UNIT 1: INDIAN ECONOMY: ITS BASIC CHARACTERISTICS, DEVELOPMENT AND GROWTH

UNIT STRUCTURE

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1.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- be familiar with the state of the Indian economy in 1947, the year of India's Independence
- describe the factors that led to the underdevelopment and stagnation of the Indian economy
- become familiar with the different sectors of the Indian economy
- discuss the characteristics of India as a developing economy
- trace the emerging issues that the Indian economy faces today

- discuss the trend of growth and composition of national income in India.

1.2 INTRODUCTION

The primary objective of this unit is to make you familiar with the basic features of the Indian economy, in the aftermath of Independence as well as in the present context. It is equally important to know something about the country's economic past to understand its present state and future prospects. So, let us first look at the state of India's economy prior to the country's independence.

The structure of the Indian economy today is not just of current making; it has its roots steeped in history, particularly in the period when India was under the British rule which lasted for almost two centuries before India finally won its independence on 15 August 1947. The sole purpose of the British colonial rule in India was to reduce the country to turn it into a feeder economy for Great Britain's own rapidly expanding modern industrial base. An understanding of the exploitative nature of this relationship is essential for any assessment of the kind and level of development which the Indian economy has been able to attain over the last six decades.

1.3 INDIAN ECONOMY IN THE PRE-INDEPENDENCE PERIOD

India had an independent economy before the advent of the British rule. Though agriculture was the main source of livelihood for most people, yet, the country's economy was characterised by various kinds of manufacturing activities. India was particularly well known for her handicraft industries in the fields of cotton and silk textiles, metal and precious stone works etc. These products enjoyed a worldwide reputation of the fine quality of material used and the high standards of craftsmanship. The economic policies pursued by the colonial government in India were more concerned with the protection and promotion of the economic interests of their home economy than with the development of the Indian economy. Such policies brought

about a fundamental change in the structure of the Indian economy — transforming the country into a net supplier of raw materials to the British economy and consumer of finished industrial products from Britain.

Obviously, the colonial government never made any sincere attempt to estimate India's national and per capita income. Some individual attempts which were made to measure such incomes yielded conflicting and inconsistent results. Among the notable estimators — Dadabhai Naoroji, William Digby, Findlay Shirras, V.K.R.V. Rao and R.C. Desai — it was Rao whose estimates of the national and per capita incomes during the colonial period were considered very significant. However, most studies did find that the growth of the country's aggregate real output during the first half of the twentieth century was less than two per cent coupled with a meagre half per cent growth in per capita output per year.

1.3.1 Agricultural Sector

India's economy under the British colonial rule remained fundamentally agrarian — about 85 per cent of the country's population lived mostly in villages and derived livelihood directly or indirectly from agriculture. However, despite being the occupation of such a large population, the agricultural sector continued to experience stagnation and, not infrequently, unusual deterioration. Agricultural productivity became incrementally low, though in absolute terms, the sector experienced some growth due to the expansion of the aggregate area under cultivation. This stagnation in the agricultural sector was caused mainly because of the various systems of land settlement that were introduced by the colonial government. Under the zamindari system which was implemented in the then Bengal Presidency comprising parts of India's present-day eastern states, the profit accruing out of the agriculture sector went to the zamindars instead of the cultivators. However, a considerable number of zamindars, and not just the colonial government, did nothing to improve the condition of agriculture. The

main interest of the zamindars was only to collect rent regardless of the economic condition of the cultivators; this caused immense misery and social tension among the latter. To a very great extent, the terms of the revenue settlement were also responsible for the zamindars adopting such an attitude; dates for depositing specified sums of revenue were fixed, failing which the zamindars were to lose their rights. Besides this, low levels of technology, lack of irrigation facilities and negligible use of fertilisers, all added up to aggravate the plight of the farmers and contributed to the dismal level of agricultural productivity. There was, of course, some evidence of a relatively higher yield of cash crops in certain areas of the country due to commercialization of agriculture. But this could hardly help farmers in improving their economic condition as, instead of producing food crops, now they were producing cash crops which were to be ultimately used by British industries back home. India's agricultural production received a further setback due to the country's partition at the time of independence. A sizeable portion of the undivided country's highly irrigated and fertile land went to Pakistan; this had an adverse impact upon India's output from the agriculture sector. Particularly affected was India's jute industry since almost the whole of the jute producing area became part of East Pakistan (now Bangladesh). India's jute goods industry (in which the country had enjoyed a world monopoly so far), thus, suffered heavily for lack of raw material.

1.3.2 Industrial Sector

As in the case of agriculture, so also in manufacturing, India could not develop a sound industrial base under the colonial rule. Even as the country's world famous handicraft industries declined, no corresponding modern industrial base was allowed to come. The primary motive of the colonial government behind this policy of systematically deindustrialising India was two-fold. The intention was, first, to reduce India to the status of a mere exporter of important

raw materials for the upcoming modern industries in Britain and, second, to turn India into a sprawling market for the finished products of those industries so that their continued expansion could be ensured to the maximum advantage of their home country — Britain. In the unfolding economic scenario, the decline of the indigenous handicraft industries created not only massive unemployment in India but also a new demand in the Indian consumer market, which was now deprived of the supply of locally made goods. This demand was profitably met by the increasing imports of cheap manufactured goods from Britain. During the second half of the nineteenth century, modern industry began to take root in India but its progress remained very slow. Initially, this development was confined to the setting up of cotton and jute textile mills. The cotton textile mills, mainly dominated by Indians, were located in the western parts of the country, namely, Maharashtra and Gujarat, while the jute mills dominated by the foreigners were mainly concentrated in Bengal. Subsequently, the iron and steel industries began coming up in the beginning of the twentieth century. The Tata Iron and Steel Company (TISCO) was incorporated in 1907. A few other industries in the fields of sugar, cement, paper etc. came up after the Second World War. However, there was hardly any capital goods industry to help promote further industrialisation in India. The establishment of a few manufacturing units here and there was no substitute to the near wholesale displacement of the country's traditional handicraft industries. Furthermore, the growth rate of the new industrial sector and its contribution to the Gross Domestic Product (GDP) remained very small. Another significant drawback of the new industrial sector was the very limited area of operation of the public sector. This sector remained confined only to the railways, power generation, communications, ports and some other departmental undertakings.

1.3.3 Foreign Trade

India has been an important trading nation since ancient times. But the restrictive policies of commodity production, trade and tariff

pursued by the colonial government adversely affected the structure, composition and volume of India's foreign trade. Consequently, India became an exporter of primary products such as raw silk, cotton, wool, sugar, indigo, jute etc. and an importer of finished consumer goods like cotton, silk and woollen clothes and capital goods like light machinery produced in the factories of Britain. For all practical purposes, Britain maintained a monopoly control over India's exports and imports. As a result, more than half of India's foreign trade was restricted to Britain while the rest was allowed with a few other countries like China, Ceylon (Sri Lanka) and Persia (Iran). The opening of the Suez Canal further intensified British control over India's foreign trade. The most important characteristic of India's foreign trade throughout the colonial period was the generation of a large export surplus. But this surplus came at a huge cost to the country's economy. Several essential commodities—food grains, clothes, kerosene etc. — became conspicuous by their acute scarcity in the domestic market. Furthermore, this export surplus did not result in any flow of gold or silver into India. Rather, this was used to make payments for the expenses incurred by an office set up by the colonial government in Britain, expenses on war, again fought by the British government, and the import of invisible items, all of which led to the drain of Indian wealth.



CHECK YOUR PROGRESS

Q 1: State whether True (T) or False (F)

(a) India's economy under the British colonial rule remained fundamentally agrarian. (T/F)

(b) V.K.R.V. Rao's estimation of the national and per capita incomes during the colonial period were considered very significant. (T/F)

Q 2: When was TISCO formed? What is the full form of TISCO.

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Q 3: Why did the colonial government try to de-industrialise the Indian economy? (Answer in about 60 words)

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1.3.4 Demographic Condition & Occupational Structure

Demographic Condition : Various details about the population of British India were first collected through a census in 1881. Though suffering from certain limitations, it revealed the unevenness in India's population growth. Subsequently, every ten years such census operations were carried out. Before 1921, India was in the first stage of demographic transition. The second stage of transition began after 1921. However, neither the total population of India nor the rate of population growth at this stage was very high. The various social development indicators were also not quite encouraging. The overall literacy level was less than 16 per cent. Out of this, the female literacy level was at a negligible low of about seven per cent. Public health facilities were either unavailable to large chunks of population or, when available, were highly inadequate. Consequently, water and air-borne diseases were rampant and took a huge toll on life. No wonder, the overall mortality rate was very high and in that, particularly, the infant mortality rate was quite alarming—about 218 per thousand in contrast to the present infant mortality rate of 30 per thousand. Life expectancy was also very low—32 years in contrast to the present 67 years and 9 months. In the absence of reliable data, it is difficult to specify the extent of poverty at that time but there is no doubt that extensive poverty prevailed in India during the colonial period which contributed to the worsening profile of

India's population of the time.

Occupational Structure : During the colonial period, the occupational structure of India, i.e., distribution of working persons across different industries and sectors, showed little sign of change. The agricultural sector accounted for the largest share of workforce, which usually remained at a high of 70-75 per cent while the manufacturing and the services sectors accounted for only 10 and 15-20 per cent respectively. Another striking aspect was the growing regional variation. Parts of the then Madras Presidency (comprising areas of the present-day states of Tamil Nadu, Andhra Pradesh, Kerala and Karnataka), Maharashtra and West Bengal witnessed a decline in the dependence of the workforce on the agricultural sector with a commensurate increase in the manufacturing and the services sectors. However, there was an increase in the share of workforce in agriculture during the same time in states such as Orissa, Rajasthan and Punjab.

1.3.5 Infrastructure

Roads constructed in India prior to the advent of the British rule were not fit for modern transport. The colonial administration also could not accomplish much on this front due to a paucity of funds. The roads that were built primarily served the purposes of mobilising the army within India and drawing out raw materials from the countryside to the nearest railway station or the port to send these to far away England or other lucrative foreign destinations. There always remained an acute shortage of all weather roads to reach out to the rural areas during the rainy season. Naturally, therefore, people living mostly in these areas suffered grievously during natural calamities and famines. The British introduced the railways in India in 1850 and it is considered as one of their most important contributions. The railways influenced the structure of the Indian economy in two important ways. On one hand, it enabled people to

undertake long distance travel and thereby break geographical and cultural barriers, while, on the other, it fostered commercialisation of Indian agriculture which adversely affected the comparative self-sufficiency of the village economies in India. The volume of India's export trade undoubtedly expanded but its benefits rarely accrued to the Indian people. The social benefits, which the Indian people gained owing to the introduction of the railways, were thus outweighed by the country's huge economic loss. Along with the development of roads and railways, the colonial rulers also took measures for developing the inland trade and sea lanes. However, these measures were far from satisfactory. The inland waterways, at times, also proved uneconomical as in the case of the Coast Canal on the Orissa coast. Though the canal was built at a huge cost to the government exchequer, yet, it failed to compete with the railways, which soon traversed the region running parallel to the canal, and ultimately the canal had to be abandoned. The introduction of the expensive system of electric telegraph in India, served the purpose of maintaining law and order. The postal services, on the other hand, despite serving a useful public purpose, remained all through inadequate.

By the time India won its independence, the agricultural sector was already saddled with surplus labour and extremely low productivity. The industrial sector was crying for modernisation, diversification, capacity building and increased public investment. Foreign trade was oriented to feed the Industrial Revolution in Britain. Infrastructure facilities, including the famed railway network, needed upgradation, expansion and public orientation. Prevalence of rampant poverty and unemployment required welfare orientation of public economic policy. In a nutshell, the social and economic challenges before the country were enormous.



CHECK YOUR PROGRESS

Q 4: State whether True (T) or False (F)

(a) The population of British India was first collected through a census in 1881. (T/F)

(b) By the time India won its independence, the agricultural sector was transformed into a modern agricultural sector. (T/F)

Q 5: Mention the status of a few social indicators during the British period. (Answer in about 60 words)

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Q 6: The introduction of the railways in our country brought enormous prosperity to the Indian economy. Do you agree with this statement? Justify your view. (Answer in about 60 words).

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1.4 INDIAN ECONOMY : CHARACTERISTICS & EMERGING ISSUES

in this section, we shall discuss two major aspects of the Indian economy, viz., its basic features as a developing economy, and the emerging issues.

1.4.1 Characteristics of India as a Developing Economy

The Indian economy has all the characteristics of a developing economy. The main characteristics of its economy are as follows:

- **Low level of income :** The per capita income in India is one of the lowest in the world. Low level of income means low standard of living and low levels of consumption. Whatever progress has been made in production since independence is not reflected in the per capita income of the country. This is because of the high growth in population. There are wide disparities in the level of incomes and about one third of the Indian population live below the poverty line. Due to low standards of living, the efficiency of the labour is low.
- **Pre-dominance of agriculture :** Agriculture has traditionally played a major role in providing employment and income in the economy. However, in the post-reform period, the contribution of agriculture as shares in employment and income has witnessed a declining trend. As per a recent study of NITI Aayog,as in 2020-21, the share of workforce in agriculture in the national economy has declined from 69.2 percent in 1950-51 to 46.5 in 2020-21. On the other hand, the contribution of agriculture to India's national income (measured in constant prices of 2011-12) had declined from 61.7 percent to 16.3 percent during the said period. Significantly, gross food production of the agricultural sector has grown from 106 million toones in 1950 to 936 million tonnes in 2021-22. During the same time, the total agricultural workers has increased from 9.72 cores in 1950-51 to 24.67 crores in 2021-22. This shows that the CAGR (compound annual growth rate) of total food produciton (3.12 percent) is higher than the growth of workforce in agriculture (1.34 percent).

  As against this, in most developed countries, only 2 percent to 4 percent of the workforce is engaged in agriculture and the contribution of this sector to GDP happens to be only about 2 percent to 9 percent. In India, the agricultural sector is still dependent on the monsoons and technology that is used is very backward.

- **Capital deficiency :** Low level of income results in low level of saving and low level of capital formation. Due to inadequate availability of capital, other resources such as labour and natural resources remain unutilised and unexploited.
- **Technological backwardness :** In most sectors, technology used in production is still very backward. Investment in research and development is very low and this results in import of technology.
- **Inadequate infrastructure :** Infrastructure facilities such as transport, communication, power are required both for industrial production as well as agricultural production, and also in the service sector. All these facilities are inadequate.
- **High rate of growth of population :** As per projection, India's population (as in 2023) of approximately 1.48 billion people consists of more than one-sixth of the world's population. Demographers expect India's population to surpass the population of China, currently the most populous country in the world, by 2030. At that time, India is expected to have a population of more than 1.53 billion while China's population is forecast to be at its peak of 1.46 billion (and will begin to drop in subsequent years). A high growth rate of the population means additional pressure on the available resources and low per capita income.
- **High rate of illiteracy:** Based on NSO (National Statistical Office) survey data, as in 2023, the literatcy rate of India stands at 77.7 percent. Of which, male literacy rate is 84.7 percent, while female literacy rate is 70.3 percent. This is higher compared to the Census data 2011 when the overall literacy rate of India was 74 percent. The male literacy rate was 82 percent and female literacy rate was 65.5 percent.
- **High infant mortality rate :** India has the highest infant mortality rate in the world, a nationwide survey reveals. India still ranks much below in United Nations Human Development report.

According to Human Development Report 2021, India's position is 132 among 191 countries in the world. According to World Bank data, India has reduced IMR from as high as 162 in 1960 to 26 in 2021. But it is still higher compared to other South Asian countries like Bangladesh (22.9), Nepal (22.8), Bhutan (22.45), China (5.05) and SriLanka (5.77). This shows that out country has to provide more focus on improving the nutrition and sanitation conditions.

1.4.2 Emerging Issues facing the Indian Economy

As India prepares herself for becoming an economic superpower and a developed nation by the year 2020, it must expedite socio-economic reforms and take steps for overcoming institutional and infrastructure bottlenecks in the system. Steps should be taken for improving the pace of development. The emerging issues that the Indian economy faces are:

- **Inflation :** Fuelled by rising wages, property prices and food prices, inflation in India is an increasing problem. Between the fiscal year 2004-05 and 2007-2008, India had experienced an average growth rate of more than 9 percent, but the global economic crisis caused such adverse external shocks in the economy that a few sectors experienced a slump. Inflation in India in 2009 stood at 11.49 percent. A decade later, which experienced certain ups and downs in the growth rate of the economy, the rate of inflation has come down to around 3.41 percent in 2018-19. However, in 2022, the annual rate of inflation in India stood at 6.7 percent, which was 1.57 percent higher than the previous year.
- **Poor educational standards :** Literacy is a key for socio-economic progress and the Indian literacy rate has increased to nearly 78 percent (NSO estimate) as in 2023 from 12 percent at the end of British rule in 1947. Although this was a greater

than six fold improvement, the level is well below the world average literacy rate of 86 percent There is a wide gender disparity in the literacy rate in India: the adult literacy rate (15+) for male is 78.8 percent against 59.3 percent of females in 2011. In 2023, this disparity has slightly improved, as the current male literacy rate of 84.7 percent, while the female literacy rate of 70.3 percent. Thus, the gap between the two has reduced compared to 2011. The low female literacy rate has had a dramatically negative impact on family planning and population stabilization efforts in India. It is worse in rural areas and amongst women. Over 50 percent of rural Indian women are illiterate.

- **Poor Infrastructure :** Many areas of India are serviced with poor transport links and under developed communication channels. Lack of energy supplies have also led to power shortages in certain areas. Many Indians lack basic amenities like access to running water. These problems are likely to exacerbate with both a growing population and growing economy.
- **Balance of Payments deterioration :** Although India has built up large amounts of foreign currency reserves the current account deficit has deteriorated in recent months. This deterioration is a result of the overheating of the economy. Aggregate Supply cannot meet Aggregate demand so consumers are consuming imports.
- **Inequality has risen rather than declining :** It is hoped that economic growth would help drag the Indian poor above the poverty line. However so far economic growth has been highly uneven benefiting the skilled and wealthy disproportionately. Many of India's rural poor are yet to receive any tangible benefit from the India's economic growth. Forbes report suggest that evern after much efforts, nearly 31 million homes do not have electricity. Significant portion of the the population still live on below the poverty line. Furthermore with the spread of television, internet and mobile, Indian villages the poor are increasingly aware of

the disparity between rich and poor.

- **Large Budget Deficit :** India has one of the largest budget deficits in the developing world. Thus, it allows little scope for increasing investment in public services like health and education. However, during 2018-19, the fiscal deficit has come down to 3.39 percent. But after the pandemic fiscal deficit again began to rise. In 2021-22 it was 6.7 percent. In 2023-24 it is proposed to be 5.9 percent.
- **Environmental costs of growth :** The high economic growth has led to a burgeoning middle class who have benefited in terms of being able to buy more cars and consume more. However this has led to increased problems of pollution and congestion. This issue is magnified by the excessive crowding faced in many Indian cities. Some economists are of the opinion that India needs to try and control its growing population level to provide a more stable economic and social environment.
- **Barriers to entry :** The Indian economy is still highly regulated with costs and restrictions faced by businessmen wishing to enter certain markets. This continues to limit entrepreneurship and their removal is important to continue the flow of inward investment. Procedures should be simplified and entry barriers for business activities should be relaxed.
- **Unemployment :** Unemployment has remained a problem despite the fast growth of the economy. There is an increase in the number of people entering the Indian labour market, particularly young women. It may be difficult to provide sufficient jobs unless investment continues in manufacturing and the service sector.
- **Skills shortage :** Although the Indian economy has relatively good levels of education, there still exist severe shortages of skilled manpower in certain areas such as IT. There is also a growing gap between the rich and the poor in different areas of the country. There is need for a concerted effort to increase both academic

and vocational skills to a broader section of the population

- **Fiscal reforms :** One of the challenges in fiscal reform will be reconciling the need for fiscal consolidation with appropriate tax reform. Indirect taxes not only affect efficiency of resource allocation but also the investment climate.
- **Foreign Direct Investment (FDI) :** There is a need to attract higher foreign direct investment to the country. Such investment triggers technology spillovers, assists human capital formation, contributes to international trade integration and particularly exports, helps create a more competitive business environment, enhances enterprise development, increases total factor productivity and, more generally, improves the efficiency of resource use.



CHECK YOUR PROGRESS

Q 7: State whether True (T) or False (F)

(a) India has one of the largest budget deficits in the developing world. (T/F)

(b) India's population is approximately one-sixth of the world's population. (T/F)

Q 8: 'Inflation is one of the important emerging issues in India'. Do you agree with the statement? Justify your point. (Answer in about 60 words)

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1.5 TREND IN NATIONAL INCOME : GROWTH AND ITS COMPOSITION

1.5.1 Trend of Growth in National Income

To have a more comprehensive idea, the study of the trend in national income covers the last 65 years of planning. The structural transformation that has occurred in the Indian economy over the decades is a consequence of the development process witnessed since the beginning of planning in 1951. These changes may be reflected in the growth rate and in the changing sectoral composition of the GDP. Some of the significant features of the long term trends in real GDP have been shown in Table 1.1.

Table 1.1 : Average Annual Growth Rate in GDP

	Period Year	Growth rate (percent)
First Plan	1951-56	3.6
Second Plan	1956-61	4.3
Third Plan	1961-66	2.8
Annual Plans	1966-69	3.8
Fourth Plan	1969-74	3.3
Fifth Plan	1974-79	4.8
Annual Plans	1979-80	-6.0
Sixth Plan	1980-85	5.7
Seventh Plan	1985-90	6.0
Annual Plans	1990-92	3.0
Eight Plan	1992-97	6.8
Ninth Plan	1997-02	5.4
Tenth Plan	2002-07	7.6
Eleventh Plan	2007-12	8.0
Twelfth Plan	2012-17	8.0
Without Plan	2017-22*	4.07

Source: MOSPI Website, * www.macrotrends.net

In the eighties, GDP has recorded a growth rate of 5.5 percent with the average rate of growth at 5.8 percent which was slightly higher than the targeted rate of growth. But during this period the annual growth rate was very unstable. This high rate couldn't sustain for the crisis revealed in 1991-92, when the annual GDP growth rate declined to a low of 0.8 percent.

When the 2002 to 2012 period was compared with the last decade of the twentieth century (1992 through 2002), it reveals some notable features. Against the recorded average rate of growth of just over 6 percent in the last decade of twentieth century, it was an encouraging 7.8 percent in the first decade of planning of the twenty first century.

However, due to Covid-19 and other global and domestic situations, India's GDP growth rate has witnessed high fluctuations in the recent years. For example, in 2019, India GDPgrowth rate for was 3.87 percent, which was 2.58 percent less than 2018. Similarly, India GDP growth rate for 2020 was -5.83 percent, a 9.7 percent decline from 2019. The Covid-19 pandemic hard hit all the economies of the world, causing decline in the GDP growth rates in the years 2020 and also the subsequent years. India's economy however recorded a GDP growth rate of 9.05 percent in 2021 which was 14.88 percent highet than 2020. However, in 2022, India's GDP growth rate stood at 7.00 percent, a 2.05 percent decline over the preceding year.

1.5.2 Composition of National Income

Composition of national income shows break-down of economic activity into different sectors and their contribution. As an economy becomes more developed, the contribution of industry to the GDP increases with agriculture registering for a relatively lower share. The Indian economy was not an exception to it and experienced the same as a result of the initiatives taken by the government for

development. Following broad trends in the changing composition of the domestic production are shown in Table 1.2.

From the table, it can be seen that :

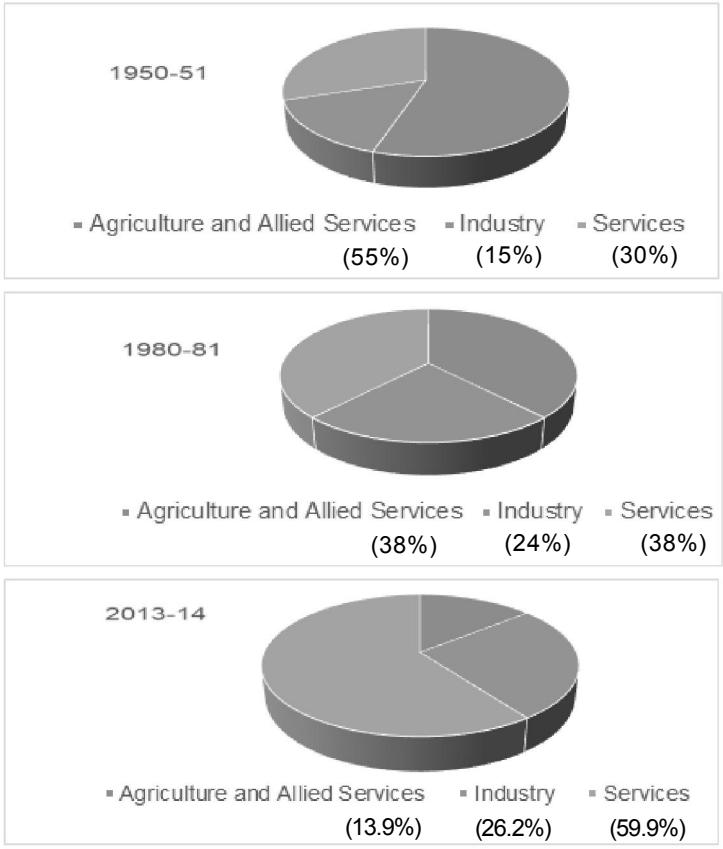
- The share of the primary sector which includes agriculture, forestry and fishery has gone down from 57.7 percent in GDP in 1950-51 to 18 percent in 2005- 06.
- The share of fishing in GDP had remained stable at about 1 percent throughout the last five decades.
- It is really shocking that the share of forestry in GDP has shown a continuous decline from 6.1 percent in 1950-51 to barely 0.7 percent in 2005-06.
- As a whole, the share of secondary sector has increased from 1.48 percent of GDP in 1950-51 to 26.2 percent in 2005-06. In this steady growth, the manufacturing sector including both registered & unregistered sectors have played a major role.
- Again, the share of tertiary sector which includes trade, transport, storage, communications, banking, insurance, real estate & community and personal services improved from 28.0 percent in 1950-51 to about 54 percent in 2005-06. It is worth mentioning that the tertiary sector comprises three components viz., transport, communication and trade, and finance and real estate which includes banking and insurance as well as community and personal services like education, health & family welfare.

Table 1.2 : Share of Gross Domestic Product by Industry of Origin (at 1993-94 series) in percentage

Sector/Year	1950-51	1980-81	2005-06
I. Agriculture etc.	57.2	39.7	19.7
1. Agriculture	50.2	35.8	18.0
2. Forestry	6.1	3.0	0.7
3. Fishing	0.9	1.0	0.9
II. Mining, Manufacturing etc.	14.8	23.7	26.2
1. Mining and quarrying	1.5	2.1	2.1
2. Manufacturing	8.9	13.8	15.1
a. Registered	4.4	8.1	10.3
b. Unregistered	4.5	5.8	4.8
3. Electricity, gas & water supply	0.3	1.7	2.2
4. Construction	4.1	6.1	6.8
III. Transport, Communication & Trade etc.	11.9	18.4	26.1
IV. Finance & Real Estate	6.7	6.5	13.8
V. Community and Personal Services	9.4	11.7	14.2
A. Commodity Sector (I+II)	72.0	63.4	45.9
B. Service Sector (III+IV+V)	28.0	36.6	54.1
Total	100.0	100.0	100.0

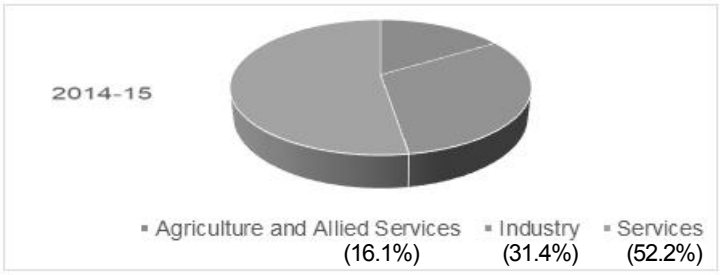
The structural change in the composition of national income by industrial origin is the consequence of the process of economic growth initiated during different plans. As industrialization spreads, it brings about an improvement in the share of industry and services. Indian economy is passing through this process of transition from an agrarian economy to an industrialized one. Since the growth process involved a rapid expansion of manufacturing in the organized sector, the share of the manufacturing sector was bound to increase. However, agriculture did not indicate a fast rate of growth. The share of GDP by industry of origin have also been shown in Figures 1.1 and 1.2 respectively.

Figure 1.1: Share of GDP by Industry of Origin (1999 - 2000 Series)



In Figure 1.1, the shares of GDP by industry of origin has been shown in 1999-2000 series. Similarly, in Figure 1.2, the share of GDP by industry of origin has been shown for the year 2014-15 based on recent data series 2011-12.

Figure 1.2: Share of GDP by Industry of Origin (2011-12 Series)



Thus, it can be seen that in 2014-15, the share of agriculture in India's GDP has come down of 16.1 percent while shares of industry and services have gone up to 31.4 and 52.2 percent respectively.



ACTIVITY 1.1

Study the share of GDP by industry of origin in India in the recent years like 2016-17 and 2019- 20 and 2022-23 and make a comparative analysis on the contribution of these sectors to GDP.

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The phenomenal expansion of services world-wide has led to the service sector being regarded as an engine of the growth and even as a necessary concomitant of economic growth. Development economists suggest that development is a three stage process. The dominance of the services sector in the growth process is usually associated with the third stage of growth. The development of service sector in India which is 54.1 percent of GDP in 2005-06 in the growth process is associated with the third stage of growth. Actually there is a sudden jump of the Indian economy to pass on to the stage of a post industrialized 'service sector' economy without completing the phase of industrialization. But this gap has to be removed by strengthening the manufacturing sector. This is possible with the progress of industrialization. At the same time, measures should be taken for accelerating the growth of the agricultural sector. This happens because of the inevitable link between agricultural development and industrial growth. It is only then the process of transition of the Indian economy from a developing to developed economy will be accomplished.

Trends of the share of public sector to GDP: The share of Public sector in GDP was 7.6 percent in 1950-51 which rose to 14.9 percent in 1970-71 to 23.0 percent in 2005-06. This has been shown in Table 1.3.

The gradual increase in the share of the public sector has been due to the expansion of the economy of the state-enlarging administrative services as well as the increasing productive activities in public enterprises. But after economic reforms were initiated in 1991, there was restriction on the role of the public sector. In 2011-12, the share of the public sector in GDP (at current prices) has decreased to 20.5 percent. (Source: www.data.gov.in).

Table 1.3: Share of Public Sector in Gross Domestic Product at Current Prices (In percentage)

Sector/Year	1970-71	1993-94	2005-06
Share of Public Sector in GDP	14.9	25.9	23.0
(i) Government administration	6.5	8.7	9.5
(ii) Departmental enterprises	4.1	3.7	2.7
(iii) Non-departmental enterprises	4.4	13.5	11.8

Source: Datt and Sundharam, *Indian Economy,* 2009

Share of organized and unorganized sector in NDP : Another feature of economic development is the shift in the composition of NDP from unorganized to organized sector. In India, as has been shown in Table 1.4, the share of organized sector has risen from 30 percent in 1980- 81 to 42 percent in 2004-05. Consequently, the share of the unorganized sector has declined from 70 percent to 58 percent.

Table 1.4: Percentage share in Net Domestic Product by Organised and Unorganised Sectors

Year/Sector	1980-81		2004-05		2007-08	
	Organised	Unorganised	Organised	Unorganised	Organised	Unorganised
1. Agriculture, Forestry & Fishing	4.8	95.2	5.6	94.4	8.8	91.2
2. Mining & manu-facturing etc.	56.8	43.2	62.9	37.1	70.2	29.8
3. Services	39.9	60.1	61.9	38.1	46.0	54.0
4. Total	30.0	70.0	42.0	58.0	42.9	57.1

Source: Datt and Sundharam, *Indian Economy,* 2009 & 2016

From the composition of different sectors it has been found that the share of the organised sector in mining, manufacturing etc. has improved from 56.8 percent in 1980-81 to 62.9 percent in 2004-05 and then to 70.2 percent. Besides, the overall growth in services in the organised sector has also shown progress during the last three decades from 40 percent in 1980-81 to 61.9 percent in 2004-05. But in 2007-08, it came down to 46.0 percent. On the other hand, the contribution of the unorganized sector on overall declined from 70.0 percent in 1980-81 to 57.1 percent in 2007-08.

The trend of contributions of different sectors in terms of Gross Value Added in the recent times has been shown in Table 1.5.

Table 1.5 indicates the contributions made by different sectors in the economy towards formation of the gross value added (GVA) of the economy. The figures are at constant prices of 2011-12. From the table, it can be seen that during the years 2019-20 and 2020-21

Table 1.5: Components of Gross Value Added at Basic Prices
GVA at Basic Prices (Base Year: 2011-12) Constant Prices

(Amount in Ra Crores)

Items/Year	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Agriculture, Forestry and Fishing	**1726004**	**1840023**	**1878598**	**1994326**	**2076327**	**2149122**	**2234269**
Industry	**2650508**	**2811690**	**2949954**	**2877638**	**2903100**	**3208998**	**3286185**
Mining & Quarrying	349248	329612	326815	317134	289905	310415	324708
Manufacturing	2054764	2209428	2328992	2259706	2325438	2582473	2617059
Electricity, Gas, Water Supply & Other Utility Services	246496	272650	294147	300798	287757	316110	344418
Services	**6951772**	**7382458**	**7905246**	**8364137**	**7702055**	**8439904**	**9244386**
Construction	916445	964306	1026789	1043429	983619	1129368	1242354
Trade, Hotels, Transport, Communication and Services Related to Broadcasting	2146379	2368419	2538757	2690060	2159495	2456447	2800112
Financial, Real Estate & Professional Services	2492967	2537190	2714222	2898243	2958852	3098827	3320305
Public Administration, Defence and Other Services	1395982	1512542	1625477	1732404	1600090	1755263	1881615
GVA at Basic Prices	**11328285**	**12034171**	**12733798**	**13236100**	**12681482**	**13798025**	**14764840**

Notes: 1. Data for 2019-20 are Third Revised Estimates, for 2020-21 are Second Revised Estimates and for 2021-22 are First Revised Estimates.
2. Data for 2022-23 are Provisional Estimates.

Source: National Statistical Office (NSO)

there were decline in most of the activites (though not all), which was basically owing to Covid-19 pandemic. Another notable thing is that the contribution of the service sector is the highest among all. Please note that in the Table if you add up the major sectors, viz., agriculture, forestry & fishing, industry and services you will get the total GVA mentioned in the last row. These three major sectors and the GVA has been highlighted. Rest of the sectors are actually the sub-sectors of the economy. For example, mining & quarrying, manufacturing etc. are sub-sectors of industry. Similarly, the sub-sectors of the service sector has been listed below it.



CHECK YOUR PROGRESS

Q 9: Discuss the trend of the shares of the secondary and the tertiary sectors in GDP of the economy. (Answer in about 50 words) .....

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1.5 LET US SUM UP

- India had an independent economy before the advent of the British rule.
- V.K.R.V. Rao's estimates of the national and per capita incomes during the colonial period were considered very significant.
- The population of British India was first collected through a census in 1881.
- Various systems of land settlement were introduced by the colonial government.
- The traditional handicrafts industries were ruined under the British rule. India could not develop a sound industrial base under the colonial rule.

- There was always an acute shortage of all weather roads to reach out to the rural areas during the rainy season.
- There are wide disparities in the level of incomes and about one third of the Indian population live below the poverty line.
- Many areas of India are serviced with poor transport links and under developed communication channels.
- So far, economic growth in India has been highly uneven.
- There is an increase in the number of people entering the Indian labour market.
- The agricultural sector needs increased investment in irrigation and water supplies.
- One of the challenges in fiscal reform will be reconciling the need for fiscal consolidation with appropriate tax reform.
- Farmers and enterprises should have access to finance at competitive rates.
- The trend of national income growth is not so satisfactory. In certain periods it was comparatively high but it could not be sustained in the subsequent periods.
- There is also change in the structural composition of national income. The contribution of agriculture is rapidly decreasing and the share of industrial sector has been gradually increasing. Tremendous progress has been shown by the service sector.



1.6 FURTHER READING

1) Agrawal, A. N. (2019). *Indian Economy: Developmental Problems and Policies.* New Delhi: New Age International Publishers.
2) Datt, G and Mahajan, A. (2016). *Datt & Sundharam's Indian Economy.* New Delhi: S. Chand & Co.
3) Kapila, U. (2003). *Indian Economy since Independence.* New Delhi: Academic Foundation.
4) Misra, S.K. & Puri, V.K. (2018). *Indian Economy.* New Delhi: Himalya Publishing House.

1.7 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: (a) True (b) True

Ans to Q No 2: TISCO was formed in 1907. Full form of the term is Tata Iron and Steel Company.

Ans to Q No 3: The primary motive of the colonial government behind its policy to de-industrialise the India economy was two-fold. First, it sought to reduce India to the status of a mere exporter of important raw materials, such that the upcoming modern industries in Britain are benefited. Secondly, it wanted to turn India into a market for the finished products of those industries in Britain.

Ans to Q No 4: (a) True (b) False

Ans to Q No 5: The status of the social development indicators in India during the British period was not quite encouraging. Literacy rate was less than 16 per cent; of this, the female literacy rate was only about 7 per cent. Water and air-borne diseases were rampant and caused death to many. Infant mortality rate was quite alarming —about 218 per thousand. Life expectancy was also very low – only 32 years.

Ans to Q No 6: Introduction of the railways in India brought certain social benefits like easy long distance travel, but it caused huge economic loss to the country as well. First, railways fostered commercialisation of Indian agriculture. This adversely affected the comparative self-sufficiency of the village economies. Secondly, the volume of India's export rose significantly, but its benefits rarely accrued to the Indian people.

Ans to Q No 7: (a) True (b) True

Ans to Q No 8: Inflation is one of the emerging issues in India. With economic growth of 9.2 percent per annum, inflationary pressures are likely to increase, especially with supply side constraints such as infrastructure. Between the fiscal year 2004-05 and 2007-2008, India had experienced an average growth rate of more than 9 percent, but the global economic

crisis caused such adverse external shocks in the economy that a few sectors experienced a slump. Inflation in India in 2009 stood at 11.49 percent.

Ans to Q No 9: On overall, the share of secondary sector has increased from 1.48 percent of GDP in 1950-51 to 31.4 percent in 2014-15. The manufacturing sector includes both registered & unregistered sectors. Similarly, the share of tertiary sector which includes trade, transport, storage, communications, banking, insurance, real estate & community and personal services improved from 28.0 percent in 1950-51 to about 54 percent in 2005-06.



1.8 MODEL QUESTIONS

Short Questions (Answer each question in about 150 words)

Q 1: Write a short note on the agricultural sector of India in the pre-independence period.

Q 2: Briefly discuss the state of the industrial sector of India in the pre-independence Period.

Q 3: What was the state of foreign trade in India during the pre-independence period? Explain briefly.

Q 4: What were the demographic conditions and the pattern of occupations structure of India during the pre-independence period? Put forward a brief account.

Q 5: Briefly discuss the structural change in the composition of national income by industrial origin.

Essay-type Questions (Answer each question in about 500 words)

Q 1: Write an essay stating the scenario of the Indian economy in the pre-independence period.

Q 2: Explain the emerging issues facing the Indian economy.

Q 3: Discuss the features of India as a developing Economy.

Q 4: Discuss the Trend of growth and composition of National Income in India.

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