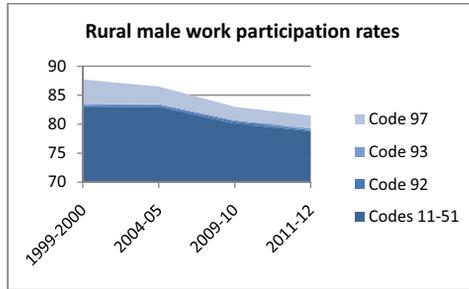


Chart 2.

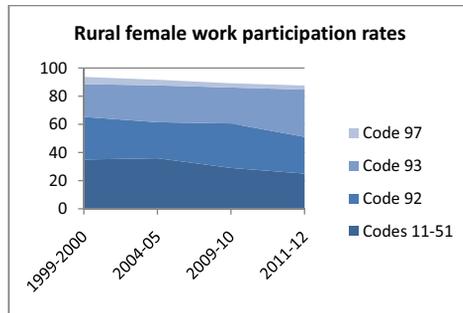


Chart 3.

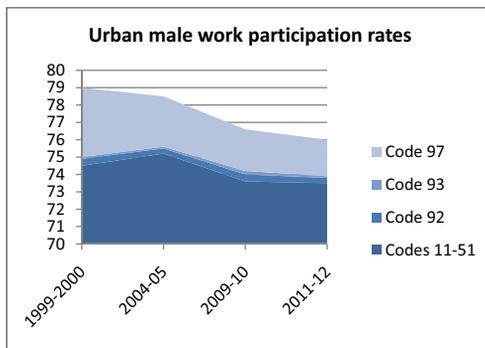
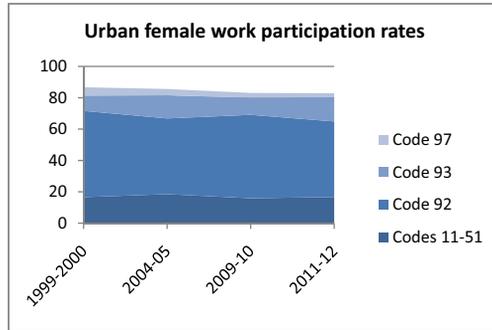


Chart 4.

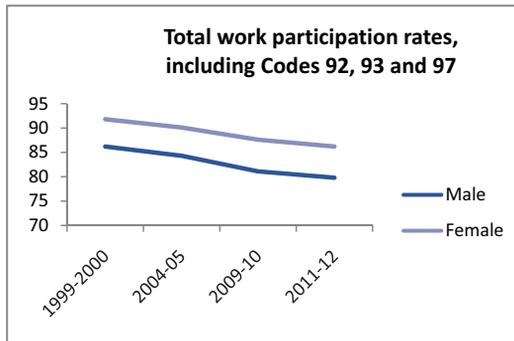


Some results are startling. While it is only to be expected that the proportion of men who are involved in domestic work (Codes 92 and 93) would be lower than women, the difference is enormous. Thus, less than one per cent of men in both urban and rural areas have generally been involved in domestic work as their usual principal activity, but for women the proportion has generally been in excess of 60 per cent! This point needs to be emphasised much more, because the treatment of Codes 92 and 93 within the category “not in the labour force” implicitly suggests that such people are not engaged in activities that are socially necessary. Yet both these codes encompass activities that are absolutely essential for society, which simply must be undertaken. It is impossible to imagine either households or society functioning if these activities are not performed, which means that they must therefore be characterised as not only work but essential work. To the extent that domestic and care services generally are provided privately within households they obviously do not enter the national income, but on the other hand the national income could not be generated at all without such activities.

Significantly, once such unpaid work is factored in, and other paid but unrecognised work (the famous category “others”) is also included, then there is less evidence of significant decline in female work participation in recent times, certainly when compared to men. Indeed, the decline in male work participation then appears to be stronger than that for women – and both can be explained dominantly by the increasing involvement in education. But what is particularly disturbing is that the data seem to indicate that there has been a shift for women, across both rural and urban locations, from remunerated and/or recognised work to

unpaid and largely unrecognised domestic duties. Chart 5 shows total work participation (including not only what the NSS conventionally defines as work but also Codes 92, 93 and 97) at the all-India level across both rural and urban areas for males and females above the age of 15 years. Not only is the female rate substantially higher than the male rate, but the gap between them has increased over this period from 5.6 percentage points to 6.4 percentage points.

Chart 5.



There is an argument that enlarging the notion of work does not allow for measures of labour productivity that are based on current notions of employment. However, this argument misses the important point that much of the unpaid work covered in Codes 92 and 93 directly and indirectly contributes to output – effectively subsidises the production of “marketed” output. So this is what therefore enables the labour productivity that is captured using the restrictive notion of work. A more holistic framework that incorporates such work in the estimate of total labour use would provide a better sense of the true labour productivity in society.

Measuring per capita incomes across countries

One of the problems that constantly vex economists is how exactly to measure incomes across countries. This is important not only in itself, but because it then translates into many other issues that have direct policy significance, for example, what is real variation in global inequality in terms of differences across countries, what is the extent of poverty in different countries, and how is this changing

over time. The obvious method of would simply be to compare per capita incomes across countries, deflated by nominal exchange rates. However, this method has been criticised – and effectively abandoned by most international organisations – because of the well-known fact that the purchasing power of different currencies varies dramatically in the actual countries where they are used. For example, one US dollar can buy far fewer goods and services in the United States than 60 rupees can in India.

Therefore, the increasingly popular way of dealing with this issue is to use “Purchasing Power Parity” (PPP) estimates, instead of nominal exchange rates, to deflate incomes and thereby compare across countries. This method was pioneered in the 1980s and it has now become standard practice, typically based on the “Penn World Tables” produced by the International Comparison Programme of the University of Pennsylvania in collaboration with the United Nations, or other similar international estimates.

The economic theory behind this is that exchange rate comparisons of less-developed economies consistently undervalue the non-traded goods sector, especially labour-intensive and relatively cheap services, and therefore underestimate real incomes in these developing economies. In some cases this can be quite significant. For example, according to the Penn World Tables, which provide the most widely-used source of information on incomes deflated by PPP, total incomes in countries with large poor populations like India or China increased by multiples of around 3 with the PPP estimate, compared to the nominal exchange rate estimate in 2000. This is what led to the grandiose statements of China becoming the second largest economy in the world or India even reaching sixth position in the global economic ladder, based on the assessment that our currencies command several times more goods and services than are reflected in the nominal exchange rates.

But there are some major problems with the estimates of income using exchange rates based on PPP. One is that of deriving the actual price comparisons. Obviously, PPP calculations should be based on comparing the prices of identical (or at best very similar goods) in different countries, and these should in turn be the goods that are most

commonly represented in total expenditure. But this is easier said than done. It is almost impossible to find identical goods across different countries, which dominate consumption and investment. Unfortunately, the standard taken is one developed for the United States, based on a ‘standard’ or ‘average’ basket of consumption, which then forms the basis for the price calculation in all other countries. But there is no reason for this basket to be the same or even similar in other countries and in fact every reason why they should be different in countries at very different levels of income. It is quite obvious, for example, that the share of food in the average consumption basket will be much higher (at nearly half) in a country like India, compared to the US (where it is around 10 per cent). If food prices rise faster than other prices (as they certainly did over the past decade) then a low weight to this will give a very misleading picture of the real income of the average person in India, and an even an even worse idea of the real income of a poor person.

The second – and quite daunting – problem is how to find the actual prices of such goods and services, and what to take as the representative price of each. This obviously has to use either existing price data or data from surveys that are constantly updated. But this is also very difficult especially in most developing countries, including very large ones. There are real concerns about the poor and often outdated quality of the data on actual prices prevailing in different countries (including large developing countries such as China and India) that are used in such studies, which affect the reliability of such calculations. In fact, until recently there had been no major survey or even careful estimate of prevailing prices in India and China, so that the PPP estimates before 2005 have been based on very outdated evidence on prices of goods and services in these two countries.

The most recent revision of the Penn World Tables, based on new information on prices in some important countries, show how dramatically PPP estimates can change with more accurate data, as the 2005 PPP-adjusted per capita income for China in US \$ terms, for example, shows a 40 per cent decline compared to the 2000 estimate! This is because the new PPP for China is estimated to be around half the nominal rate, whereas the previous estimate (dating from 1993) had suggested it was only around one fourth of the nominal rate.

This downward revision of per capita income in China also adds significantly to the estimate of poverty using the standard US dollar per day definition, more than doubling the estimated number of poor people in China. In the Indian case, the PPP-adjusted income declined by nearly 30 per cent.

There is a less talked about but probably even more significant conceptual problem with using PPP estimates. In general, countries that have high PPP, that is where the actual purchasing power of the currency is deemed to be much higher than the nominal value, are typically low-income countries with low average wages. It is precisely because there is a significant section of the workforce that receives very low remuneration, that goods and services are available more cheaply than in countries where the majority of workers receive higher wages. When even these activities are further subsidised by the widespread incidence of unpaid labour (as is typically the case in poor households in low income countries) then it is clear that the greater purchasing power of that currency reflects conditions of indigence and low or no remuneration for probably the majority of workers. *Therefore, using PPP-modified GDP data may miss the point, by seeing as an “advantage” the very feature that reflects greater poverty of the majority of workers in an economy.*

In other words, a country’s exchange rate tends to be “low” – or the disparity between the nominal value of the currency and its “purchasing power” tends to be greater – because the wages of most workers are low or even non-existent. A low currency economy is a low wage economy, which is hardly something that should be celebrated. And this makes inter-country comparisons of per capita income based on PPP quite misleading at least as far as they do not properly reflect the actual material conditions of most of the people living in them.

The poverty of economics (at least in the currently mainstream discipline) thus stands exposed. But then these issues are too important – and indeed economics itself is too important – to be left only to the economists, and particularly the dominant practitioners. It is to be hoped that the example of TG Narayanan’s careful but intrepid investigations and analysis will serve to inspire many others to carry out the important task of understanding and interpreting reality so that it cannot continue to be obfuscated in this way.

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