

INTRODUCTION

National Income accounting is used in every country to determine the pace of economic activity, how rapidly output will grow, and why an economy is subject to unexpected fluctuations. National income statistics provide economists with methods of how to explain all of these and then formulate appropriate monetary or fiscal policies in order for sustainable growth of that economy. This essay explains what National Income accountants and economists understand about such statistics, and why they regard them to be useful. It further discusses a few of the many problems surrounding computation and use of the statistics.

These statistics can be described as the data used by economists to numerically measure overall production of an economy for a number of purposes. It helps economists show the economic behaviour of the economy's participants. It consolidates information on some important aspects of the economy. This set of statistics allows for the calculation of various indicators in the form of rates, ratios or percentages, which may help policy makers. Basically, it is the measure of all income and expenditure flows in order to determine an economy's state of well-being, performance as compared to other countries, and a comparison of production levels at regular intervals by national income accountants (McConnell and Brue 116). National income accounting also aids decision-making by monetary authorities in a country.

UNDERSTANDING NATIONAL INCOME STATISTICS

There are basic components of national income accounts that have to be combined in order to reach decisions such as future forecasts of an economy's performance. One primary component is an economy's total market value of all final goods and services produced within a country's borders in a given year; the Gross Domestic Product (GDP) (McConnell and Brue 117). This national statistic is derived to help economists understand the dynamics of resource suppliers and firms relations on the one hand, and an economy's overall performance on the other. This is achieved by putting together essential components that are vital for national income accountants to determine whatever they need to. Another component is the market value of the goods and services produced with resources supplied by residents of a country; Gross National Product (GNP). For example, the contribution to output in South Africa made as the result of an investment by a Swazi citizen in South Africa is counted as part of Swaziland's Gross National product. It is included in the Gross Domestic Product of South Africa because that is where the output is produced.

GDP calculation adopts two prominent methods, namely the Expenditures approach and the Income/allocations approach. The production/value added approach covers the value of a firm's production less the value of intermediate goods bought from other firms, (Parkin 499) and is not widely used as the first two. Summing of all the components from either side (Expenditures or Income approach) provides economists with the market value of the overall output of an economy. Therefore, as explained previously, GDP aids

economists to attach monetary value to an economy's overall output in a given period of time, therefore making it easier to formulate policies aimed at sustainable development of that economy (McConnell and Brue 2002).

THE EXPENDITURES APPROACH TO CALCULATING GDP:

The expenditures approach looks at the total cost of producing goods and services in an economy. There are four main categories characterising this approach to GDP calculation, namely Consumption expenditures (C), Investment expenditures (I_g), Government expenditures (G), and Expenditures by foreigners through exports (X_n). (C+I_g+G+X_n=GDP)

- **Consumption expenditures (C):**

This includes all expenditures made by households or resource owners with income earned through the supply of their resources to firms.

- **Investment expenditures (I_g):**

Investment spending is characterised by production for the future rather than for current spending. This includes all business/firm expenditures including final purchases of machinery, construction, and changes in inventories (McConnell and Brue 119). Construction of housing by households also falls under investment expenditure.

- **Government expenditures (G):**

Spending by government involves government's provision of public services and social capital such as educational institutions and infrastructure.

- **Expenditures by Foreigners (Xn):**

Foreign expenditure involves foreigners' spending on a country's exported goods. Deduction of imports from exports helps national income accountants to arrive at a Net Export figure that can be added to the other categories in calculating GDP.

THE INCOME APPROACH TO CALCULATING GDP:

The Income approach, on the other hand, helps determine GDP through the summing up of all expenditures on all income earned by the suppliers of the resources used to produce the total output during the year, after some statistical adjustments. These components are: Wages, Rents, Interest, and proprietors' profits (GDP = Aggregate Income = Wages + Rent + Interest + Profit) (McConnell and Brue 122).

- **Wages (Employee compensation):**

This is how resource owners are remunerated for supplying their resources in production. Net wages and salaries are also included in this category.

- **Rent:**

This is payment for the use of factors such as land and buildings by firms.

- **Interest:**

These are interests received by households for giving out loans less interests paid for borrowing from financial institutions.

- **Profit:**

Income for firms, or some that is given to households as dividends.

Furthermore, by studying the circular flow of income and expenditures, National Income Accountants get to monitor the fluctuations of an economy and determine future income for resource owners. “The total amount it costs firms to make goods and services is equal to the incomes paid for resource services” (Parkin 495), but that income is not all used up at the same time. The two simplified circular flow figures below (Fig.001 and Fig.002) illustrate how economists view all the National Income components to determine resource owners and firms’ use of real flows (households providing factor services) and money flows (Income received by resource owners for their services and its utilisation to consume firms’ output) for better decision making about leakages and injections in order for an economy’s development.

<Diagrams adapted from www.bized.ac.uk>

Fig.001

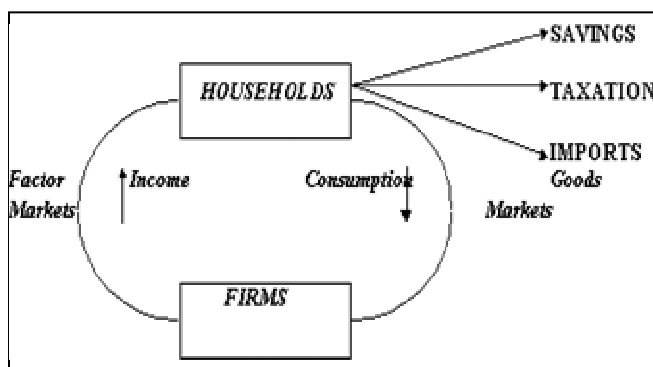
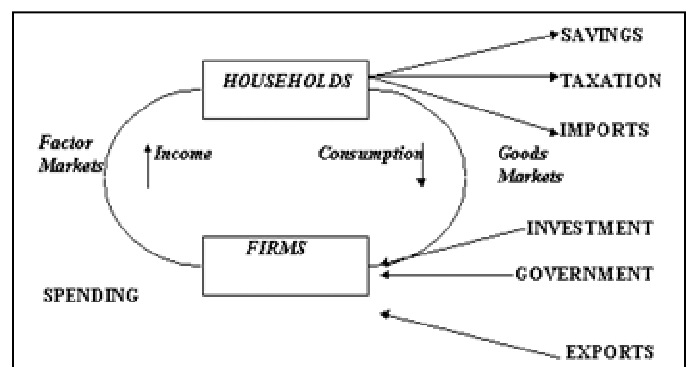


Fig.002



IMPORTANCE OF NATIONAL INCOME STATISTICS

Economists regard national income statistics as important since they are able to facilitate policy formulation and adjustment. Formulation of these requires the collection of data that would be determined by indicators measuring past and present trends and would also take into account future developments that are based on alternative values of the indicators in the future. Indicators are the means of 'summarising' an economy's condition and developments over time and setting targets for the future. They are therefore of great help to policy makers in taking decisions and monitoring the effects of certain decisions. Indicators can be derived from accounting components used in national income accounting such as the GDP.

National accounts are intended to describe the development and structure of the economy in a changing reality. Therefore National Income Accountants aim to show the economic performance and interrelationships of economic participants, as mentioned before, and the results of their economic activity by putting together these statistics. Different indicators in form of rates, ratios or percentages that can help policy makers in decision making are calculated through this set of accounts.

THE FLAWS OF NATIONAL INCOME STATISTICS

Inasmuch as economists reliably use National Income accounts for making important decisions, they are not really a perfect measure of any of the purposes they are used for. The different types of National accounts provide a variety of data needed by policymakers and economists to make important decisions on how to formulate policies that suit a country's needs. However, these accounts, due to their inevitable inaccuracy, are not able to manifest fully the genuine state of affairs in a country when its GDP is compared with any other countries. It remains a fact that there can never be two countries that are the same. As an example, the standard of living is very different in many countries; therefore using GDP values to compare countries' welfare does not appear to be as effective as it is believed to be.

GDP, for example, regardless of being very useful, has its shortcomings in that it measures only the output of final goods and services and excludes intermediate production transactions, Non-Market transactions, and the underground economy. In the first case, for instance, by focusing only on final output, it could be tempting to conclude that consumer spending is more important than capital investment in an economy, based on the fact that consumption expenditures usually represent a greater part of GDP.

Furthermore, since non-marketed activities like underground economy operations are ignored by National accounts, they remain omitted from the total national income, together with other fragments like health and life expectancy of resource owners, environmental factors, and many others. Also, since subsistence agriculture is not recorded as

output in a country's economy, there can never be accurate recording of overall output as has been claimed by these accounts.

CONCLUSION

As has been discussed in this writing that National Income statistics are vital in the determination of an economy's welfare, policy formulation and adjustment, and establishment of trends that aid forecasting future economic growth, it can therefore be safely concluded that even with the inevitable inaccuracy with which these data are associated, there could never be any other interesting and closely approximate concept as National Income Accounting. Economists therefore benefit largely in relying on such a concept so as to provide adequate information on how entities like income distribution and economic performance are to be improved.

References:

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