

### Subsection 2.—National Income\* and Income Tax Statistics.

**Definition of National Income.**—"The annual labour of every nation is the fund which originally supplies it with all the necessaries and conveniences of life which it annually consumes, and which consist always either in the immediate produce of that labour, or in what is purchased with that produce from other nations." —ADAM SMITH. This is perhaps the earliest modern definition of *national income*, and is still among the best, when it is interpreted in accordance with modern knowledge regarding the balance of international payments and the necessity of keeping productive equipment in running order. It must also be remembered that while the national income consists in goods and services of the most varied kinds, its total amount can be stated only in terms of money.

Following, is a statement of the nature of national income from the standpoint of the statistical technique used in its compilation, the description also being in line with present-day economic theory.

"Year in, year out, the people of this country, assisted by the stock of goods in their possession, render a vast volume of work toward the satisfaction of their wants. Some of this work eventuates in commodities, such as coal, steel, clothing, furniture, automobiles; other takes the form of direct personal services, such as are rendered by physicians, lawyers, government officials, domestic servants, and the like. Both types of activity involve an effort on the part of an individual and an expenditure of some part of the country's stock of goods. If all commodities produced and all personal services rendered during the year are added at their market value, and from the resulting total we subtract the value of that part of the nation's stock of goods which was expended (both as raw materials and as capital equipment) in producing this total, then the remainder constitutes the net product of the national economy during the year. It is referred to as national income produced, and may be defined briefly as that part of the economy's end-product which is attributable to the efforts of the individuals who comprise a nation."†

**The Difficulty of Measuring National Income.**—The precise statistical measurement of the national income is a matter of insurmountable difficulty, and the most indefatigable research into all the relevant statistics, in order to establish a figure of national income, must always leave an appreciable margin of error. Indeed, it is no easy matter even for an individual to establish an accurate money figure as representing his *total* income, especially where he has to include in that total income, besides his cash income, an allowance for the rental value of his (owned) house and his durable belongings therein, together with an allowance for the money value of the commodities produced and consumed within the household (such as eggs and garden produce), and of the services, ordinarily bought and sold but rendered gratis within the family circle. Yet this is the only way of obtaining the total income of the family. While such income, not received directly in money, but in commodities produced and services rendered, is not, except for house and furniture rent, an important percentage of the family income in most urban families, it constitutes a very important part of the income of most rural families, who to a much larger extent consume the commodities which they themselves produce. For this reason, indeed, comparisons between the incomes of urban families and rural families are often misleading, through not allowing for the non-money income of the latter. Certainly most people never think of their non-money income as income at all, and would never consider putting the rental value of their owned homes into

\* The estimate of national income has been revised by Sydney B. Smith, M.A., Dominion Bureau of Statistics.

† See *National Income 1929-32 and 1929-35*, U.S. Department of Commerce.