

Trends and Structure of National Income

In an economy, every sector utilises natural, human and material resources and contributes to the aggregate flow of goods and services during a given time period. Each specific period may be described in terms of a year. The income earned by a country's people, including labour and capital investment in a year is hence called national income. A variety of measures of national income and output are used in economics to estimate total economic activity in a country or region, including Gross Domestic Product (GDP), Gross National Product (GNP), and Net National Income (NNI). All are especially concerned with counting the total amount of goods and services produced within some "boundary". The boundary is usually defined by geography or citizenship, and may also restrict the goods and services that are counted. For instance, some measures count only goods and services that are exchanged for money, excluding bartered goods, while other measures may attempt to include bartered goods by imputing monetary values to them.

According to the National Income Committee, "A national income estimate measures the volume of commodities and services turned out during a given period, counted without duplication." Thus, a total of national income measures the flow of goods and services in an economy. National Income is a flow and not a stock. As contrasted with national wealth which measures the stock of commodities held by the nationals of a country at a point of time, national income measures the productive power of an economy in a given period to turn out goods and services for the satisfaction of human wants.

Several estimates of national income were prepared in the British period. Notable among the estimators were: Dadabhai Naoroji (1868), William Digby (1899), Findlay Shirras (1911, 1922 and 1931), Shah and Khambatta (1921), V.K.R.V. Rao (1925-29 and 1931-32) and R.C. Desai (1931-40).

In the pre-independence estimates

Dadabhai Naoroji, Shah and Khambatta, Findlay Shirras, Wadia and Joshi estimated the value of the output of the agricultural sector and then added a certain percentage as the income of the non-agricultural sector. The assumptions of most of these estimators were arbitrary and hence devoid of any scientific basis. Dr. V.K.R.V. Rao made use of a combination of census of output and census of income methods. He divided the economy of India into two categories. In the first category were included agriculture, pastures, mines, forests, fishing and hunting. Output method was to be used to evaluate the product derived from these sectors. In the second category were included industry, trade, transport, public services and administration, professions, liberal arts and domestic service. For these occupations, census of income method was used. To these two sub-totals was added the income from house property and other items which could not be covered under the above categories. From the gross aggregate income so obtained were excluded the values of goods and services consumed in the process of production. By adding the net income earned from abroad, an estimate of national income was computed.

Post-Independence Period Estimates

Soon after Independence, the Government of India appointed the National Income Committee in August, 1949, so as to compile authoritative estimates of national income. The Committee consisted of Professor P.C. Mahalanobis, Professor D.R. Gadgil and Professor V.K.R.V. Rao. The final report of the National Income Committee appeared in 1954. The report was a landmark in the history of this country because for the first time, it provided comprehensive data of national income for the whole of India. The principal features of the National Income Committee report were as under:

1. During 1950-51, agriculture which also included animal husbandry, forestry and fisheries contributed nearly half of the national income.
2. Mining, manufacturing and hand trades contributed about one-sixth of the total income.
3. Commerce, transport and communications accounted for a little more than one-sixth of the total national income.
4. Other services such as professions and liberal arts, administrative services, domestic services, house property accounted for about 15 per cent of national income.
5. The share of commodity production was about two-third of the national income. The term commodity production includes material production derived from agriculture, mining, factory establishments, hand trades, etc.
6. Services accounted for about one-third of total national income. Services sector includes commerce, transport and communications, administrative services, liberal arts, domestic services etc.
7. The share of the government sector in net domestic product was 7.6 per cent in 1950-51. Along with it, the share of the government in national expenditure was 8.2 per cent.
8. The margin of error in the calculation of national income estimates worked out at about 10 per cent.

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