



Trends in National Income of India

KEYWORDS

National Income, Per Capita Income, Economy & Trend

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Principal

ABSTRACT

An economy is an organization of the processes of production and exchange through which people earn their living. The national economy, thus, comprises 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 consumption, saving and investment. The current series of national income estimates records India's national income since 1950-51 onwards. For the purpose of comparing national income and per capita incomes over different years, the estimates of national and per capita income at some constant base-year prices are taken. This is so, because the national income figures at current year prices value the output of the year at the prices prevailing in that very year. This article describes the major trends in national income in India since 1950-51. It also analyze the trend of national income over sixty years.

Introduction

National Income is defined as the sum total of all the goods and services produced in a country, in a particular period of time. National Income is a composite measure 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.

Irving Fisher defined National Income as "The National dividend or income consists solely of services as received by the ultimate consumers, whether from their material or from human environments. Thus a piano or an overcoat made for me this year is not a part of this year's income, but an addition to capital. Only the services rendered to me during this year by these things are income."

An economy is an organization of the processes of production and exchange through which people earn their living. The national economy, thus, comprises 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 consumption, saving and investment.

National Income 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.

The creation of National Income

The simplest way to think about national income is to consider what happens when one product is manufactured and sold. In short national income is the value of all the final output of goods and services produced in one year. There are three methods of calculating national income:

The income method, which adds up all incomes received by the factors of production generated in the economy

during a year. This includes wages from employment and self-employment, profits to firms, interest to lenders of capital and rents to owners of land.

The output method, which is the combined value of the new and final output produced in all sectors of the economy, including manufacturing, financial services, transport, leisure and agriculture.

The Expenditure method, which adds up all spending in the economy by households and firms on new and final goods and services by households and firms. The components of national output are valued according to their importance to the overall economy. The weights used were based on estimates made every five years but from 2003 an annual adjustment to the weightings was introduced to improve the reliability of the weighting a process called annual chain linking. This allowed for a more up-to-date and therefore a more accurate measure of changes to the level of national income.

Trends in National Income

National Income estimates are published annually by the Central Statistical Organization 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.

Those based on current prices, i.e. the prices prevailing in the year to which the estimates relate and

Those based on specified base-year prices, popularly known as national income at constant prices.

The base year for the current series is 2004-05 till the year 2011-12. For years after 2011-12, as new series has been published and estimates for the later years are available with 2011-12 as the base year.

For the purpose of comparing national income and per capita incomes over different years, it is desirable to take into account 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 the year at the prices prevailing in that very year.

Table - 1
National Income (Net National Product at Factor Cost) & Per Capita Income in India 1950-51 to 2014-15

Year	National Income (Rs. Crore)		Per Capita Income (Rupees)	
	At Current Prices	At Constant Prices	At Current Prices	At Constant Prices
Base Year 2004-05				
s1950-51	9829	269724	274	7513
1960-61	17062	411519	393	9482
1970-71	44550	596470	823	11025
1980-81	138565	795193	2041	11711
1990-91	526017	1342031	6270	15996
2000-01	1947788	2291795	19115	22491
2010-11	6942089	4657438	58534	39270
2011-12	8052996	4958849	66997	41255
Base Year 2011-12				
2011-12	7846531	7846531	64316	64316
2012-13	8841733	8193427	71593	66344
2013-14	10056523	8751834	80388	69959
2014-15	11217079	9400266	88533	74193

Source: Economic Survey 2014-15.

Table - 2
Average Annual Growth Rates of national and Per Capita Income (Percent)

Year	NNP		Per Capita Income	
	At Current Prices	At Constant Prices	At Current Prices	At Constant Prices
First Plan (1951-56)	2.1	4.6	0.3	2.7
Second Plan (1956-61)	9.7	4.1	7.5	2.1
Third Plan (1961-66)	10.0	3.3	7.6	1.0
Three Annual Plans (1966-69)	12.0	3.5	9.6	1.3
Fourth Plan (1969-74)	11.0	3.0	8.5	0.7
Fifth Plan (1974-79)	10.8	5.0	8.6	2.7
Annual Plan (1979-80)	9.0	-5.9	6.4	-8.2
Sixth Plan (1980-85)	15.1	5.3	12.7	3.1
Seventh Plan (1985-90)	14.0	5.8	11.6	3.6
Two Annual Plans (1990-92)	15.3	2.8	13.0	0.8
Eight Plan (1992-97)	16.3	6.5	14.0	4.4

Year	NNP		Per Capita Income	
	At Current Prices	At Constant Prices	At Current Prices	At Constant Prices
Ninth Plan (1997-02)	10.6	5.4	8.5	3.4
Tenth Plan (2002-07)	12.8	7.6	11.1	5.9
Eleventh Plan (2007-12)	16.0	7.5	14.4	6.0
2012-13	12.7	4.4	11.3	3.2
2013-14	13.7	6.8	12.3	5.4
2014-15	11.5	7.4	10.1	6.4

Source: Compiled from Economic Survey 2014-15.

Table - 1 indicates that the national income of India, at 2004-05 prices, has grown from Rs. 2,55,405 crore in 1950-51 to Rs. 45,72,075 crore in 2011-12. This indicates over sixtyfold rise in over sixty years. However, this growth has neither been uniform nor steady during this period. Table - 2 indicates that during the First Plan, the annual growth rate was 4.6 percent. The Fifth Plan period saw a growth rate of 5.0 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 35 percent. The Sixth Plan was a grand success and national income recorded a high growth rate of 6.5 percent, which was the highest achievement in any of the Plans gone by. The Eleventh Plan however showed a better performance and achieved 7.5 percent annual growth. The Twelfth Plan (2012-17) seeks to achieve annual growth rate of over 8 percent.

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. 7,513. It has gone up only to Rs. 41,255 by the end of 2011-12. Under the new series per capita income increased from Rs. 64,316 in 2011-12 to Rs. 74,193 in 2014-15. There has, thus been only about six fold increase in per capita income over this long period of over six decades till 2011-12. The main reason for this slow growth is population explosion in India during this period.

Trend in Sectoral Composition of National Income

Broad trends in the distribution of Gross Domestic Product (GDP) by industry of origin since 1950-51 are presented below.

Table - 3
Structure of GDP: Sectoral Distribution of GDP at Constant Prices (Since 1950-51)

Year	Agriculture & Allied Activities	Manufacturing, Construction, Electricity, etc.	Services including Trade, Transport, Storage, etc.
At 2004-05 Prices			
1950-51	55.0	17.0	28.0
1980-81	41.8	21.6	36.5
1990-91	34.9	24.6	40.5
2000-01	25.8	23.8	50.4

Year	Agriculture & Allied Activities	Manufacturing, Construction, Electricity, etc.	Services including Trade, Transport, Storage, etc.
2010-11	16.7	26.0	57.3
2011-12	16.5	26.1	57.4
At 2011-12 Prices			
2011-12	21.6	29.9	48.5
2012-13	20.8	29.3	50.0
2013-14	20.2	28.7	51.1
2014-15	19.0	28.4	52.5

Source: Compiled from Economic Survey 2014-15.

Table – 3 Indicates that there is substantial decline in the share of primary sector in GDP over the last six decades. The primary sector (agriculture, forestry, fishing, mining, etc.) under the new series with the base year 2011-12, share of agriculture and allied sector was revised upwards to 21.6 percent in 2011-12 that declined to 19 percent in 2014-15. The contribution of the secondary sector (manufacturing industry, construction, electricity, gas and water supply etc.) under the new series with the base year 2011-12 was 30 percent in 2011-12. In 2014-15, the secondary sector contributes over 28 percent of GDP.

Reasons for Rapid Growth of Service Sector

The factors responsible for the rapid growth of the tertiary sector are :

- With the economic growth and industrial development, demand for services like transport, communication, electricity, storage, finance etc, increased tremendously and that led to the expansion of tertiary sector.
- Rapid Development of Information Technology service has proved to be a great source of expansion of tertiary sector.

- Defence, civil administration, economic and Social service like health, education, etc., too have made a huge contribution to the service sector.
- Due to increase in the income of the people has increased demand for services like hotels and restaurants, transport, communication and many other kinds of services.

Conclusion

Indian economy has witnessed a rapid growth of the tertiary sector while relative contribution of industry has not shown the expected change that has been seen in the development process of the contemporary advanced countries, though share of agriculture has undergone the changes on expected lines. 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.

There has, thus been only about six fold increase in per capita income over this long period of over six decades till 2011-12. The main reason for this slow growth is population explosion in India during this period. Indian economy had a major structural change and rapid growth of the service sector. This sector contributed a mere 28 percent share of GDP in 1950-51 which had more than doubled by the year 2011-12.

To sum up, the trends in national income reflect the growth of Indian economy, which has been sometimes slow and erratic, but is moving ahead gradually in a planned manner. Decline in the share of primary sector, increased contribution of tertiary sector and growing share of secondary sector are the trends in the direction of development and progress.

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