Table No. 18

THE NATIONAL INCOME AND EXPENDITURE

A country's national income is everybody's incomes added together. Statistics of its growth provide a good basis for assessing prosperity, comparing taxation, studying inflationary trends, &c. It includes salaries and wages of private persons, and profits of firms, of traders, and of Government business undertakings.

During each year a certain volume of commodities is produced ; it consists not only of articles, such as a cake of soap, but also of services, such as those provided by teachers. It is the selling-price of this flow of goods and services which fixes the value of the national income. This reveals the two-sided nature of the national income—it is firstly the amount of everybody's income, and, secondly, it is the value of the things they produce.

National Income

All those agents helping to produce the flow are called " factors " of production. Therefore we have the term national income at " factor cost " which, in everyday words, means the total incomes earned by all those people and firms engaged in producing things during the year.

If a firm or a person produces and sells some article then part of the money received from its sale is paid out by the firm or person to its suppliers or employees, and part retained as profit. These wages, profits, &c., are then the " factor cost " of that article, being the incomes " generated " during its production.

Now, if sales tax is levied on the article, its selling-price is increased over and above its factor cost. That is why indirect taxes are added to bring the national income up to market price. Subsidies on the other hand reduce the price of the subsidized commodities ; therefore they are deducted from the factor cost to show the market value.

Finally, business firms and traders charge in the prices of their commodities sufficient to recoup depreciation of their assets. This is because part of their assets are used up in the process of helping to produce the year's output. But depreciation does not appear directly as any one's income and therefore is excluded from the "factor cost " of the commodity. So to find the real market or selling price, we must add back depreciation allowances. We then have the *total* value of all goods and services produced and sold within the year, which is the amount of gross national income, or as it is also called " gross national product."

National Expenditure

Another side of this method of book-keeping for the nation shows how the national income has been spent. National expenditure falls into three categories. The first is the production of goods from which may be drawn a future supply of commodities. These we term " investment " or " capital formation," and they include construction of houses and roads, importation of machines, &c. Secondly, the income may be spent in purchasing " consumers' goods," such as bread, house-room, or motor-cars. The third avenue of expenditure is called " net investment overseas," which (if positive) means that we have received more from the sale of our exports than we have paid for imports, freights, insurances, and other items entering into international trade. When these three items are added together they are called " gross national expenditure " and equal gross national income.