



ISSN Print: 2394-7500  
ISSN Online: 2394-5869  
Impact Factor: 3.4  
IJAR 2015; 1(4): 286-289  
www.allresearchjournal.com  
Received: 01-03-2015  
Accepted: 03-04-2015

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## Analysis of national income in India

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### Abstract

National income is the sum total of money value of all the final goods and services produced in a country during the period of one year. The national income, thus comprises of all the firms and factories, the shops and markets, the banks and financial agencies, the offices and the other institutions, or in brief all the occupations where people work and produced either goods or services and use the income thus earned, for consumption saving and investment. For making national income in India, the entire economic activity is classified into three major sectors i.e. primary sector, secondary sector, tertiary sector. The growth rate of national income in India has neither be rate often uniform nor study during five year plans. During the first and the second five year plan annual growth rate of national income was 4.2%, but it plunged to 2.6% in third plan. The sixth plan was a grand success and the national income increased by 5.4%. During the eighth plan national income recorded a high growth rate of 6.7% which was the highest achievement in any of the plan gone by. The eleventh plan however showed a better performance and achieved 7.7% annual growth. One thing that clearly emerged from the growth trend in national income is that whereas during the first three decades of development viz. 1951-81, the growth rate was low and revolved around 3.5%, from 1981 onwards the economy has entered a relatively higher growth phase.

**Keywords:** primary sector, secondary sector, tertiary sector

### 1. Introduction

An economy is an organization of the process of production and exchange through which people earn their living. As such the economy can be visualized as a collection of all the production units, producing goods and services, which enable people to earn their incomes. The National economy, thus, comprises of all the farms and factories, the shops and markets, the banks and financial agencies, the offices and the other institutions; or in brief all the occupations where people work and produce either goods or services, and use the incomes thus earned, for consumptions, saving and investment. National income is a composite measures of all these economic activities taking place in an economy in the course of one year. It is a comprehensive index of the state of an economy and a measure of its growth over time. It is also used to compare the economic performance of a nation with other countries of the world. Its significance also lies in that it provides an objective measure of economic welfare of the people inhabiting a country. Therefore, in all the nations, developed as well as underdeveloped, national income estimates are prepared for each year, and efforts are made to develop a scientific methodology for the computation of national income so that the figures of national income are, as far as possible, close to reality.

### 2. National Income Estimation in India

National Income is the sum total of money value of all the final goods and services produced in a country during the period of one year. It is an aggregative measure of the value of all the goods and services produced in agriculture, industry, trade and all the other vocations in an economy calculated without any double counting. In other words, it measures the net value added by various sectors of the economy during one year.

The early attempts of measuring national income in India were more in the nature of studies conducted by certain pioneering individuals. The establishment of National Income Committee in 1949 marked the beginning of the Governmental efforts at regular compilation of national income estimates. Later, this job of national income estimation was taken over by the Central Statistical Organisation (CSO) which compiles and publishes date on national

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income and allied aggregates every year.

**3. National Income estimation methods in India.** For making estimates of national income in India, the entire economic activity is classified into three major sectors comprising of 13 sub-sectors. These occupational categories are:

**Table 1.**

	<b>Industrial Sectors</b>	<b>Method used</b>
1.	Agriculture, and allied activities	(Production)
2.	Forestry and logging	(Production)
3.	Fishing	(Production)
4.	Mining and quarrying	(Production)
5.	Manufacturing 5.1 Registered 5.2 Unregistered	(Production) (Production)
6.	Construction	(Expenditure and commodity flow)
7.	Electricity, gas and water supply	(Income)
8.	Trade, hotels and restaurants	(Income)
9.	Transport, storage and communications	(Income)
10.	Banking and insurance	(Income)
11.	Real estate, ownership of dwelling and business services	(Income)
12.	Public administration and defence	(Income)
13.	Other services	(Income)

For making estimates of national income, three methods are used for these different occupational categories. These methods are:

**Net output method:** This is used for estimating the net product in all the four categories comprising the primary sector and category 5 (both 5.1 and 5.2).

**Income method:** This is used to estimate product and income in all the remaining occupational categories, with exception of the category 6.

**4. Expenditure method and commodity flow method:** These methods are used for estimating the product in the construction sector (category 6). Commodity flow method is, in fact, a variant of the expenditure method which is used in making estimates in the urban construction sector while the rural construction activity is measured through expenditure method. To understand how these methods are used in making estimates of net product and income in various sectors of the economy, here we take a few examples to explain this.

**Agriculture:** Agriculture output is divided into a number of crops, and for each of them the value of output is estimated by multiplying the yield with the current market prices. Yield is estimated in the basis of crop cutting experiments. Some fields are selected at random and the crop in these fields is actually cut and weighed. The amount of output obtained from these fields is then multiplied by the total area under cultivation of these crops to get the total production of each crop is then multiplied by the wholesale prices (weighed average of the season and off-season prices) of these crops. In this way the total value of agricultural production is estimated. To find out the gross value added by agriculture to national income, deductions are made for some inputs like cost of seeds, manures. Then consumption of fixed capital (depreciation) is excluded to arrive at the net national product of agriculture sector.)

**Manufacturing (Registered):** Large-scale manufacturing industries or the registered manufacturing sector covers all manufacturing and processing establishment (called factories) which are registered under the Indian Factories Act, 1948. Registered manufacturing units are those which employ 10 or more workers and use power, or 20 or more persons without use of power. These units, which employ less than these specified number of workers are called unregistered units. The estimates for this sector are based on net output (inventory) method. The output comprises (i) ex-factory value of all products and by-products produced, (ii) all receipts from services rendered to other factors (iii) value of fixed assets produced for own use, etc.

From this values of output, deduction are made for the cost of inputs, such as raw materials, components, packing, fuel, power, lubricants, cost of receipts of services from other sectors, etc. This gives the gross value added by this sector. Deductions are then made for depreciation to arrive at the net value added.

**Manufacturing (unregistered):** This sector comprises small-scale industrial units that are not covered by the registered manufacturing sector. Not much relevant data about output is available for this sector. Therefore, in case of this sector, a short-cut production method is used. Firstly, the gross value added per worker is estimated and then it is multiplied by the number of workers to arrive at the gross value added.

**Construction:** The activities considered in this industry include construction, repair and demolition of building, highways, streets and culverts, heavy construction of such projects as sewers and water mains, railway road beds, rail roads, piers, tunnels bridges dams, hydro-electric plants, and all other construction, whether undertaken by private bodies or governmental authorities.

The commodity-flow approach is applied mainly to urban construction. The expenditure approach is applied to land improvement activity undertaken by rural and urban household and rural residential buildings. The main steps in the commodity-flow approach are these: First, the domestic production of commodities like bricks, cement, etc. used in construction is estimated. It is then adjusted for changes in stocks, imports and exports. Second, data on transport costs, dealer's margin and indirect taxes with respect to commodities used in construction is obtained to arrive at the value of construction at site. Third, the ratio of total inputs used in construction and the output of construction is ascertained through expert studies. The ratio is then applied to the total value of inputs to obtain the gross value of construction. The estimates of allowances for depreciation are made to find out net value of product.

Income Method is used in all the remaining categories, viz, electricity, gas and water supply and the services sector comprising trade, transport, storage, communication, banking, insurance, public administration, etc. Here income of the people engaged in these sectors is taken as the estimates of value added by these sectors. Allowances for depreciation are made for estimating the net value added.

The sum total of the net value added in all the sectors is equal to Net Domestic Product (NDP). To this is added net factor income from abroad. This gives the estimate of net national product at market prices. By deducting indirect taxes and adding subsidies to NNP at market prices, we get NNP at factor cost which is called National Income.

## 5. Trends in National Income

National Income estimates are published annually by the Central Statistical Organisation of the Government of India (CSO) in its publication 'National Accounts Statistics'. The current series of national income estimates records India's national income since 1950-51 onwards. The estimates presented are of two types, viz. (i) those based on current prices i.e. the prices prevailing in the year to which the estimates relate and (ii) those based on 2004-05 prices, popularly known as national income at constant prices.

For the purpose of comparing national income and per capital income over different years, it is desirable to take into accounts only the estimates of national and per capita income at some constant base year prices. This is so, because the national income figures at current year prices value the output of that year at the prices prevailing in that very year. May be, if output remains the same next year, but the prices go up, then the national income figures will show a higher estimate than what the real output has been during the year for which the estimates have been made. Thus, to estimate the effect of rising prices on the value of output, it is necessary to compare the national income figures at constant prices. This would give

an accurate idea of the changes in real income i.e., changes in the output of goods and services obtaining in these two years under comparison. Table 4.1 presents the national income estimates in India since 1950-51 onwards.

**Table II:** National Income (MNPfc) and Per Capita Income in India

Year	National Income (Rs. crores)		Per Capita Income (Rupees)	
	At current Prices	At 2004-05 prices	At current prices	At 2004-05 prices
1950-51	9464	255405	264	7114
1960-61	16169	385768	373	8889
1970-71	41294	541867	763	10016
1980-81	125761	727359	1852	10712
1990-91	471618	1202305	5621	14330
2000-01	1762358	2074858	17295	20632
2005-06	3000666	2877284	27131	26015
2010-11	6422359	4310191	54151	36342
2011-12	7399935	4572075	61564	38037

Source Compiled from Economic Survey 2012-13

Q – Quick Estimates

A – Advanced Estimates

**Table III:** Average Annual Growth Rates of National and Per Capita Income

	MNP		Per Capita Income	
	At current Prices	At Constant prices	At current prices	At Constant prices
First Plan (1951-56)	1.9	4.2	0.0	2.
Second Plan (1956-61)	9.6	4.2	7.4	2.2
Third Plan (1961-66)	9.5	2.6	7.1	0.6
Annual Plan (1966-69)	12.2	3.7	9.8	1.5
Fourth Plan (1969-74)	10.8	3.2	8.4	0.9
Fifth Plan (1974-79)	10.4	4.9	8.0	2.6
Annual Plan (1979-80)	8.4	-5.9	5.8	-8.2
Sixth Plan (1980-85)	15.3	5.4	12.8	3.1
Seventh Plan (1985-90)	13.8	5.5	11.4	3.3
Two Annual Plans (1990-92)	15.3	2.8	13.0	0.8
Eighth Plan (1992-97)	16.6	6.7	14.2	4.6
Ninth Plan (1997-02)	10.6	5.5	8.6	3.6
Tenth Plan (2002-07)	12.8	5.5	11.1	5.9
Eleventh Plan (2007-12)	15.9	7.7	14.3	6.3

Source: Compiled from Economic Survey 2012-13

**5.1 Trends in National Income:** National Income of India, at 2004-05 prices, has grown from Rs. 2,55,405 crores in 1950-51 to Rs. 45,72,075 crores in 2011-12. This indicates over sixty fold rise in over sixty years. However, this growth has neither been uniform nor steady during this period. During the first plan, the annual growth rate was 4.2 percent, which remained at 4.2 percent in the second plan as well, but it plunged to 2.6 percent in the Third Plan. It improved to 3.7 percent during the Three Annual Plans between 1966 and 1969. There was some decline in the Fourth Plan during which national income increased at an annual rate of 3.2 percent. The Fifth Plan period saw a growth rate of 4.9 percent while during 1979-80, the national income had a negative growth rate, i.e., the national income was lower than the preceding year by 5.9 percent. Overall growth in three decades viz. 1951-1981 was around 3.5 percent. The Sixth Plan was grand success and national income increased by 5.4 percent. In the Seventh Plan there was a steady rise in national income (5.5 percent). The growth rate fell in the next two years. During the Eighth Plan national income recorded a high growth rate of 6.7 percent, which was the highest achievement in any of the plan gone by. However, this tempo could not be maintained during the Ninth Plan as the economy recorded a 5.5 percent growth rate during

this plan. Tenth Plan has envisaged a growth rate of 8 percent over the period 2002-07, but achieved only 5.5 percent increase in national income. The Eleventh Plan however showed a better performance and achieved 7.7 percent annual growth. The Twelfth Plan (2012-17) seeks to achieve annual growth rate of over 8 percent. One thing that clearly emerges from the growth trend in national income is that whereas during the first three decades of development viz., 1951-81, the growth rate was low and revolved around 3.5 percent, from 1981 onward the economy has entered a relatively higher growth phase.

**5.2 Trends in Per Capita Income:** The per capita income in India has not grown at a pace at which national income has risen over the past four decades. At 2004-05 prices the per capita income in 1950-51 was Rs. 7,114. It has gone up only to Rs. 38,037 by the end of 2011-12. There has, thus, been only a little, over a five fold increase in per capita income over this long period of over six decades. The reason for this slow growth of per capita income is the rapid growth of India's population during this period. Increasingly large number of people being added to the existing population every year take

away a major share of increase in national income and, thus, permit only a small rise in her capita income.

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