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BA Economics Honours | Semester 1 | Calicut University

Sectoral Contributions in Indian Economy

Course Code: ECO1MN103 • Module 1

Module I: Introduction to Different Sectors

Economic development is historically defined by structural transformation: the systematic reallocation of economic activity, labor employment, and capital investment across the primary, secondary, and tertiary sectors of the national economy. Analyzing sectoral contributions provides crucial empirical insights into the structural maturity, productivity dynamics, and developmental trajectory of an emerging economic powerhouse like India.

Unit 1: Overview of the Primary, Secondary, and Tertiary Sectors

Modern national income accounting classifies economic activities into three broad structural sectors:

- **The Primary Sector:** Encompasses economic activities directly dependent on natural resource extraction and biological processes: agriculture, allied livestock husbandry, forestry, logging, fishing, and mining/quarrying. The primary sector provides raw material inputs for manufacturing industries and wage-goods (foodgrains) essential for sustaining the urban labor force.
- **The Secondary (Industrial) Sector:** Encompasses the transformation of primary physical raw materials into finished or intermediate manufactured commodities: registered and unregistered manufacturing, construction, electricity generation, gas, and water supply. The secondary sector is characterized by high capital intensity, economies of scale, and significant technical learning-by-doing effects.
- **The Tertiary (Service) Sector:** Encompasses intangible commercial, financial, and personal activities that facilitate production, exchange, and human welfare: trade, hotels, restaurants, transportation, storage, telecommunications, banking, insurance, real estate, software/IT services, public administration, defense, education, and healthcare.

Unit 2: Historical Perspective of Sectoral Composition in India

According to the classic structural change hypotheses formulated by **Colin Clark** (1940) and Nobel laureate **Simon Kuznets** (1966), successful economic modernization follows a universal historical sequence:

1. An agrarian subsistence economy is initially dominated by the primary sector in both GDP output share ($> 60\%$) and labor force employment ($> 75\%$).
2. Industrialization drives a massive expansion of the secondary sector as agricultural labor migrates to urban manufacturing centers, expanding industry's share in output and employment.
3. As per capita incomes climb to mature post-industrial levels, consumer demand shifts toward services (health, education, financial intermediation, leisure), making the tertiary sector the dominant contributor to GDP and employment.

The Indian Paradox: Premature Tertiarization

The historical evolution of the Indian economy represents a dramatic departure from the classical Clark-Kuznets paradigm. At independence in 1950–51, agriculture contributed approximately 54% of GDP and employed over 72% of the workforce. By 2023–24, agriculture's share in GDP had plunged to approximately 16%, while the service sector's share surged to nearly 54%, and the industrial sector stagnated around 28%–30%.

India effectively "leapfrogged" the traditional manufacturing stage of development, transitioning directly from an agrarian economy into a service-dominated economy—a structural phenomenon designated by development economists as **premature tertiarization**. Crucially, this output structural transformation has

not been accompanied by a commensurate labor structural transformation: while agriculture produces only ~16% of GDP, it continues to employ over 44% of the national workforce, reflecting massive structural underemployment and inter-sectoral productivity disparities.

Unit 3: Importance of Analysing Sectoral Contributions

Rigorous analysis of sectoral contributions is vital for economic policymaking:

- **Identifying Structural Imbalances:** Measuring inter-sectoral labor productivity gaps highlights where surplus labor is trapped in low-productivity subsistence agriculture.
- **Inter-Sectoral Linkages:** The three sectors do not function in isolation; they are bound by powerful *backward linkages* (manufacturing demanding agricultural cotton, steel, rubber) and *forward linkages* (agricultural machinery supplied by industry; banking and transport logistics facilitating industrial distribution).
- **Formulating Targeted Industrial and Employment Policies:** Designing initiatives like "Make in India" and Production Linked Incentive (PLI) schemes to bolster manufacturing employment and absorb surplus rural labor.

Macroeconomic Variable	1950–51 (Independence Era)	1990–91 (Pre-Reforms)	2023–24 (Contemporary Era)
Primary Sector Share in GDP	~54%	~29%	~16%
Secondary Sector Share in GDP	~15%	~27%	~28%
Tertiary Sector Share in GDP	~31%	~44%	~55%
Agriculture Share in Employment	~72%	~61%	~45%
Services Share in Employment	~17%	~24%	~31%

Advanced Theoretical Formulations and Empirical Frameworks (Analytical Division 1)

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Empirical Methodology, Identification Strategies, and Econometric Estimation

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Comparative Institutional Analysis, Market Failures, and Policy Governance

Economic outcomes are fundamentally mediated by institutional architectures, legal property rights regimes, and regulatory governance. In emerging market economies such as India, market imperfections—including asymmetric information, transaction costs, infrastructural bottlenecks, and credit constraints—often necessitate nuanced policy interventions that differ substantially from textbook laissez-faire predictions.

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Market Efficiency	Markets clear instantaneously; price mechanism allocates resources optimally without systemic friction.	Markets are prone to structural failures, information asymmetry, and coordination coordination failures.	Targeted regulatory oversight, public investment in infrastructure, and social safety nets.
Behavioral Motivation	Hyper-rational agents maximizing expected utility with complete cognitive computational capacity.	Bounded rationality, behavioral heuristics, loss aversion, and institutional anchoring effects.	Choice architecture, behavioral nudges (NITI Aayog initiatives), and consumer financial protection mandates.
State Intervention	State role restricted to core public goods, contract enforcement, and national defense (minimalist state).	State acts as developmental catalyst, risk-absorber of last resort, and promoter of equitable distribution.	Strategic industrial policy (PLI schemes), counter-cyclical fiscal intervention, and universal public services.
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Comprehensive Empirical Analysis: The Kerala Model and Sub-National Development

In the context of the Indian economy and sub-national development paradigms, the Kerala Model of Development provides a seminal empirical case study illustrating the complex trade-offs between social development and economic growth. Characterized by high physical quality of life indicators—including near-

universal adult literacy, high life expectancy, and low infant mortality rates comparable to advanced Western economies—achieved despite historically modest per capita state domestic product, Kerala demonstrates the transformative power of public social expenditure, agrarian land reforms, and decentralized local governance (Panchayati Raj institutions).

However, contemporary economic analysis also highlights structural challenges confronting this development paradigm: high educated unemployment, fiscal constraints stemming from escalating public debt servicing and pension obligations, and heavy reliance on external remittance inflows from migrant workers in the Persian Gulf. Sustaining this high-welfare equilibrium necessitates transitioning toward a knowledge-driven economy, incentivizing high-tech manufacturing, and mobilizing sustainable sub-national fiscal resources.

Policy Synthesis and Analytical Evaluation

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