Measures of national income and output

Introduction

National income (Y) comprises the value of all goods and services produced over a given year(usually a year) within a country which is representing the standard of living. There are three approaches to measure national income, one of which is the expenditure approach can be measured as Gross Domestic Product (GDP). Government expenditure is one of the components of the equation for calculating national income is: Y= C + I + G + (X-M). This essay is going to highlight the importance of government expenditure in raising national income and some other influencing factors.

According to Fiscal policy, government can put the injection in variety of areas such aseducation, healthcare, defence and agriculture. Firstly, there is a positive correlation between the investment of education and national income. By improving the level of education, the amount of skilled workforce and products will increase as well which means the productivity is climbing to a higher level. For instance, the injection of skill training from government provides the car company more skilled worker. Hence, manufacture's productivity will improve which means there are more goods and services are produced to meet customers' demand, consequently increase national income. Not only in the quantity of products, but also the value of goods and services will increase by education injection. As Joseph(2000) mentioned:" a higher education level of people adds more value on their products", since then economy is allowed to earns more from every product that they sell. For example, a person with low education level can only work in agriculture like farmer which is low in profit. Assume that the person had skill training and became a skilled worker works in a car manufacture, the goods and services he produced become more expensive, national income will also increased by earning moremoney.

Besides education, government also inject money in health care which is closely related to workers and productivity as well. It is essential that government put plenty of money in health care to insure the productivity and maintain the living standard. Only by the health condition of workers be guaranteed, can the productivity keeps stable and increases. If the employees always ask for day-off because of sickness, the volume of production and the quality of products will definitely decrease. As Alistair(1994) mentioned:” better nutrition made people healthier and better able to fight disease with their bodies’ own defence mechanisms”. There is no doubt that more goods and services will be produced if workers keep in a great working condition and stable work efficiency. On the other hand, standard of living will be improved by enhancing the level of health care, and the consumption expenditure will raising accordingly. Aggregate demand which is equal to national income is growing with the increasing spending. People always expect a better living standard and more goods and services, their orginal living level is improved by government spending more money in health care which stimulating people consume more to reach a higher level of living. Hence, the national income get increased.

However, government can also invest in defence which is the necessary part of a country. The social security of a country is the condition and foundation of all the economy activities processing, it provides economic growth a peace and stable situation. For instance, no firms willing to invest money in a country always at war due to that their profit have no guarantee.

Government put money in defence providing a nice condition, so that firms can invest confidently. National income will increase if the level of economic activity raised. However, there is a limitation on the government expenditure in defence. The more money be used to enhance the building of national defence, the less injection will the civil use and needs. As the increase of import lots of weapons for national defence will reduceing the government spending in some other areas like education and transport. People's purchasing power is going to be reducing since there is a financial deflation, national income will also get attacked.

Most important of all, will be the multiplier effect which means " an increase in spending produces an increase in national income and consumption greater than the initial amount spent." (Dictionary. com, 2005). This is because the original increase in any component of the equation will not only stay in that stage or that amount in terms of national income. Since then a small amount of increase in government expenditure will stimulate a greater increase in the national income which allowed government spending making a big difference in raising national income. However, government injection is not always works efficiently. The implement of Fiscal policy need a period of time, time lag make the expenditure not make sense immediately.

However, expenditure is not the only method of controlling national income. Since the limited money of government expenditure collected from the total taxation, government can also raise the national income by adjusting taxation such as value added tax(VAT), income tax and corporation tax through fiscal policy. Government reduce the income tax means people's income will increase which be stimulated to consume more, since then the national income will increase. As Simon(2010) mentioned, tax expenditure, as a part of government budget, need to be increased since there is an arising loss on annual revenue. Another factor also affect national income is interest rate which can be controlled by government through the positive monetary policy. According to the Ripple Effects mentioned by Parkin(2003), a lower interest rate can stimulate customers consuming and investing more instead of saving, since then, national income will increase as well.

In conclusion, as a component of national income, the increase in government expenditure in different areas like health care, defence and education will increase the national income in variety of approaches. All these measurements are going to stimulating the consumption, however, in some areas government should be aware of the limitation in case the negative effect. Because of the multiplier effect, change in government spending will make a greater difference effect than the original change. However, spending is not the only way government can control to increase consumption. Through the fiscal policy and monetary policy, government can also raise the national income.

Reference

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