SYNOPSIS

AN ANALYSIS OF SECTORAL PERFORMANCE OF INDIAN ECONOMY SINCE 1980-81

INTRODUCTION

Process of economic development in any economy is multi dimensional involving structural transformation. There is a consensus among economists and scholars that with the growth of an economy there will also be a structural transformation in the composition of its national income. In the beginning of the 21st century the global economy, had undergone significant structural changes. A growing economy undergoes structural changes in the process of its economic development. The conventional wisdom about the various stages of the developmental process suggests that an economy changes from being an agriculture – dominated one to that of an industry-dominated economy and then to a services-dominated society. The credibility of the above –dictum had been established empirically by the experiences of the advanced countries of today. Any deviation from this established path does not enable a county to reach the destination of economic growth smoothly. Even, if it achieves economic development, the development would be volatile and unstable. These trends had been challenged nowadays at the national and at the international levels. It could be observed that along with economic development, there would be a rapid transition from agriculture to that of the service sector, while industry or the
secondary sector lagged behind. This trend could be observed in the sectoral share of the GDP and its contribution to employment.

The occupational structure of a country refers to the distribution or the division of its employed population among the different sectors. There is a close relationship between the economic development of an economy on the one hand and its occupational structure on the other.

The historical roots of economic development could be modestly traced back to the eighteenth century seminal work of Adam Smith, and sectoral imbalance was indeed the central idea in the then development thinking in the “The Wealth of Nations”. He had explained the relevance of the sectoral imbalance and the resulting constraints in the process of economic development.

In a closed economy, the output growth of manufactures depended on the size of the agricultural surplus, while in an open economy it was largely influenced by the size of the potential foreign exchange earnings. The crux of the development debate was the question as to whatever agriculture or the manufacturing industry was the more important sector. The Physiocrats were in favour of agriculture as manufacturing could not add to the existing physical resource base; whereas Mercantilists preferred manufacturing, as its output could be easily traded for profit. Obviously, the early economists were much concerned with the issue of sectoral imbalance.
Further, Colin Clark had argued that “A high average level of real income per head is always associated with a high proportion of the working population engaged in tertiary industries… low real income per head is always associated with a low proportion of the working population engaged in tertiary production and a high percentage in primary production.”

According to economists like Fisher, “In every progressive economy, there has been a steady shift of employment and investment from the essential ‘primary’ activities… to ‘secondary’ activities of all kinds and to a still greater extent into ‘tertiary’ production”.

According to Thomas Tomich, Peter Kilby and Bruce Johnston, “Structural transformation accompanying rising per capita income can be considered along two dimensions, changing output shares and reallocation of the labour force. In both dimensions, structural transformation is characterized by ‘relative’ decline in the agricultural sector. But absolute levels of agricultural output and employment will rise throughout much of the prolonged process of structural transformation.”

Structural changes took place in the various economies as the process of economic development preceded further and gathered momentum. The most common pattern of the structural changes followed a sequence pattern of a shift from Agriculture to that of Industry and then to the Service sector, these structural
changes were observed both in their relative shares of national product and in the labour force.

**Statement of the Problem**

India had declared economic growth as its main policy objective, with the firm belief that dualism and its associated evils of income and social inequalities could be eliminated through economic growth and modernization. A rise in per capita income and a reduction and the ultimate elimination of poverty became the objective as well as yardstick for measuring India’s economic development during the fifties. The then prevailing major theoretical contributions, such as the ‘Big push’ (Rosentin-Rodan), ‘Balanced growth’ (Nurkse), and ‘Take off into sustained growth’ (Rostow) had a profound influence on the formulation of India’s development strategy which had emphasised the role of investment in modern activities in one chosen sector, within an aggregate framework. In the light of these dictums, Mahalanobis had envisaged ‘industrialization’ as the ‘engine of growth’ which it would facilitate a transfer of unutilised resources (agriculture surplus and surplus labour) from low productivity areas like agriculture to the high productivity areas such as the industrial sector. In the earlier eighties, the dualistic framework of agriculture and that of non-agriculture had prevailed in India. The stagnation in the industrial growth since the mid-sixties was attributed to the favourable terms of trade. However, Ahuwalia (1985)
had argued that industrial stagnation was due to supply constraints and not due to wage goods constraints.

The eighties had witnessed a shift in the development strategy in India from that of the planning regime to that of liberalization regime. During the three decades (from 1950-51 to 1980-81) economic growth on an average was around 3.5 percent per year which had been referred to as the ‘Iron or the Hindu rate of growth’. There was acceleration in the rate of economic growth during the 1980s to the level of 5.6 percent a year, due to a clear acceleration in the growth performance in all the three constituent sectors, namely, Agriculture, Industry and Services. The complementary elements of the strategy of the eighties had also included an outward orientation, a greater reliance on the market forces and the minimization of the role of the government. The First Export and Import Policy of 1978-79, the deregulation of the industries, the opening up of the secondary share market and the export orientation of the eighties were termed as the first phase of initiating the Indian economy through liberalization. The ‘eighties’ was also seen as the period of rapid structural changes in the Indian economy moving towards a service oriented economy when the work force was very nearly equal to that of the labour force of the economy. Unfortunately, the growth acceleration of the eighties was accompanied by the emergence of the unsustainable fiscal deficits, costly anti-export bias in the trade policy and the current account deficit in India’s balance of Payments.
In July 1991, many economic emergency measures were undertaken in India to restore the external and the domestic confidence in the economy and its management. It is referred to as the New Economic Policy (NEP). This Structural Adjustment Policy (SAP) had envisaged rapid industrialization together with modernization for achieving to as faster rate of growth of GDP. The economy responded exceptionally well to these initiatives. In the nineties a prominent feature of the growing economic development of the Indian economy was the emergence of the services sector which involved a very heterogeneous spectrum of economic activities.

On the empirical side, the earlier attempts to explain the inter-sectoral balanced growth had brought out two important issues, namely, (i) structural transformation in the Indian economy and (ii) inter-sectoral linkages. Much of the earlier studies had confined to themselves assessment of the growth performance rather than paying much attention to structural transformation towards modern economic growth. Similarly, the inter-sectoral linkages had been studied to identify the demand versus the supply constraints to growth.

The performance of the contribution of the service sector’s share of GDP had been marked by a simultaneous fall in the primary sector’s contributions and only by a very smaller rise in a contribution from the secondary sector. Even in India, the primary sector had been holding a higher percentage of a workforces,
the secondary sector had dominated in the exports of India during pre and the post reform periods. The growth of the services sector had been independent of the growth of the commodity sector which was considered to be bad. Besides, the share of the services’ sector in the national income was found to be much higher than its corresponding share in the level of employment. In recent years, jobless growth had become a characterize feature of the Indian economy. Against this back drop, the present study makes a modest attempt to study the performance of the Sectoral shares of the economy in GDP, the employment and the exports that accompany the process of economic growth under two different policy regimes namely, the pre-reform period (1980-81 to 1990-91) in relation to the post-reform period (1991-92 to 2006-07).

**Objectives:**

The study is set to meet the following objectives

1. To study the performance and the structural changes of the primary sector with respect to GDP, Workforce and Exports

2. To examine the performance and structural changes of the secondary sector with respect to GDP, Workforce and Exports.

3. To analyse the performance and structural changes of the tertiary sector in GDP, Workforce and Exports.

4. To assess the emerging sectoral pattern in the Indian economy.
METHODOLOGY

Data Source

The present study is completely dependent on the secondary data, since it requires a series of aggregate time series data spread over a period of time. Secondary data for the present study were obtained from various issues of the Reserve Bank of India Bulletin, published by the RBI, The Economic Surveys of India, India’s Economic Development Report, the National Sample Survey Organisation’s Reports, Tata Institute of Fundamental Research Reports, and from the articles published in the various journals, such as, The journal of Economic and Political Weekly, The journal of ‘Southern Economist’, Fiver Year plans, the Central Statistical Organization’s publications and news items in the daily newspapers such as ‘The Hindu’, ‘The Economic Times’, and ‘Business line’.

Period of study

A period of twenty-seven years from 1980-81 to 2006-07, was selected for the purpose of this study. The period of study was further divided into two ‘sub-periods’ namely, the pre-reform period covering the years 1980-81 to 1990-91 and the post reform period covering the period 1991-92 to 2006-07. The post-reform period had been specifically chosen after taking into consideration the drastic changes that had taken place in the Indian economy after the adoption of the New Economic Reforms since 1991-92. Another reason for choosing this period was
that, in response to a fiscal and balance of payments’ crisis that occurred in the year 1991, the Economic Reforms adopted since 1991-92 had contributed more meaningfully to the attainment of the higher rates of economic growth in India. The Reform process in India had been in vogue for more than 27 years. Complete and comprehensive data were also readily available for the period chosen to make the study a scientific and reliable one. Hence, the researcher had preferred to choose these twenty-seven years for the present research study.

**Tools of Analysis**

With a view to study the sectoral performances of the Indian economy since 1980, the relevant and appropriate statistical tools had been used in the present study. The results of the analysis had further been interpreted and reliable observations had been made from out of the analysis.

The researcher had analysed the collected data with the basic objectives of the study in his mind. The tools that had been made use of include the following.

(i) Index numbers
(ii) The Time Series Analysis
(iii) The Semi-Log Model; and
(iv) The Chow test
(v) Multiple Regression Analysis
(vi) ‘t’ test
**Layout of the study**

The first chapter introduces the concepts, empirical framework of structural transformation, the main variables used in the study, the need for the study, the statement of the research problem, objectives, and limitations of the study and the layout of the study.

The second chapter deals with a review of the related literature and the research gap, the methodology, and the list of the tool used for the analysis in this study.

The third chapter analyses the performance and the structural changes of the primary sector with respect to GDP, Workforce and Exports

The fourth chapter studies about the performance and the structural changes of the secondary sector in relation to GDP, Workforce and Exports

The fifth chapter examines the performance and the structural changes of the tertiary sector in GDP, Workforce and Exports

The sixth chapter studies the performance of the overall GDP, workforce and exports and the emerging sectoral pattern in the Indian economy

The seventh chapter presents a summary of the findings, suggestions and conclusions.