

## Goods Induced Service Growth or the Other Way Round?

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*The paper analyses the rapid rise in relative share of the tertiary sector of the Indian economy during the nineties and later by dividing services into two parts according to use – intermediate and final services. The relative share of the secondary sector, which has by far the greatest intensity of intermediate use of services, did not rise during the period when, nevertheless, intermediate services maintained parity with final services in growth. During the period rise in private final consumption expenditure and exports were rapid. So, the parity implied that value added in intermediate services also increased faster than GDP. This was possible because of significant increase in the intensity of intermediate service use in the secondary sector.*

### I Introduction

The growth of the Indian economy at least over the last one and a half decades is generally viewed as led by the tertiary (or, service) sector. Apart from the observed sectoral relative shares, high income elasticity of demand for services and the recent spurt in service exports from India give substance to the view (World Bank 2004). When our interest is to understand the dynamics of the rapid growth of the service sector, not GDP as such, there is a part to the story which has not been properly highlighted in the literature. That is the tendency of intermediate demand for services, coming mostly from the secondary sector, to grow faster than GDP. Therefore, to take a holistic view of the growth of the service sector, though it sounds paradoxical, one has to go adequately into the diverse characteristics of the component activities of the sector.<sup>1</sup>

Relative GDP shares of the major sectors – primary, secondary and tertiary – change in the course of development in conformity with change in the structure of final demand. The associated change in the production process involves not only expansion in scale but also technical progress that includes emergence of new products and also change in the structure of production organization. Revolution in computing and telecommunications technology has given us

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<sup>1</sup> This point has been recognized by Goldar and Mitra, 2008. In a very wide-ranging study they have examined directions of causality-interrelations of sectoral growth in the Indian economy. Balakrishnan and Parameswaran, 2007, also examine causality. In spite of many merits of the studies mentioned we find it difficult to interpret such findings in the absence of a theoretical frame showing the causal relations.