

Chapter-2

State and National Income

Income:

We all know that every person of the society earns through his labour, and that earning is known as Income. Income may be in terms of money or goods. Income is monetary expression of earnings. The wealth which is earned by people as a reward for labour is expressed in terms of Income.

Individual and social income is the index of prosperity or poverty of any economy. Income is that measuring rod with the help of which situation of economic development of a country can be computed. It is the income which categorizes any state or country into developed and developing stage. Among Indian states Goa, Delhi and Haryana are considered as developed on the basis of income, while, on the other side Bihar, Odisha, and Madhya Pradesh are considered as states of lower stage of development. Thus, countries such as United States of America and Japan are considered as developed and India is on the lower ladder of development on the basis of income. This is different because of growth rate, India is heading towards the category of developed countries for the past few years.

Income

The remuneration which a person gets for any type of physical and mental work is known as Income of a person.

As for example in the production of goods and services, Income is expressed in terms of rent as the reward for land, wages as the reward for labour, interest as the reward for capital, salary as the reward for manager, profit or loss as the reward for entrepreneur.

Income of Bihar

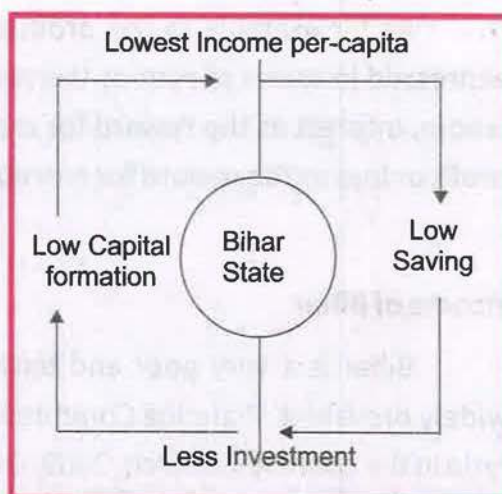
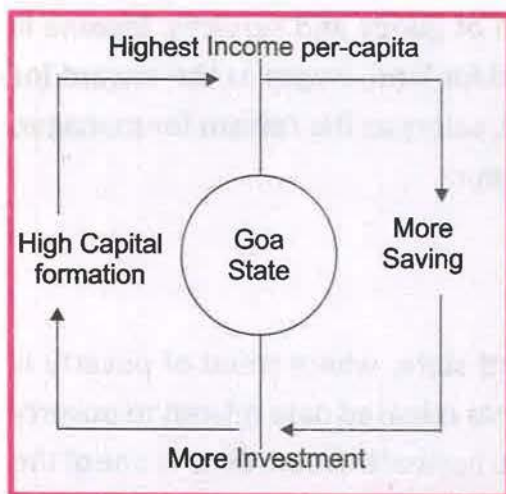
Bihar is a very poor and backward state, where trend of poverty is widely prevalent. Planning Commission has released data related to poverty ratio in the country in March, 2009. On the basis of this data Bihar is one of the most poor states after Odisha in the country. 41.4 % of its population is living below poverty line. Per Capita Income of Bihar is lowest in the whole country which causes low level of saving. Because of less saving, rate of capital formation is low. Low rate of capital formation causes less investment, as a

Let Us Know

The concept of Vicious Circle of Poverty was given by Ragnar Nurkse. Bihar is victim of this vicious circle of poverty. For this reason only Per Capita Income in Bihar is the lowest in the country.

consequence Per Capita Income again stands at low rate. Contrary to this, Per Capita Income is high in other developed states for example Goa, Delhi etc., which causes high saving and investment. Rate of capital formation is high and consequently Per Capita Income increases. Generally, we know that poverty gives birth to poverty. This

statement is expressed by Ragnar Nurkse in terms of Vicious Circle of Poverty which summarizes that the poor is poor because of poverty, which causes low income. Because of lack of education and knowledge more children are born and thus their future generation becomes more poor. This vicious circle of poverty goes on continuously. This means that poverty gives birth to poverty.



Among all 28 states and 7 union territories in India, Chandigarh has the highest Per Capita Income. For the last five years, with respect to this, it is maintaining the same position. An institution, known as Directorate of Economics and Statistics, determines the scale of measurement of income. On the basis of the data released by it on 16th September, 2008, Per Capita Income in Chandigarh is 70,361. With respect to only 28 states, Goa and Delhi has the highest Per Capita Income. **According to recent data of Directorate, Per Capita Income in Goa is Rs. 54,850, in Delhi Rs. 50,565 and Haryana is at third place leaving behind Punjab.** According to Central Statistical Organization in Bihar in 2008-09, growth rate of National Income is 11.03 % which is at the second place after Gujarat (11.05%). Thus, now Bihar is heading towards development leaving behind its backwardness.

Let's Know

According to this report of Commission, India's per capita income in 2008-09 is Rs. 25,494 whereas Bihar's per capita income in 2005-06 is Rs. 6,610. Amongst all the 38 districts of Bihar, Patna has highest per capita income and Sheohar district has lowest per capita income.

National Income

The concept of National Income is the most important aspect of Economics. Economic Development of any country depends on National

Let's Know:

By national income we mean the total value of all the production and services in one given year. In other words the total earning of a country in the one full year is called national income.

Income. And the most appropriate means to measure the economic progress is National Income. National Income is the result of the coordinated effort of different factors of production. Each and every factor contributes in production, so the income earned from produced goods is distributed among all factors of production. In the computation of

National Income, the concept of distribution has an important role to play. In fact, National Income is the result of the cooperation of different factors of production. And National Income is distributed among these factors of production. So we will study National Income in detail.

Area is constructed with the group of people, state is constructed with the group of areas, country is constructed with the group of states, in the same manner, total monetary value of all material (which can be measured in terms of value) and immaterial (those services which increase the resource indirectly) things produced with the help of available labour and capital, and natural resources is known as **National Income**.

Children, you know that usually material goods are produced by field and factories in villages and urban areas. Teachers, doctors, engineers, clerks, officers and people of other classes contribute towards the prosperity of the nation with their services. Thus produced items from agricultural land and production done by knowledge and ability is known as **National Income**.

When the income earned from material and immaterial services is computed in totality, then it is known as Total Production. When the expenditure incurred during production is subtracted from income then it is known as Net National Income. The concepts of Gross Production and Net Production have their own importance in Economics.

Some definitions of famous economists to explain the term of National Income are mentioned as follows-

According to Prof. Alfred Marshall, "The labour and capital of a country acting on its natural resources produce annually a certain net aggregate of commodities, material and immaterial, including services of all kinds is called **National Income**."

It is clear from Marshall's definition that all those goods and services come under National Income, whose production is usually done with the help of labour, capital, and natural resources during a particular year.

Let Us Know

If the total capital is invested in foreign countries, then income earned from this is also added to **National Income**.

Prof. Pigou has defined National Income as discussed below:

"National dividend is that part of the objective income of the community, including of course income derived from abroad, which can be measured in money."

Another famous economist Prof. Fisher was of the view that "The true National Income is that part of annual net produce which is directly consumed during that year."

Prof. Keynes defined **National Income** from new angle to overcome the great Depression of Thirties (1929-33). According to him **National Income** is expressed in terms of total consumption expenditure and investment expenditure. In the terms of formula

$$Y = C + I$$

Where,

Y= National Income,

C= Consumption Expenditure,

I= Investment.

Now we will discuss the concept of National Income, to know the different types of income which are included under National Income. The concept of National Income can be explained by the following aspects.

1. Gross Domestic Product

Concept of National Income

2. Gross National Product

3. Net National Product

1. Gross Domestic Product (GDP)- The total quantity of goods and services produced in an economy in a given year is called Gross Domestic Product.

Gross Domestic Product

Gross Domestic Product (GDP) is the market value of the final goods and services produced during a year within the domestic territory of a country.

2. Gross National Product (GNP)- Gross National

Product is the market value of the final goods and services produced within the domestic territory of a country by the normal residents during an accounting year along with net factor income earned from abroad.

$GNP = \text{Gross Domestic Product} + \text{Net factor income from abroad.}$

Net factor income from abroad is the difference between factor income (rent, interest, profit and wages) earned by our residents from rest of the world and factor income earned by non-residents within our country.

3. Net National Product (NNP)- Some capital goods are used up in the production process through normal wear and tear, obsolescence and accidental destruction (for example, the machinery that breaks down and no longer works). The cost to replace these capital goods is called the capital consumption allowance or depreciation. When we subtract depreciation from Gross National Product, it is known as Net National Product (NNP). Thus when we subtract the cost of raw material, expenditure on wear and tear of capital and expenditure of insurance from Gross National Product, we get Net National Product.

National Income of India- A Historical Perspective

Before Independence, no special effort was made for the estimation of National Income. In **1868**, **Dada Bhai Naoroji** estimated National Income

for the first time. In his book 'Poverty and British Rule in India', he stated that the Per Capita Annual Income is Rs. 20. After that other intellectuals also estimated National Income and Per Capita Income individually. National Income Statistics' as suggested by famous economist **Dr. V.K.R.V. Rao** between **1925-29** was more widely prevalent.

After independence, a committee on the National Income was constituted in August 1949 under the chairmanship of **Prof. P.C. Mahalanobise** and its objective was to estimate National Income of India. This committee released its first report in April 1951. According to this report, total National Income and Per Capita Income of the country was Rs. 8,650 crores and Rs. 246.9 respectively in 1948-49. After 1954 **Central Statistical Organization** was constituted by the Government for estimation of National Income. This institution publishes National Income Statistics regularly. All the three sectors of economy have contributed towards the creation of National Income.

Per Capita Income

In a country like India, where population is increasing at a higher rate, there is low per capita income, high illiteracy level, and diversity of languages, standard of living and cultures. It has been continuously recognized that the Per Capita Income

should be increased to fulfill different economic and social objectives. Only after that we can make our life full of happiness, and increase our standard of living.

Per Capita Income

The quotient remaining after dividing total income by population is known as Per Capita Income.

$$\text{Per Capita Income} = \frac{\text{National Income}}{\text{Total Population of the Country}}$$

Let's Know :

India has very low income and the level of per capita income is also low. According to World Development Report 2009, per capita income in India in 2007 was 950 dollar. Per capita income of India is about 1/48 of per capita income of the United States of America. Thus per capita income of some of the countries of the world are as follows :

Per capita income in America= 46,040 dollar

Per capita income in England= 42,740 dollar

Per capita income in China= 2,360 dollar

Per capita income in Bangladesh= 870 dollar

Many steps were taken in five years plan for the restructuring of rural economy, but because population is increasing at a higher rate of growth in comparison to growth rate of industries, the burden of population on the land is continuously increasing during

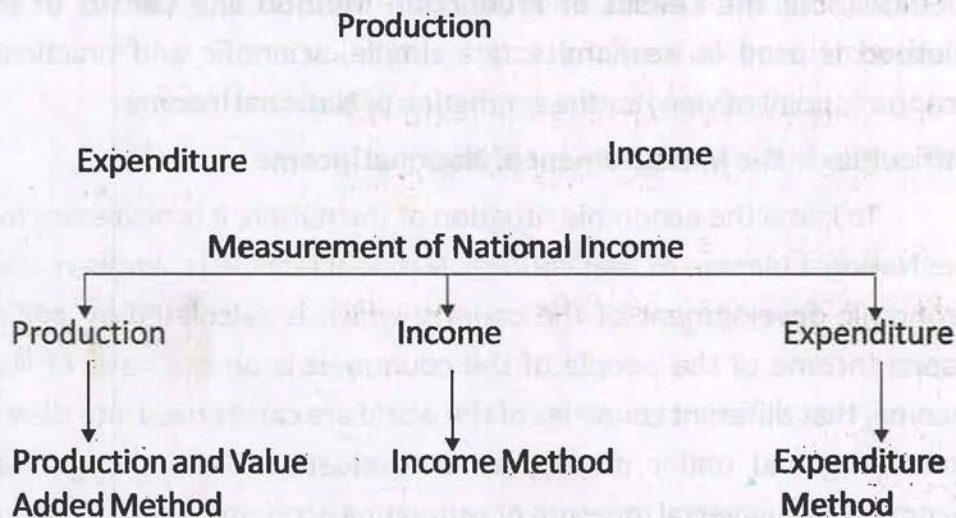
the past years, which is the cause of poverty and unemployment. Now at present times, even though agricultural reforms, qualitative development in science, technology and many other sectors are not providing employment opportunities to the people. This is the reason that unemployment causes poverty by reducing Per Capita Income. In this respect, by providing employment opportunities in non-agricultural sector, excessive burden of labour force on agriculture can be lessened, and we can contribute significantly in agriculture, industry, removal of unemployment and national development.

Measurement of National Income

We know that production of goods and services is the result of combined efforts of different factors of production. Under production process, factors of production receive income in the form of rent, wages,

interest and profit. The owners of these earnings demand different goods and services to satisfy their own wants. This increase in demand causes increase in production and circle of productive activities is completed. This statement can be explained with the following diagram:

Production → Creation of Income $\xrightarrow{\text{Demand}}$ Expenditure → again incentive for increase in production



There are various ways of computation of National Income, because the people of the nation get income through the medium of production or monetary income. So when it is computed by adding production, it is known as Census of Production Method. When the National Income is estimated on the basis of income of people of the nation, then this estimation method is known as **Census of Income Method**. All people spend their earning as consumption. Therefore, National income can be estimated by measuring expenditure of

Let's Know

National Income is the most reliable measure of calculation of Economic Status of the Nation.

people. This process of estimation of National Income is known as **Census of Expenditure Method**. When the market value of produced goods increases through the efforts of people in different situations, then the method used in this situation for estimation of income, is known as **Census of Value Added Method**. When National Income is estimated on the basis of occupational structure, this estimation is known as **Census of Occupation Method**.

Although National Income is estimated with five above mentioned methods, but the **Census of Production Method** and **Census of Income Method** is used in economics, are simple, scientific and practical from economic point of view, for the estimation of **National Income**.

Difficulties in the Measurement of National Income

To know the economic situation of the nation, it is necessary to know the National Income of that country. National Income is simple measure of economic development of the country which is calculated by adding Per Capita Income of the people of the country. It is on the basis of National Income, that different countries of the world are categorized into developed, developing and under developed for evaluation. Even though National Income is the universal measure of estimating economic status of the nation, practically we face a lot of problems in the estimation of National Income which can be expressed briefly as mentioned below-

(i) **Difficulty in collecting data-** Income of the people of whole country is estimated either in terms of production or income but we face many problems in the process of collecting data. If the correct data is not available, the actual status of development of the nation cannot be known.

(ii) **Possibility of double counting-** It is not easy to collect the data related to production or income of whole nation. Structure of geographical and human resource structure is such that sometimes some income or production is indicated at two places. Because of this double counting income appears to be more than actual income.

(II) Difficulty in measuring the value- In the market it is always seen that the same good is valued differently because of its movement from different business conditions. This difference in the price of the commodity is due to addition of its expenditure on transportation and advertisement and the amount of profit of sellers by moving from one section to another section of the sellers, for example- the production value of sugar is always less than the machineries but the value increases when it reaches wholesalers and lastly its price becomes high in comparison to its earlier price by reaching to retailers. Often in this situation, when the data is added at two points separately, then there is possibility of misleading situation of National Income.

While estimating National Income, all the above mentioned factors should be considered for clear, practical and reliable data. As we know that through the process of collection of National Income Statistics only one measure should be adopted for the correct evaluation of economic situation of the nation.

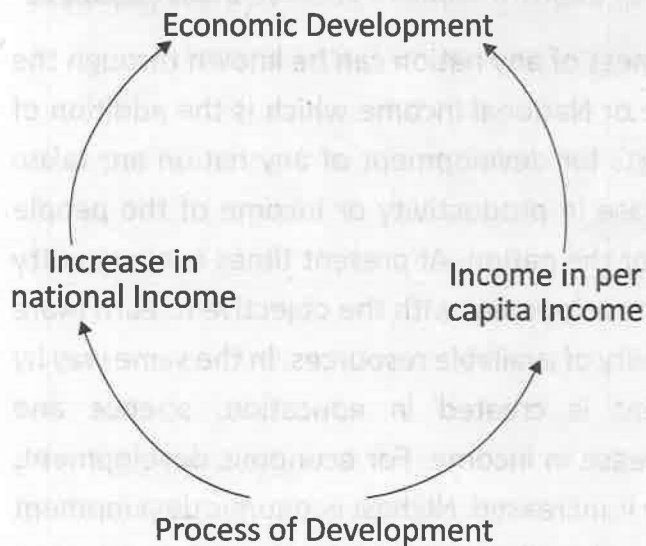
Contribution of National and Per Capita Income in Economic Development

Prosperity or backwardness of any nation can be known through the medium of Per Capita Income or National Income which is the addition of income of all people. All efforts for development of any nation are taken through the medium of increase in productivity or income of the people residing within the boundary of the nation. At present times every country prepares its own planning for development with the objective to earn more income by increasing productivity of available resources. In the same way by investing capital, employment is created in education, science and technology, which causes increase in income. For economic development, mainly production and income is increased. Highest economic development of the nation can be achieved with more production of goods and

maximization of income of the people. Thus, we can say that 'Per Capita Income and National Income are correct measure of Economic Development. Without increasing production neither income of the people is increased nor economy is developed.

The standard of living of people is affected by changes in National Income and Per Capita Income. In fact, National Income is the produced net product within the country in a particular area. Productivity can be increased by increasing the number of labourers in production. Thus with the increase in production more employment will be created, wages of labourers will increase, and standard of living will be better with the increased income. Development of people is possible with the increase in Per Capita Income. Increase in Index of National Income shows the improvement in economic development of people.

National Income includes all those services which can be expressed in terms of money or for which payment is made. Estimation of National Income does not include all those services for which payment is not made.



For example- Services of a nurse to her child is not included in National Income. But at the same time contribution of her services to the hospital is included in estimation of National Income. Generally after this estimation, the process of development goes on continuously.

There should not be any decrease in the income of the poor. If the Per Capita Income and National Income increase under the process of development, because if the increasing part of the income goes to the rich, balanced economic development is not possible even though there is an increase in income. This is the reason that these days Government is giving emphasis on Inclusive Growth through Planning Commission.

If the increase in population is in the same proportion or increasing proportion in which National Income increases, then in that case economic development of the society is not possible. In spite of all these situations if there is general increase in National Income, then we can find some general economic development of people.

With the change in the income and time, there is change in test, preferences and nature of poor people, because of which, they make best use of their increased income. Thus the economic development is definite. We can conclude that because of the increase in Per Capita as well as National Income, economic development of the society increases or will increase except few situations and economic development of society will decrease because of the decrease in National Income and Per Capita Income.

SUMMARY

- Bihar has the lowest Per Capita Income in India.
- At present Gross Domestic Product (GDP) is (negative) -5.15 % and (positive) 11.03 % in 2003-04, and between 2004-05 and 2008-09 respectively. It is a good sign of development of Bihar.
- National Income is most scientific and acceptable statistics of Economic Development of any country. There are many such institutions who publish certified statistics of income of that country.
- Per Capita Income= The ratio between National Income and National population in a particular period.
- Central Statistical Organization is an universal certified institution for the estimation of National Income in India.
- In the most popular earlier effort for computation of National Income, industrialist Dada Bhai Naoroji was of the view that Per Capita Income in 1968 is Rs. 20.
- Several efforts were made for the estimation of National Income, but statistics given by its famous economist Dr. V.K.R.V Rao was most popular in 1925-29.
- The monetary value of all goods and services produced within the country in a particular year is known as Gross Domestic Product.
- Census of Production Method and Census of Income Method for estimation of National Income are simple, scientific and practical from economic point of view.
- Problems in estimation of National Income- (i) Difficulty in collecting data, (ii) Possibility of double counting, (iii) Difficulty in measuring the value.
- Economic Development is possible only with the increase in income and Per Capita Income through the medium of the process of development.

Questions

Objective Questions

I. Choose the correct option-

1. According to 2008-09, Per Capita Income in India is —

- | | |
|----------------|----------------|
| (a) Rs. 22,553 | (b) Rs. 25,494 |
| (c) Rs. 6,610 | (d) Rs. 54,850 |

2. Financial year in India is —

- | | |
|--|--|
| (a) From 1 st Jan to 31 st Dec | (b) From 1 st July to 30 th June |
| (c) From 1 st April to 31 st March | (d) From 1 st Sept to 31 st August |

3. Which state in India has maximum Per Capita Income ?

- | | |
|-------------|------------|
| (a) Bihar | (b) Punjab |
| (c) Haryana | (d) Goa |

4. Which district of Bihar has maximum Per Capita Income ?

- | | |
|-------------|-------------|
| (a) Patna | (b) Gaya |
| (c) Shivhar | (d) Nalanda |

5. From economic point of view, production and income method are—

- | | |
|---------------|------------------|
| (a) simple | (b) scientific |
| (c) practical | (d) All of above |

II. Fill Up The Blanks :

- percentage of population in Bihar is below poverty line.
- Production, income and complete a circular group.
- Increase in National Income causes in Per Capita Income.
- The process of is completed by increase in National Income and Per Capita Income.
- In Bihar Gross Domestic Product was in the year 2008-09.

III. Which of the following statements is true or false :

1. National Income increases the productive capacity of any economy in a particular period.
2. Production Income and expenditure do not complete the circular group.
3. Per Capita Income in India is more than Per Capita Income of America.
4. According to Dada Bhai Naoroji, Per Capita Income in India was Rs. 20 in 1968.
5. Agriculture sector contributed mostly in the Per Capita Income in Bihar.

IV. Complete the Abbreviation :

- | | | | |
|------------|-------------|----------------|---------------|
| (i) G.D.P. | (ii) P.C.I. | (iii) N.S.S.O. | (iv) C.S.O. |
| (v) G.N.P. | (vi) N.N.P. | (vii) N.I. | (viii) E.D.I. |

V. Short-Answer Question :

1. What is Income ?
2. What do you mean by Gross Domestic Product ?
3. What is Per Capita Income ?
4. When and by whom was National Income estimated in India for the first time?
5. By which institution in India National Income is computed ?
6. Explain the problems involved in the computation of National Income.
7. Explain the relationship between Income and Poverty.

VI. Long-Answer Question :

1. When and for which objective did Indian Government constitute National Income committee after Independence ?
2. Define National Income. What are the methods of its measurement ?

3. Explain the difference between Per Capita Income and National Income.
4. How is increase in income profitable for development of India ? Explain.
5. Write a short note on Per Capita Income in development.
6. Does the increase in Per Capita Income affect National Income ? Explain.

VII. Project Work

1. Students, explain sources of income of your own family through chart.
2. Plan for a debate relating to National Income and Per Capita Income by dividing students of the class among two groups.
3. Students, prepare a table explaining total monthly income of your family, and expenditure incurred on dependents on income.

Answer to Objective Questions

- I. 1. (b) 2. (c) 3. (d) 4. (a) 5. (d)
- II. 1. 41.4 2. Expenditure 3. Increase
4. Development 5. 11.03
- III. 1. True 2. False 3. False 4. True 5. True.

