

CHAPTER THREE

PROBLEMS OF NATIONAL INCOME ESTIMATION IN INDIA

3.1. If national income estimates and accounts and their economic analysis are to be used in economic policy, they must be based not only on a clear and unambiguous understanding of the concepts employed but also on empirical data of at least a minimum order of reliability. Even in the case of the highly industrialised countries of the west with their longer tradition of work in the national income field, concepts are by no means always clear or uniform, while adequate empirical data are not always available on the significant sections of their economy. It is but natural therefore that difficulties in the way of a satisfactory estimation and analysis of national income in India are somewhat greater. We proceed to discuss some of these difficulties as a necessary prelude to the methods we have actually used in the estimation of India's income for 1948-49.

3.2. To begin with, when calculating the value of output, one normally proceeds on the assumption that the bulk of the commodities and services produced in the country are exchanged for money. In the case of India, however, a considerable portion of output does not come into the market at all, being either consumed by the producers themselves or bartered for other commodities and services. The problem of imputation of value thus arises and takes on significantly large proportions in some sectors of the economy. In view of the difficulties in measurability that this results in, and in order to avoid misunderstanding, it may perhaps become necessary for estimates of India's income to include a classification of 'monetary' and 'non-monetary' sectors which one would not find in national income estimates of other countries.

3.3. The problem of measurability is further complicated in India by the fact that many producers have nothing but the remotest notion of either the quantity or value of their output. In western countries, economic statistics are largely collected directly from the individuals and enterprises who are the active economic agents and have knowledge of the fact by virtue of their participation in economic activity. It becomes difficult to follow this practice in India not only because of the expense involved and the relative dearth of the technical personnel needed for the purpose but also because of the illiteracy of the majority of the population, the semi-subsistence character of their economic activity, and the general absence of the

practice of keeping accounts either among producers or among consumers. Even if he could and did maintain accounts, the producer in India will find it hard put even to know the gross value of his output, let alone the net output; in the absence of accounts, we cannot even know, much less impart information on his income and expenditure. An element of guess-work therefore inevitably enters into the assessment of output, especially in the large sectors of the economy which are dominated by the small producer or the household enterprise.

3.4. Then again, Indian economy is distinguished by the comparative lack of differentiation in economic functioning. While it is true that we have a sector in our economy that is as differentiated and subject to modern income classification as in the west, it is also true that a major portion of our economy consists of household enterprises, simultaneously and without differentiation performing functions which would normally fall under different industrial categories. Thus sizable groups among agricultural producers pursue other occupations in other industries, often in urban places or at any rate outside their domicile. Hence the customary classification of national income by industrial origin cannot be taken except as a rough approximation to a classification of distinct groups in the population, whose main income is derived from a single industry. And there arises a genuine question as to whether a substantial revision of the industrial classification and a much greater emphasis than is customary in the west upon social groupings connected with the character of the enterprise rather than with industry would not be more useful for India.

3.5. Thus a great deal of analytical work remains to be done on questions of definition and classification in regard to the problem of measurability in national income estimates in India. Such work cannot, however, be successfully undertaken except as part of a substantive analysis based upon empirical data. Concepts and classification can be tested as to their usefulness and effectively re-formulated only if they rest upon a cogent view of the operation of the economy which is the subject of economic analysis. A revised classification for national income work in India can be useful only if it brings out more clearly the groups in the economy which are at significantly different levels of income, that respond differently to changing economic conditions, and that would be affected differently by economic policy. We hope to revert to this subject in our second and final report, but, in the meanwhile, we would like to draw the attention of our colleagues among Indian economic analysts to the vast territory that awaits intellectual exploration.

3.6. Apart from the conceptual difficulties relating to national income work that we have briefly mentioned above, there is the much larger problem of the non-availability of statistical data for the estimation of income and related accounts in India. We briefly mention below the major sources of statistical data available as also the major gaps, leaving to the next chapter an account of the methods we have employed in bringing together and processing this diverse and incomplete material for estimating India's income for 1948-49.

3.7. The main bodies of available data, used in fact by us as the pillars of the statistical estimates for 1948-49, are five in number. First, there are the data on gross volume of agricultural production (crops, livestock, forestry, etc.) together with some data on prices at which these products of agriculture and related activities are marketed. Second are the data on the activities of the factory establishments, including both gross volume of output and a fair amount of information on payments to employees, etc. Grouped with these could be data on other organised private sectors, such as banks and insurance companies. Third, ample though somewhat unco-ordinated data are available on the income and expenditure of government and government enterprises. Fourth there is some information on the working population, which permits derivation, in a few cases as residuals, of numbers engaged in such pursuits as small scale manufacturing production, professional and related services, domestic service and the like. Finally there are the data on imports and exports and other items in the international balance of payments.

3.8. Even the data just listed are subject to limitations. The prices and expenses data for agricultural and related activities are quite incomplete. Data on factory establishments are limited to only a part of the industries in which factory units are important. Information on governmental activities, while detailed, is quite diverse and not easily reducible to economic categories. And data both on total and working population are obsolete, since no census data are yet available after 1941; and even the latter was incompletely tabulated. Finally, some of the items in the international balance of payments are still rough estimates and others subject to potentially large errors. Yet these five bodies of data plus a variety of subsidiary special studies must be used, and have been used by us to derive estimates for 1948-49.

3.9. But the list of major gaps in the supply of statistical data is far more impressive. As already indicated, even the population data are quite inadequate—a gap that one may hope will be remedied when the data for the 1951 census become available. But the lacunae in purely economic

information are striking indeed. There are scarcely any current data on the economic structure of the basic industry of the country—agriculture and related activities—no information on the structure of costs, on consumer expenditure of the population attached to land, or on their savings if any. Neither are there any recent or sufficiently comprehensive data on the consumption expenditure or savings of the urban population. There are no useful data on distribution of income by size, the current information yielded by the income tax statistics being exceedingly limited in scope, if not also in accuracy. There are no data that would permit an estimate of capital formation, except for the hope extended by further analysis of production statistics.

3.10. In connection with the specific task of preparing the estimates for a country like India for a year like 1948-49, two other aspects of the supply of statistics should be noted. Regional diversities in India, with its size and varied history, are large; and inadequacy of data cannot easily be overcome by extending data for one part of the country to the rest of the country. Secondly, administrative and area changes are of recent origin; and much of the available information has reference to the period prior to partition on 15th August, 1947, and is not usable for estimates relating to the present Union of India, without thorough-going, laborious and, in the nature of the case potentially imprecise adjustments.

3.11. In indicating the difficulties, both conceptual and statistical, in the way of preparing national income estimates for India, it is not our intention either to criticise official agencies or to offer an advance apology for the somewhat unsatisfactory character of the estimates we are presenting in chapters 5 and 6. The relative dearth of material, both statistical and analytical, in the national income field in India is part of the vicious circle characteristic of an under-developed economy, poverty leading to perpetuation of poverty. We must emphasise however that accumulation of adequate data and analysis for national income estimation is part and parcel of the accumulation of intellectual and technical capital which is so necessary a condition for both the accumulation and utilisation of material capital. Basic changes in economic functioning and in economic intelligence are closely interrelated; and if there is to be economic development, efforts to carry it through must be made simultaneously both at the level of material production and of that of economic and other intelligence. We have no doubt that this will be done and that we shall soon have in the national income field both data and analysis that would prove significant and useful in the handling of economic questions in this country.