

Chapter 1

Introduction

1.1 Introduction

The economic structure and sectoral composition is very significant for economic growth of an economy (Lewis, 1955). It plays a fundamental role in changing of economic growth sector and portion.

It is urged by various studies that development economics emphasizes on the linkage between structural changes and economic growth of any economy. The structural change is an economic condition that occurs when the shares of growth transform from primary sector to secondary and tertiary as well. In other words the structural change refers to the transformation into the three different individual sector's composition of growth in the economy. It has been observed over a long period that as economic development occurs, economies tend to undergo structural changes, moving away from a predominant reliance on primary industries as the source of a nation's wealth to secondary and tertiary sector (Kuznets, 1979).

1.2 Theoretical Background of the Structural Change

Pioneer growth theories tried to provide analytical underpinning for the growth process while influential empirical works tried to establish empirical regularities across developing countries in the pattern of structural change associated with growth. Economic growth implies the change in per capita income while economic development means summation of economic growth and change. Here changes may be welfare or

distributional change. The structural models focus on how the structure of the economy changes with the development. Lewis (1954) and Fei-Ranis (1964), the theory provides solution to the excess labour supply in the developing nations. The theory states that with the movement of labour from rural to urban sector, the traditional society transforms into the modern society. The theory assumes a dual economy that is co-existence of agriculture traditional sector and industrial manufacturing modern sector. Development of the economy takes place due to transfer of labour from agriculture to industrial sector. As a result of movement of labour from traditional to modern sector, the capital in the latter accumulates and output expands, thus leading the economy towards development. According to Harris (1970) and Todaro (1969), labor migrated from rural sector may remain unemployed even after going to urban sector. Migration decision is influenced by the expected urban rural income differentials rather than the actual differentials. Decision of migration is financially and psychologically made. Rostow (1960) growth theory described the five different stages of economic growth and shows that how any country ensures growth or transformations.

Hence structural transformation has been emerged a key inductor to arises the economic growth of the economy. It has already observed in various branches and from the expenses of many developed nation that how shift of sectoral share and GDP from agriculture to other sector has uplifted the growth. India also experienced the more or less same phenomena during the last 60 years of growth the share of agriculture is continuously declining while share of other sectors is increasing.

However it will be more interesting to see how this sectoral change structural transformation is taking place at micro level i.e. state level externally in such states where

agriculture is mainstream. Haryana is one of fastest growing state in India and it would be very prominent to understand how the structural changes are taking place in Haryana. Before developing and understanding the state level change in Haryana, it would be important to discuss the overview of structural change that took place in India since independence.

1.3 Overview of Structural Change in India

The planned growth rate (%) of the Indian economy over the period of 1951-56 to 2012-17 is shown in table 1.1. During 1951-56 the growth of primary sector was 2.71, secondary sector grew at 5.54 and growth of tertiary sector was 4.17. Actual achievement was 3.60 against the targeted 2.10. During the Second FYP the growth of primary, secondary and tertiary sector was reported 3.15, 5.59 and 4.94 percent annually respectively. During 1961-66 primary sector grew at 3.15, secondary 5.59 and tertiary sector grew at 4.94 percent. Actual growth of FYP was 4.10 against the targeted 4.50. The similar kind of behavior of growth can be further observed in the FYPs as shown in table. Indian economy came across from the many stages of growth and development. The structural changes that move countries through the development process are often viewed in terms of shifts from primary to secondary and finally to tertiary sector.

Table 1.1: Planned Growth Rate (%) of the Indian Economy						
FYP	Period	Growth Rate			Actual in (%)	Target
		Primary	Secondary	Tertiary		
First FYP	1951-56	2.71	5.54	4.17	3.6	2.1
Second FYP	1956-61	3.15	5.59	4.94	4.1	4.5
Third FYP	1961-66	-0.73	6.28	5.26	3.4	5.6
Fourth FYP	1969-74	2.57	4.91	3.22	3.2	5.7
Fifth FYP	1974-79	3.28	6.55	5.66	5.1	4.4
Sixth FYP	1980-85	2.52	5.32	5.41	5.4	5.2
Seventh FYP	1985-90	3.47	6.77	7.19	5.8	5

Eighth FYP	1992-97	4.68	7.58	7.54	6.5	5.6
Ninth FYP	1997-02	2.06	4.51	7.78	5.6	6.5
Tenth FYP	2002-07	2.5	8.2	9.3	7.6	8
Eleventh FYP	2007-12	3.2	7.4	8.2	7.8	9
Twelfth FYP	2012-17		9% (Revised 8)			
Source: Economic Survey of India 2016-17				Note: FYP- Five Year Plan		

Technical progress is seen as crucial in the process of structural change as it involves the obsolescence of skills, vocations, and permanent changes in spending and production resulting in structural unemployment. 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 further declined to 11.87 % in 2013-14.

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 increased up to 26.13% in 2013-14. It can be observed that there is very small change in sectoral share originating from secondary sector.

The declined share of agricultural sector has been shifted to tertiary sector, consequently the share of this sector increased from 29.9% in 1950-51 to 59.93% in 2013-14.

The sectoral shift shows that experience of Indian economy is unique. In India, the service sector has grown by by-passing the secondary sector. For the design of developments strategy for any economy has two basic objectives, i.e., economic growth and creation of employment opportunities. In most of the countries of the world the service sector plays a significant role in the expansion of both GDP and employment. In

India the service sector has failed to play any significant role in employment generation. In India, we see that the share of the services sector in GDP has lately increased dramatically. This has led to an interest in examining this growth. The share of the primary sector in GDP is declining and those of the secondary and tertiary is growing over the years. The share of tertiary sector has been large to begin with and over the years it has become the highest contributor to GDP displacing the primary sector. The share of the workforce in the primary sector has remained high. The tertiary sector's share in the workforce has increased but it has not been able to displace the primary sector's position in this regard. Thus, in terms of employment the primary sector remains the sector which provides the maximum employment.

More or less the similar behavior has taken place at regional level in India. The share of almost all states has been shifted to tertiary sector in respective GSDP of the states. The experience of sectoral share of Haryana has been discussed as follows:-

1.4 Sectoral Change in Haryana

To further understand the trends in the three sectors of Haryana's economy the annual sectoral rates of growth for 2004-05 to 2013-14 have been compared to the all India rates in below table. The agriculture and allied sector has registered a negative growth during 2005-06, 2007-08, 2009-10 and 2012-13 in Haryana whereas the growth rate in this sector has remained positive during the corresponding years at the all India level. Further, on an average the rate of growth of this sector in Haryana has remained higher than the national average and the rate of growth has shown sharp fluctuations that are not evident in the national data. These adverse trends indicate increasing fundamental weaknesses in

the primary sector in Haryana in the past decade. This also indicates a relative slowing down of the development in rural Haryana.

Table 1.2 Sector wise rates of Growth 2004 to 2014 (In Per cent)						
Period/Year	Primary Sector (Agriculture, Allied)		Secondary Sector (Industry)		Tertiary Sector (Services)	
	Haryana	India	Haryana	India	Haryana	India
2004-05	3.37	-0.05	10.69	10.34	9.81	9.14
2005-06	-1.81	5.14	8.49	9.72	15.51	10.91
2006-07	14.15	4.16	9.22	12.17	11.32	10.06
2007-08	-0.06	5.80	6.59	9.67	13.62	10.27
2008-09	7.21	0.09	3.50	4.44	11.57	9.98
2009-10	-1.45	0.81	11.41	9.16	17.00	10.50
2010-11	5.22	8.60	5.60	7.55	9.15	9.67
2011-12	7.86	5.02	4.88	7.81	9.82	6.57
2012-13	-0.58	1.42	4.43	0.96	7.94	6.96
2013-14	3.06	4.71	4.43	0.35	9.39	6.78

Source: Directorate of Economics and Statistics Haryana

The manufacturing sector in Haryana has shown a rate of growth lower than the national average in six of the ten years under reference on the other hand the growth in the tertiary sector in Haryana has been impressive in the past decade registering higher growth than the national average in each year. It is however worth mentioning that this growth in the tertiary sector is localized and broadly confined to the areas surrounding the national capital. Thus, issues of regional disparity in growth have remained largely unaddressed.

In this study the GSDP (at factor cost) data since 1980s is used. To make GSDP series

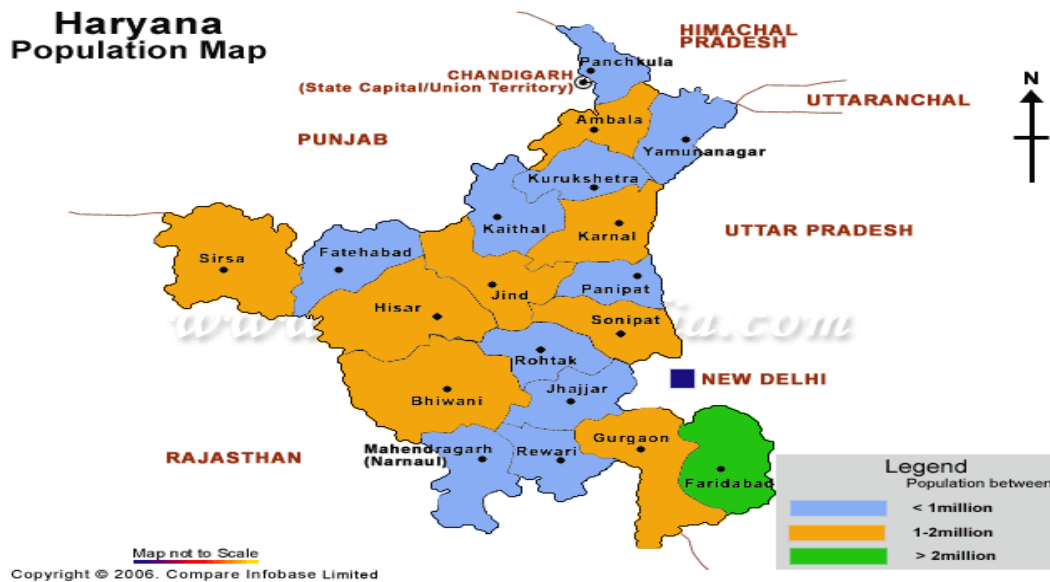
comparable across time, the splicing technique is used. The decadal growth rate of different economic sectors in Haryana compares it with the all India average. It is evident from the table that Haryana has been consistently performing better in terms of GSDP growth than all India average in the last three decades beside the decade of 1990-2000. The overall GSDP growth of the state for last three decades (1980 to 2010) has been more than 6.8 percent per annum higher than that of all India average. However, in the second decade in 1990s the growth rate of GSDP in the state was slightly lesser than that of the all India average. The state has seen 9 percent GSDP growth per annum in the last decade. At disaggregate level, the growth rate of tertiary sector has been the highest both in Haryana and all India. While tertiary sector in Haryana has grown at an annual rate of 9.2 percent during the last three decades, the corresponding figure for all India has been 7.7 percent per annum. For both Haryana and all India, Industrial sector was the top performers in 1980s while service came to prominence since 1990s. The further disaggregation of tertiary sector shows that there is considerable variation in growth among subsectors of services. Banking and insurance has been the top in growth rate among sub sectors in service followed by transport and communication for both Haryana and India for the last thirty years.

1.5 Economic Profile of Haryana

Present state of Haryana, as a separate unit of Indian union, comes into existence on November 1st, 1966 as a result of bifurcation of the state Punjab. The geographical area of Haryana is spread over 44212 sq. km which makes Haryana the 21st biggest state in India by area. As provided by the census report performed in 2011, the population of the

state is 25,353,081 or 25 million making it the 18th most populated state in India. The person of the state mostly speaks Haryanvi.

Haryana is located in the northern part of India that constrained by Uttar Pradesh in the east, Punjab in the west, Himachal Pradesh in the north and Rajasthan in the south. Delhi is national capital that succeeding in Haryana. Haryana establishes the elbow room 30.30 north and dimension 74.60 east. Most part of Haryana area is in the plain with the Aravali mountain range spread in part of south-east Haryana. The Yamuna is the only major river that passes through this small state, flows along the eastern boundaries, which is one of the greenest parts in the country. There is a very good web of canals throughout the state, giving it the much-needed impulse for agriculture, the backbone of Haryana's economy. The antique Saraswati River is said to have flowed from Yamunanagar, but now Saraswati River has been abandon.



Source: Department of Economics and statistical analysis, Haryana

As per the 2011 census 65 percent of its population of is rural and 35 percent live in urban areas. The male literacy rate is 84 percent where as the female literacy rate is 66 percent. Haryana's contribution to India's Gross Domestic Product (GDP), taken at constant prices (2004-05) was 3.5 percent as per the year 2013-14. The Department of Economic and Statistical Analysis, Haryana (DESA) prepares the estimates of Gross State Domestic Product (GSDP). As per the Advance Estimates for the year 2016-17 the GSDP of the State at current prices has been recorded a 5, 47,396.06 crores recording the growth of 12.8 percent over the previous year. The GSDP in 2016-17 is expected to reach at the level of 4, 34,607.93 crores with the growth of 8.7 percent at constant (2011-12) prices. The real growth of 8.7 percent recorded in GSDP of the State in 2016-17 is higher than the all India GDP growth of 7.1 percent. The structural composition of the state's economy has witnessed progressive changes since the formation of the state. The relative share of agriculture and allied activities has fallen from 60.7 percent in 1969-70 to 16.30 per cent in 2011-12. During the same period, the relative share of industry and service sector has registered a higher contribution of 29.1 percent and 54.6 percent respectively, compared to 17.1 percent and 21.7 percent in 1969-70: In spite of this agriculture is the predominant occupation of the people and the state is one of the agriculturally advanced states in India. Population below poverty line is 14 percent as against to national average of 27.5 percent.

Per Capita Income (PCI) is defined as the income per person in monetary terms. It is the net state domestic product at current prices divided by the population of the state. The PCI for Haryana has remained higher than the nationwide Per Capita Income from 2004-05 to 2013-14. In 2013-14, Haryana's PCI was about Rs1.33 lakhs while the nationwide

average was about Rs74, 000. What however is important is that the growth in Haryana PCI has been fluctuating as compared to the growth in national Per Capita Income. Income per capita is a measure of the amount of money earned per person in a certain area. It can apply to the average per-person income for a city, region or country, and is used as a means of evaluating the living conditions and quality of life in different areas. It can be calculated for a country by dividing the country's national income by its population.

According to the white paper, the growth rate in Per Capita Income of Haryana during 2005-06, 2007-08 and 2010-11 remained below the national growth rates. Thus, the unstable characteristics of Haryana's Gross State Domestic Product (GSDP) growth in the last decade are also reflected in the growth of the state's Per Capita Income.

1.6 Rationale of the study

Primary importance of the study is to provide the quantified information about performance and analyzing the structural change and growth relationship in Haryana and the relationship of per-capita income and sector share in domestic product with economic growth of Haryana. This study will provide such information to a group of academia, Government and other organizations. A part of quantified economic information enables such groups to make better decisions for future long or short term plans related to the economic growth. It will be helpful for the further research for the researcher and the expert analysis in various organizations to stimulate the growth rate of Haryana.

1.7 Objectives of the study

After reviewing several studies with their theoretical and empirical robustness, this study has been prompted to analyse the following objectives:

1. To study the recent trends in per capita income and sector share in state domestic production of Haryana.
2. To construct the NAV and MLI indices of structural change in Haryana.

1.8 Organization of the study

The content of this study has been organized into six chapters. Characterization scheme is outlined as under: Chapter one consists introduction, theoretical background of the structural change, overview of structural change. There is economic growth and inter district income inequality in Haryana, economic profile of Haryana, rationale of study and Objective of the study. Chapter two consists of literature review. Apart from introduction, there are reviews of research gap in this chapter. Chapter three devoted to research methodology which consists of data collection and estimation methods. In this study chapter four outlines the trend and pattern of growth of state domestic product in Haryana. Chapter five consists of structural change and growth relationship in Haryana and at last the sixth chapter devoted for the major findings, conclusion and policy implications.