Chapter I
Introduction

Modern economic development cannot be explained satisfactorily in terms of labour and capital alone. A large number of theories of economic development have been propounded in the recent past. Different factors have been identified as determinants of growth in different growth models. The modern economists emphasize the catalytic role that technological changes play in the growth of an economy. The technological changes bring about an increase in per capita income, either by reducing the amount of inputs per unit of output or by yielding more output for a given amount of input. Technological change in an economy, therefore, refers to change in the input-output relations of production activities. Consequently, as the economy moves from lower to higher stages of development, there occurs a shift from simpler to more modern and complicated techniques of production on the one hand and from primary to secondary and/or to tertiary sectors on the other. The excess growth of tertiary sector coupled with state-of-the-art technology has got its own implications for the future development patterns of the system.

In India, the share of tertiary sector in the gross domestic product has crossed the fifty four percent mark. The nature and role of this excessive tertiarization has become a matter of concern. The work is an attempt to analyze the structure, linkage pattern and dynamics of the tertiary sector growth in India and its implications for the future.
1.1: Review of Studies

The studies available on tertiary sector may be classified into four broad categories. First, the nature, structure, characteristics and the growth of tertiary sector have been studied by most of the studies. The second category of studies deals with the changing pattern of employment generation and labour productivity in tertiary sector. Third set of studies relates to recent excessive and out-stretched growth of tertiary sector in some developing countries of world. Another set of studies relates to Leontief’s model wherein interrelatedness among different sectors has been studied.

The review of studies is indicative of the fact that most of the studies done so far, on Indian economy, are too aggregative or even if the desegregation has been achieved, the coverage is too small. Most of the studies have dealt with individual sub-sectors or the overall economy-wide aggregates and have failed to capture the underlying structure, dynamics and linkage pattern of the tertiary sector. A study fortified with disaggregated data going rigorously into structure, dynamics and linkage pattern of the tertiarization of Indian economy is need of the time.

1.2: Objectives

In this work it has been broadly hypothesized that the liberalization, characterized by excessive and skewed tertiarization of the economy, has its own consequences in terms of structure, linkage pattern and macro dynamics of the system. From this point of view, the main objectives of the study are:
1. To analyze the nature, structure and growth of tertiary sector in India.

2. To delineate the structural change in tertiary sector into its time and space dimension in India.

3. To analyze the backward and the forward linkage behaviour of the tertiary sector at a disaggregated level.

4. To explore the macroeconomic dynamics of the outstretched growth of tertiary sector in India.

1.3: Methodology

Keeping in view the broad objectives of the study, the secondary data on the Indian economy has been used. For analysis of structure, the sector level data from ‘National Accounts Statistics’ (CSO) have been used. In addition, some individual service sector specific sub-sector departmental data sources also form the database of the study. The structural change has been analyzed with reference to sectoral shares, production structure, employment structure, input structure and some other key elements of structure. Using statistical techniques, the temporal and spatial dimension of the tertiarization has been explored. In order to analyze the production structure, the data has been obtained from various issues of ‘Economic Survey of India’ for the year 1950-51 to 2006-07. The data for analyzing employment structure has been obtained from various rounds surveys of National Sample Survey Organization for the year 1993-94, 2000-01 and 2004-05 respectively.

To analyze the linkage patterns and the underlying
dynamics, a series of input-output transaction tables for the year 1968-69, 1973-74, 1978-79, 1983-84, 1989-90, 1993-94, 1998-99, and 2003-04 have been used. Wherever needed, appropriate price adjustments and data refinements have been done. In order to analyze the above data, tabular analysis has been supported with percentages, averages, growth rates and measures of forward and backward linkages.

1.4: Chapter Scheme

The opening chapter introduces the nature and dimension of the problem. Second chapter relates to review of theory and empirics on the subject matter. The model and methodology have been given in the next chapter. Chapter fourth deals with structural change with special reference to tertiary sector in India. Chapter fifth comprises of the analysis of underlying structural dynamics and linkage patterns of tertiary sector in India. Last chapter summarizes the broad conclusions and policy implications of the study.

1.5: Conclusion

The broad conclusion that emerges from the work is that excessive tertiaization of the Indian economy is the result of two factors: first being the higher efficiency of labour in this sector and second being the domestic and export demand for products of this sector. The tertiary sector has not been the result of natural outgrowth and linkage patterns of the system. It is a poorly linked sector, on both production and the distribution front. The footloose nature of this outgrowth raises many issues relating to its viability in the long run.
On the policy front, long-run viability and sustainability of such a tertiary sector needs to be analyzed with a larger database. Tertiary sector growth is driven by domestic and export demand, but the much needed technology driven change is missing in the economy. To keep this change viable, heavy investment in technological change in tertiary sector is needed. The public and private initiative to invest in research and development is need of the time. As tertiary sector growth and its translation into higher per capita income growth is a function of human capital, hence a massive investment, both private and public, is called for.

There is an ample scope to improve the economic growth via tertiary sector growth, provided the proper human resource planning and integration of tertiary sector with commodity sector is done.