Chapter Five

THE ESTIMATES FOR 1948-49

5.1. Although the aggregate national income and its changes from year to year are of interest in many ways, the detailed structure of the aggregate is more important for policy decisions. For example, it is useful to know the contribution of different types of productive activity and the net output per engaged person in different branches of such activities. A breakdown by character of enterprise, namely, small (broadly household) enterprises and larger establishments is of importance in a comparatively under-developed economy. The relative share of rural and urban sectors, or the relative proportion of the monetized (arising through monetary transactions) and demonetized (through barter and payments in kind) sectors of the economy are important in India. Consumer expenditure and capital formation; the share of Government in domestic product and expenditure; and the flow of commodities and services across the boundary of the country, that is, the position of the national economy in relation to the rest of the world are essential items of information for the guidance of economic policy. In the present chapter we shall discuss these problems in a general way, and give such estimates for the financial year 1948-49 (1st April - 31st March) as could be prepared on the basis of the available material.*

5.2. *National income by industrial origin*: Table 2 shows the distribution of national income by industrial origin, and indicates the relative importance of different types of productive activity in the national economy. If similar figures are available for a number of years, it is possible to compare the shifts in the distribution of national income among the different sectors. The rate of industrialization, for example, can be properly assessed only on the basis of such figures.

5.3. For the present we have, however, estimates for only one year which also provide useful indications of the general structure of Indian economy. Agriculture, animal husbandry, and ancillary activities (namely, processing, transport, and marketing services performed by the cultivator on his own account in respect of his own produce) contribute roughly 47 per cent or nearly half the national income (item 1). Commerce, transport,

* The unit used is abja rupees = 100 crores of rupees = one milliard rupees = one U.S. billion rupees = 10^9 rupees = £75 million pounds sterling = $210 million U. S. dollars (current rate). The word 'abja' is a standard Sanskrit term for one hundred crores.

and communications (item 13) amount to 19.5 per cent or nearly a fifth of the total national income. When it is remembered that a large part of the commodity production does not enter into trade at all—being retained by the producer for his own consumption—the relative importance of this sector is clear. These figures, taken in conjunction with income-tax returns, may also be of some help in appraising the incidence of taxation on various sectors. Looking at a different aspect, we find from Table 2, that commodity production, taken roughly as the total value contributed by agriculture, mining, manufacturing and hand-trades (sum of items 4 and 8), amounts to Rs. 56.5 abja or nearly two-thirds of the total national income.

TABLE 2: NATIONAL INCOME OF THE INDIAN UNION BY INDUSTRIAL ORIGIN: 1948-49

items (1)	net output (Rs. abja*) (2)	per-centage (3)
agriculture		
1. agriculture, animal husbandry and ancillary activities[1]	40.7	46.7
2. forestry	0.6	0.7
3. fishery	0.2	0.2
4. total of agriculture	41.5	47.6
mining, manufacturing and hand-trades		
5. mining	0.6	0.7
6. factory establishments	5.8	6.6
7. small enterprises	8.6	9.9
8. total of mining, manufacturing and hand-trades	15.0	17.2
commerce, transport and communication		
9. communications (post, telegraph and telephone)	0.3	0.3
10. railways	2.0	2.3
11. organized banking and insurance	0.5	0.6
12. other commerce and transport[2]	14.2	16.3
13. total of commerce, transport and communications	17.0	19.5
other services		
14. professions and liberal arts	3.2	3.7
15. government services (administration)	4.6	5.3
16. domestic service	1.5	1.7
17. house property	4.5	5.2
18. total of other services	13.8	15.9
19. net domestic product at factor cost	87.3	100.2
20. net earned income from abroad	(—) 0.2	(—) 0.2
21. net national output at factor cost =national income	87.1	100.0

*abja=100 crores=1 milliard = 1 U.S. billion $=10^9$.
Rs. abja = £75 million pounds sterling= $210 million U.S. dollars (current rate).

[1] these include processing, marketing and ancillary activities performed by the cultivator in respect of his own produce.

[2] includes services of indigenous money-lenders.

5.4. *National income by character of enterprise*: The information given in Table 2 has been re-grouped in Table 3. In this table items 15–17 (namely, other commerce and transport, government administration, and house property) have not been classified. The remaining items have been grouped under two heads: (a) small (or largely household) enterprises; and (b) larger enterprises (which are generally corporate establishments). Omitting the unclassified items, the contribution of small enterprises (83.6 per cent) is practically five times as great as the contribution of larger enterprises (16.4 per cent). Even if the unclassified items are included, small enterprises account for more than 61 per cent of the net domestic product. The relative importance of small (or largely household) enterprises is quite clear. A comparison of the share of household enterprises

TABLE 3: NET DOMESTIC PRODUCT OF THE INDIAN UNION BY CHARACTER OF ENTERPRISE: 1948-49

items	net output (Rs. abja*)	percentage of 'classified product'	percentage of 'domestic product'
(1)	(2)	(3)	(4)
small enterprises (largely household)			
1. agriculture (other than plantations, etc.)	40.0	62.6	
2. fishery	0.2	0.3	
3. small enterprises and hand-trades	8.6	13.4	
4. professions and liberal arts	3.2	5.0	
5. domestic service	1.5	2.3	
6. total of small enterprises	53.5	83.6	61.3
larger enterprises			
7. agriculture (plantations, etc.)	0.7	1.1	
8. forestry	0.6	0.9	
9. mining	0.6	0.9	
10. factory establishments	5.8	9.1	
11. railways	2.0	3.1	
12. communications	0.3	0.5	
13. organised banking and insurance	0.5	0.8	
14. total of larger enterprises	10.5	16.4	12.0
unclassified items			
15. other commerce and transport	14.2		
16. government services (administration)	4.6		
17. house property	4.5		
18. total of unclassified items	23.3		26.7
19. net domestic product	87.3	100.0	100.0

* abja=100 crores=1 milliard=1 U.S. billion=10^9.

Rs. abja=£ 75 million pounds sterling=$ 210 million U.S. dollars.

over a number of years would give an important indication of the changing pattern of economic development in India. The relative share of small and large enterprises is also a matter of interest from the point of view of

priorities and allocation of resources. For planning purposes, it would of course be still more useful to have similar breakdowns within important groups of industries. This is not possible at present, but it would be useful to collect relevant data for such purposes in future.

5.5. *Net output per engaged person in different branches of productive activity*: It is useful to consider the contribution of each industrial sector (in Table 2) in relation to the estimated total working force in the sector. This would give a rough idea of the net value of output per engaged or occupied person in each sector. Relevant figures are given in Table 4.

TABLE 4: NET OUTPUT PER ENGAGED PERSON IN THE INDIAN UNION: 1948-49

items	net output (Rs. abja*)	number of persons engaged (lakhs)*	net output per engaged person (Rs. thousands)
(1)	(2)	(3)	(4)
1. agriculture	41.5	905	0.5
2. mining and factory establishments	6.4	38	1.7
3. small enterprises	8.6	149	0.6
4. total of mining, manufacturing and hand-trades	15.0	187	0.8
5. railways and communications	2.3	12	1.9
6. banking, insurance, and other commerce and transport	14.7	95	1.5
7. total of commerce, transport and communications	17.0	107	1.6
8. professions and liberal arts	3.2	50	0.6
9. government services (administration)	4.6	36	1.3
10. domestic service	1.5	42	0.4
11. house property	4.5	—	—
12. total of other services	13.8	128	1.1
13. net domestic product at factor cost	87.3	1327	0.66

* abja=100 crores=1 milliard=1 U.S. billion=10^9. Also, lakh=100,000.
Rs. abja=£75 million pounds sterling= $210 million U.S. dollars.

The estimates are based on the occupational distribution of the working force in the country. As we have already stated, each working dependent is treated as equivalent to a principal earner, subsidiary workers being completely omitted from the calculations of the working force. The complete omission of subsidiary occupations is unavoidable because of the vagueness of the category; it is also probably justified by the fact that part-time work in different sectors is likely to cancel out.

5.6. An alternative procedure would be to treat a working dependent as equivalent to half of one principal earner. This may be justified by the fact that there is a great preponderance of women among working

dependents, and the fact that working dependents occur largely in the agricultural sector. It is possible that many of the working dependents work only a part of their time. Secondly, a child below 14 years engaged in economic activity would be described as a working dependent, and it would be reasonable to assume that his productivity is lower than that of an adult. In the absence of tables of occupational distribution by age, it is not possible to examine the position more closely. However, the adoption of the alternative procedure leads to Table 4.1. Although some of the individual figures are somewhat different, it will be noticed that, estimates of net output per engaged person are very nearly the same in both the tables.

TABLE 4.1: ALTERNATIVE ESTIMATE OF NET OUTPUT PER ENGAGED PERSON IN THE INDIAN UNION: 1948-49

items	net output (Rs. abja*)	number of persons engaged (lakhs)*	net output per engaged person (Rs. thousands)
(1)	(2)	(3)	(4)
1. agriculture	41.5	816	0.5
2. mining and factory establishments	6.4	34	1.9
3. small enterprises	8.6	134	0.6
4. total of mining, manufacturing and hand-trades	15.0	168	0.9
5. railways and communications	2.3	11	2.1
6. banking, insurance, and other commerce and transport	14.7	89	1.6
7. total of commerce, transport and communications	17.0	100	1.7
8. professions and liberal arts	3.2	47	0.7
9. government services (administration)	4.6	35	1.3
10. domestic service	1.5	35	0.4
11. house property	4.5	—	—
12. total of other services	13.8	117	1.2
13. net domestic product at factor cost	87.3	1201	0.73

* abja = 100 crores = 1 milliard = 1 U.S. billion = 10^9. Also, lakh = 100,000.
Rs. abja = £75 million pounds sterling = $210 million U.S. dollars.

5.7. It must be emphasized, however, that too much should not be read into these figures which represent neither the productivity per worker of each sector (since, for example, non-working proprietors have been included) nor the average earnings per engaged person (since income payments like interest may conceivably go to persons outside the sector). In comparing the figures, it must also be remembered that the capital investment in the way of mechanical equipment per worker varies widely from sector to sector. For example, the high net output per engaged person in rail-

ways and communications is due to the heavy capitalization. There are many difficulties in making comparisons. However, within these limitations, the present figures give a comparative picture of the share per person of net output generated in the different sectors.

5.8. In the government sector, the output of government administrative services is by definition equal to the cost of these services. It is interesting to note that the cost of government administration in this sense (that is, the net output per engaged person in this sector) is practically double the average output in the country.

5.9. *Per capita national income* : The estimated national income for 1948-49 is Rs. 87.1 abja. The population in 1948 was taken as 341 millions on the basis of the estimates made by the Registrar General. The per capita national income therefore, works out at Rs. 255.

5.10. *Share of government in domestic product and expenditure*: Turning to an entirely different aspect, we may now examine the share of government in national income generation and its disposition; government draft on private income; and capital formation in the government sector and its finance. Such estimates would show the relative importance of government control (administrative and financial) in the national economy. The larger the gross capital formation on government account in relation to the gross total or domestic capital formation the greater would be the effective government control over investment. Unfortunately, reliable information on capital formation in the private sector is not available and a comparison with the government sector is not possible at present.

5.11. However, by consolidating the accounts of the central and State governments, various municipalities, district boards and port trusts, it is possible to know the relative share of the revenue and expenditure of all public authorities in the national economy. Accounts relating to the public sector are fortunately available in considerable detail, and Table 5 gives a summary of the position of the public sector. In the different sections of Table 5 the consolidated totals of the public sector have been shown against the corresponding national total, except in the fourth section relating to capital formation where the government sector has been given in isolation because the capital formation in the private sector cannot be estimated with the currently available material. Efforts must be made to obtain some idea of the total domestic capital formation; and once this can be done, the analysis of the consolidated public sector is likely to be of great help in making policy decisions.

TABLE 5: SHARE OF GOVERNMENT IN DOMESTIC PRODUCT AND EXPENDITURE IN THE INDIAN UNION: 1948-49

items (1)	Rs. abja* (2)	percentage (3)
government share in generation of net domestic product		
1. net output of government enterprises	3.0	3.4
2. net output of government administration	4.6	5.3
3. net output of private sector	79.7	91.3
4. net domestic product	87.3	100.0
government share in national expenditure		
5. government current expenditure on commodities and services (government administration)	6.3	6.9
6. government administrative capital expenditure	0.8	0.9
7. government enterprises capital expenditure	1.3	1.4
8. net national expenditure at market price	91.7	100.0
government draft on private income		
9. direct taxes	2.0	2.3
10. indirect taxes	4.2	4.8
11. miscellaneous fees, etc.	0.7	0.8
12. private income	87.3	100.0
government capital formation and finance		
13. surplus on current account and maintenance provision	0.5	
14. government borrowing at home	3.1	
15. government borrowing abroad	(—) 2.2	
16. extra-budgetary receipts and adjustment for cash balances	0.7	
17. gross capital formation on government account	2.1	

* abja=100 crores=1 milliard=1 U.S. billion=10^9.

Rs. abja=£75 million pounds sterling=$210 million U.S. dollars.

5.12. *National economy in relation to the rest of the world:* For purposes of exchange, and export and import control it is useful to analyse the national income totals in relation to the flow of goods and services across the boundaries of the country. Such estimates are given in Table 6. Items 1-3 show India's exports and imports of commodities and services in the financial year 1948-49 in relation to the national product gross of imports (that is, the total of the net national income and the gross import of commodities and services) which constituted the total fund out of which exports might have been possible. Where export propensity is low, a fall in domestic product may lead to a shrinking of exports but not of imports; and the balance of payments position has to be viewed against the net national product gross of imports, the fund out of which exports would be possible.

For a single year, the figures give only the absolute magnitude of exports and imports in relation to this fund. If information is available over a number of years, such a table can supply a basis for studying the pattern of exports and imports in relation to the national product.

TABLE 6: NATIONAL ECONOMY AND THE REST OF THE WORLD: 1948-49

items (1)	Rs. abja* (2)	percentage (3)
exports and imports in relation to net national product gross of imports		
1. exports of commodities and services	5.0	5.3
2. imports of commodities and services	7.1	7.5
3. net national product gross of imports of commodities and services	94.2	100.0
receipts from abroad in relation to net domestic product		
4. net earned income from abroad	(—) 0.2	(—) 0.2
5. net donations from abroad	0.1	0.1
6. net domestic product	87.3	100.0
financing of import surplus		
7. private long term borrowing	(—) 0.2	
8. other long term borrowing (official and banking institutions)	(—) 2.1	
9. short term borrowing (balancing short term capital movements, official and banking institutions)	4.5	
10. net borrowing	2.2	
11. import surplus (commodities and services)	2.1	
12. other items on current account (net)	0.1	
13. net deficit on current account (=net borrowing)	2.2	

* abja=100 crores=1 milliard=1 U.S. billion=10^9.
Rs. *abja=£75 million pounds sterling = $210 million U.S. dollars.*

5.13. Items 4-6 of Table 6 show the relation between domestic product, earned income from abroad, and donations, etc., received from abroad. The latter are important items in certain countries. In Indonesia, for example, income from abroad is a significant component of national income; in other countries, donations, etc., received from abroad are sometimes quite important. In India both items are negligibly small. Items 7-13 of Table 6 give a general analysis of the financing of imports which shows that India has a net deficit in the current trade account and, in respect of investment income, is a debtor country from the point of view of current liabilities.

5.14. *Other breakdowns and social accounts:* There are other breakdowns of national income which are of great importance in economic analysis but which we were unable to undertake for lack of statistical information of

adequate coverage or of sufficient reliability. We have discussed below some of these breakdowns as a guide to future action.

5.15. *Degree of monetization in the economy*: All estimates given in the present report have been obtained by calculating the value of each sector at its equivalent market value in terms of money. In actual fact, a large part of the commodities and services in India does not enter into the market at all (and is therefore not subject to monetary transactions). In a predominantly subsistence economy even when the quantity of production remains more or less steady the imputed value in terms of money may vary widely due to changes in prices (which, however, have real reference to only that relatively small part of the total product which enters the monetized market). It would be useful to know to what extent the estimates are imputed or hypothetical (or conventional) in the above sense. For example, consumption by the producer of his own product, wage earnings in kind, or bartered goods do not generate any demand for currency. Hence , in regulating the supply of money, the operative factor is not the total supply of goods and services but that portion which enters into the organized market. The division into monetized and non-monetized sectors is not possible with available material. Some fragmentary information is, however, available which indicates the importance of the problem. For example, from some unpublished material* it appears that out of the total out-turn of rice, approximately 6 per cent is used for seed, 20 per cent for wage payments in kind, 46 per cent for household consumption by the producer himself or for barter, so that a total of 72 per cent is in the non-monetized sector leaving 28 per cent or only a little more than a quarter of the total production to be marketed. Information is generally meagre, and no attempt is being made in the present report to give separate estimates for the monetized and non-monetized sectors. The problem is, however, of special importance in this country, and continuing attention will have to be given to it in future.

5.16. *Share of urban and rural sectors of the national product*: Again, in India the distribution of national income between urban and rural sectors is of importance for policy purposes as a suitable balance has to be preserved between these two sectors in any sound programme of national development. Certain conceptual difficulties arise in the present context. Should income generated in an area, or the income earned by residents in an area be deemed to be the income of the area? Apart from difficulties of definition, the separate measurement of urban and rural incomes is not possible from available data. It may be simpler to segregate the

* unpublished Marketing Report on rice.

expenditure incurred in the urban and rural areas; and it would probably be less difficult to estimate such expenditure through sampling methods. This also is a problem to be studied in future.

5.17. *National income and consumer expenditure*: An analysis of consumer expenditure by different heads is useful for many purposes. It can show the relative share of private consumption and saving and the distribution of consumption expenditure over different types of goods and services. When available over a period of time, it reveals the shifts in consumer expenditure in consequence of a given economic policy (or of a tax measure) leading to a shift in the price structure. Estimates of consumer expenditure can be made either directly through family budget enquiries, or indirectly by making estimates of the value of different types of consumer goods and services. Unfortunately, family budget studies immediately available do not cover the whole country and cannot be used for preparing reliable estimates. Inadequacy of detailed information relating to consumer goods also prevents allocation of the national product into meaningful breakdowns of consumption and investment. Fragmentary and dimensional indications are available in isolated cases. For example, out of a total national product of Rs. 87 abja in 1948-49, the consumer expenditure on food probably amounted to about Rs. 46 abja or nearly 53 per cent of the national income. This particular figure is being given for purposes of illustration, and should not be taken too seriously. Nevertheless, the high proportion of consumer expenditure on food shows in a general way the undeveloped character of our economy. Attention will have to be given to the collection of data relating to consumers' current expenditure and private savings.

5.18. *A framework for social accounts*: It will be seen that there were many problems which the Committee would have liked to have studied but which were not amenable to analysis for lack of statistical information. We also considered the possibility of presenting the information in the form of social accounts. We found that a complete set of such accounts cannot be prepared at present as reliable information is not available on certain items like provision for depreciation, capital formation and saving in the private sector, or consumers' current expenditure. We have, however, thought it worth while to give a very simple framework of social accounts in the next chapter although we have found it necessary to use certain symbols to represent items for which reliable numerical values cannot be assigned. We hope these gaps will be filled up at an early date.