Elementary National Income. 22.4.2020

While we were analysing the definitions of Marshall and Pigou three points come out from this. Firstly – national income refers to the income of a country. Secondly, its measurement refers to a specified period of time. Thirdly, national income includes all types of good and services which have an exchange value, counting each one of them only once.

While evaluating the national income one guiding principle should always be kept in mind. No commodity or service should be counted twice.

Generally, two statistical methods are used to avoid double counting in the calculation of national income. (a) final products method (b) value added method. According to the first method, we add up the value of final products only. We first take the total value of the final consumer goods produced. To this we add the total value of durable producer goods. This will give us the aggregate value of all the final goods produced in the country during the year. Collective and government services are also to be added to this aggregate value of the final goods to arrive at the total product of the country.

According to the value added method, we do not take into account the value of the final good and services produced. On the contrary we go on adding the values created at each stage in the manufacture of a commodity. Then all such values accruing at all process in the manufacture of all commodities are added up together to arrive at the national income of the country.

Whether we adopt the first or the second method, the result will be the same: If proper adjustment are made the final products method will give us the same results as the value added method. It should however be made clear that the final products method is better than the value added method because there are less chances of errors in the former. In the words of Prof J.R. Hicks " the national income consists of a collection of goods and services reduced to a common basis by being measured in terms of money. The total volume of production is then expressed as a sum of money. The calculation of national income can be approached either from the side of the production of goods & services or from the side of income. In other words there are two ways of calculating the national income of a country. (i) census method or production method (ii) Income method.

There are a number of influences which determine the size of the national income. It is on account of these influences that one country may have a larger national income than other. These influences are following: —

(i) Quantity and Quality of factor of Production: The quality and quantity of a country's factor of production is one of the most important thing which influence the national income of a country. The quantity & quality of land, the climate etc determine the quantity & quality of agricultural produce. The quantity of labour has a double influence since it is both factor of production as well as consumer. The quality of labour depends upon inborn intelligence, education & training etc. In short we can say that quality & quantity of factors of production very much influences the national income of a particular country.

(ii) Technical Knowhow: — Another influence on output & national income is the state of technical knowhow in the country. A country having a poor technical knowledge cannot have a large sized national income because it is not in a position to utilise its resources very well.

(iii) Political Stability: — Political stability is an essential pre-requisite for maintaining production at the highest level. Political instability hinders the growth of national income of a particular country very much.

Difficulties in the Calculation of National income.

The calculation of national income of a country is not an easy task to do. There are many difficulties in the calculation. [illegible] not available [illegible] detailed account of the different sectors of the economy.

In the developed country there may not be so many difficulties in estimation of national income because these countries have already developed the statistical technique. They are also in the position of collecting detailed statistics.

But the same is not the case of underdeveloped or backward country. They face many difficulties in estimating their national income. The difficulties are statistical as well as conceptual.

1) The available statistics in underdeveloped countries are not only inadequate but also unreliable. Statistics for agriculture in India are not complete and do not have reliable data of production cost in Indian agriculture.

2) The existence of a large non monetised sector in underdeveloped countries makes it difficult to compute national income. For instance a substantial part of the agricultural output in these countries does not reach the market at all. Either it is consumed at home by the producers or is exchanged for other goods in the village.

3) The majority of the small producers i.e. are illiterate and ignorant. Because of this they don't keep any account of their productive activities and they cannot give information to investigators about their quantity.

4) There is little of occupational specialisation on the part of the people. Many persons take up more than one activity to earn their livelihood. It becomes difficult to collect information about their income. For example, the small farmers in India not only do farming but also engage in the industries during the slack seasons to supplement their meagre income.