**Studying the Structure Changes in Indian Economy**

In order to study the structural change in any economy, one have to analyse the contribution of various sectors to the national output.

We will study the trends in the distribution of national income by industrial origin at 1980-81 prices.

**The analysis of the above table gives us the idea about the structure changes in Indian economy since 1950-51:**



**(i) Decreasing Share of Agriculture Sector:**

The table shows that the share of agriculture sector to national income has been constantly decreasing. In 1950-51, the share of this sector was 55.4% and it decreased to 38.1 percent in 1980-81. In 1999-2000, the share come down to 25.2 percent. The history of economic development of advanced countries indicates that the contribution of agricultural sector to national income goes on decreasing as the country develops.

The contribution of agriculture sector to national income is 2 to 3 percent in advanced countries like U.S.A., U.K., Germany and Canada. The decreasing share of agriculture to national income in India indicates this broad trend. It shows that economy has been on the path of development. The decreasing share of agriculture shows the changes in the structure of production.

The share of agriculture to national income is quite high in relation to advanced countries. Above all 60% of work force is employed in agriculture while in U.K. and U.S.A. only 2% of their work force is employed in agriculture. This shows that the occupational structure in India could not match with the change in structure of production.

**(ii) Increasing Share of Industries Sector:**

In 1950-51, the share of this sector was 15 percent which increased to 24.4 percent in 1980-81. In 1999-2000, its share rose to 24.7 percent. The increasing share of industrial sector shows that Indian economy is on the way of development. The contribution of industrial sector is very high in developed countries like U.K. and U.S.A.

According to World Development Report 1995, the share of industrial sector to national income in the U.K. and the U.S.A. was 33 percent each and in Japan it was 41 percent. In India though the contribution of industrial sector is increasing, its progress is very slow. Specially the share of manufacturing within the industrial sector has been very slow since 1970-71. This is mainly responsible for the slow rate of economic growth in the country.

**(iii) Increasing Share of Service Sector:**

The tertiary sector or service sector has been constantly increasing its share in the national income. It includes transport, communication, trade and commerce, banking, insurance, community and personal services. In 1950-51, the share of service sector in national income was 25.8 percent. It increased to 36 percent in 1980-81 and in 1999-2000 it has gone up to 47.8%.

During the said period, transport, communication and trade have increased their share from 11 to 21.9 percent. It shows the development of infrastructure in the economy. In advanced countries, the contribution of service sector to national income is the highest.

According to World Development Report 1995, the contribution of service sector in the U.K. and the U.S.A was 65 percent each and in Japan 57 percent. The increase in share of tertiary sector in national income indicates the development of Indian economy.

**(iv) Overall Assessment of Structural Change:**

From the above discussion of India’s sector wise contribution to national income, one gets a clear idea regarding the extent of change in the structure of production in the process of development. The share of agriculture has declined and that of industry and service sectors has increased. This is the main structural change but this change is very slow. It has virtually given a fillip to traditional and stagnant economy. Now Indian economy is one of the most promising developing economies of the world.

**4 Significant Structural Changes in India’s Economic Structure Since Independence**

Apart from the growth in quantitative terms, there have been significant changes in India’s economic structure since independence.

**1. Changing Sectoral Distribution of Domestic Product:**

Change in composition of domestic product or change in national income by industry of origin refers to change in relative significance (share) of different sectors of the economy. Generally, an economy is divided into three major sectors viz. primary, secondary and tertiary sectors.

Primary sector includes agricultural and allied activities, secondary sector includes manufacturing industries and tertiary sector includes services. With the development process, significance of primary sector declines while that of secondary and tertiary sectors increases. After independence, Indian economy has also experienced such changes.

The share of primary sector in GDP at factor cost (at 1999-2000 prices) which was 56.5 per cent in 1950-51 declined to 34.6 per cent in 1990 91 and then to 19.7 per cent in 2007-08.

The secondary sector’s share in GDP was 13.6 per cent in 1950-51 increased to 23.2 per cent in 1990-91 and further to 24.7 per cent in 2007-08. Tertiary sector’s share in GDP increased from 29.9 per cent in 1950-51 to 55.6 per cent in 2007-08, and in 2009-10 it was over 7 per cent.

**2. Growth of Basic Capital Goods Industries:**

When country attained independence, the share of basic and capital goods industries in the total industrial production was roughly one-fourth.

Under the second plan, a high priority was accorded to capital goods industries, as their development was considered a pre-requisite to the overall growth of the economy. Consequently, a large number of basic industries which produce capital equipment and useful raw materials have been set up making the country’s industrial structure pretty strong.

**3. Expansion in Social Overhead Capital:**

Social overhead capital broadly includes transport facilities, irrigation systems, energy production, educational system and organisation and health facilities. Their development creates favourable conditions for growth and also for better human living. The transport system in India has grown both in terms of capacity and modernisation.

The railways route length increased by more than 9 thousand kms and the operation fleet practically doubled. The Indian road network is now one of the largest in the world as a result of spectacular development of roads under various plans. India has also seen growth in Life- lixpectancy and Literacy Rate but education has not expanded at a desired rate.

**4. Progress in the Banking and Financial Sector:**

Since independence, significant progressive changes have taken place in the banking and financial structure of India. The growth of commercial banks and cooperative credit societies has been really spectacular and as a result of it the importance of indigenous bankers and money-lenders has declined.

Since nationalisation, these banks have radically changed their credit policy. Now more funds are made available to priority sectors such as agriculture, small-scale industries, transportation, etc.

Indian economy has progressed structurally when we consider the growth of capital goods industries, expansion of the infrastructure, performance of the public sector, etc.

These factors over the years are believed to have created an element of dynamism in the country’s economy and one can now hopefully say that it would sustain development in the future.

**5 Stages of Economic Development**

**Stages of Economic Development:**

Professor Rostow, an eminent economic historian and a specialist on economic development, has divided the historical process of economic growth into five stages:

(1) The traditional society;

(2) Pre-conditions for take-off;

(3) The ‘take-off;

(4) The drive to maturity; and

(5) The age of high mass consumption.

Now a word about each of these.

**(1) The Traditional Society:**

In a traditional society, modern science and technology are either not available or are not being systematically applied. However, there may be ad hoc application of innovations. Production can also increase due to increase in acreage.

Domestic and foreign trade can change in composition. But the distinguishing feature of the traditional society is that there exists a ceiling to the level of the attainable per capita output. A large proportion of productive resources are devoted to agriculture.

**(2) The Pre-conditions to Take-off:**

Covers a long period of a century or more during which the pre-conditions for take-off are established.

**These conditions mainly comprise fundamental changes in the social, political and economic fields; for example:**

(a) A change in society’s attitudes towards science, risk-taking and profit-earning;

(b) The adaptability of the labour force;

(c) Political sovereignty;

(d) Development of a centralized tax system and financial institutions; and

(e) The construction of certain economic and social overheads like rail-roads and educational institutions.

**(3) The “Take off” Period:**

This is the crucial stage which covers a relatively brief period of two or three decades in which the economy transforms itself in such a way that economic growth subsequently takes place more or less automatically. “The take-off” is defined as “the interval during which the rate of investment increases in such a way that real output per capita rises and this initial increase carries with it radical changes in the techniques of production and the disposition of income flows which perpetuate the new scale of investment and perpetuate there by the rising trend in per capita output.”

The term “take-off’ implies three things-, firstly the proportion of invest­ment to national income must rise from 12% to 15%, dennitely outstripping the likely population increase; secondly the period must be relatively short so that it should show the characteristics or an economic revolution; and thirdly, it must culminate in self -sustaining and self-generating economic growth.

**(4) Drive to Maturity:**

This is, of course, a long period of self-generating and self propelling economic growth. ‘The rates of savings and investment are of such a magnitude that economic development becomes automatic. Overall capital per head increases as the economy matures. The structure of the economy changes increasingly.

The- initial key industries which sparked the take-off” decelerate as diminishing returns set in. But the average rate of growth is maintained by a succession of new rapidly-growing sectors with a new set of pioneering leaders; the proportion of the population engaged in rural pursuit’s declines, and the structure of the country’s foreign trade undergoes a radical change.

**(5) The Age of High Mass Consumption:**

During this stage, the per capita real income increases to the level at which a large number of people can afford consumption transcending the basic food, shelter and clothing requirements. There is tendency for the leading sectors to shift towards durable consumer goods and services. The present economies of the U.S.A., the U.K., Western Germany and Japan represent this stage. India seems to be yet in the second stage, i.e., pre-conditions to the take-off stage.