

GDP Composition and Sector-wise Growth Trends in India:



Evidences From Post-reform Period

Sanjay Kumar Mangal,* D. R. Agarwal**

ABSTRACT

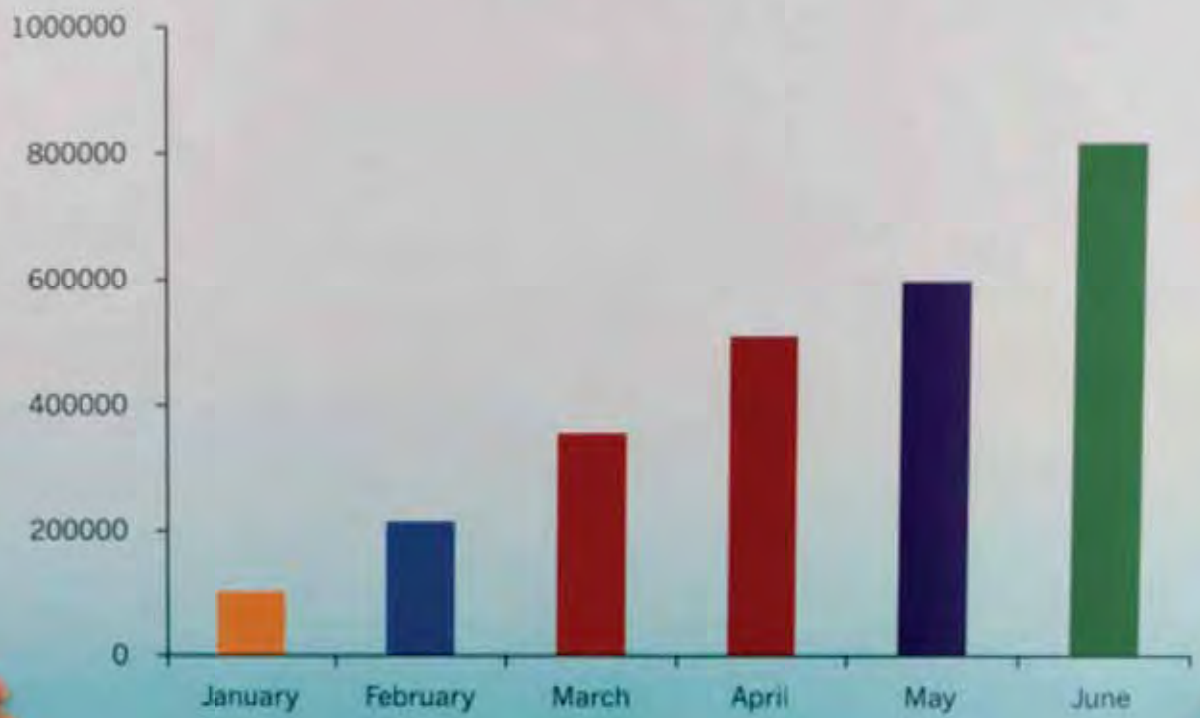
Economic growth models have emphasized upon the need for increase in investment leading to the rise in the rate of capital formation as the means for the development of any backward region/country. Considering this need of investment, economic reforms (liberalization, privatization and globalization (LPG)) gained major significance in India from July 24, 1991. These reforms introduced high investment to stimulate economic growth and average economic growth in India since then has been around 6.66% per annum (calculated from Handbook of Statistics on Indian Economy, RBI, 2011-1). However, these reforms have also led to change in the composition of gross domestic product (GDP) and growth rates of different sectors have been different during the post reform period. This paper aims at (1) examining the changes in GDP composition, (2) studying sector-wise growth rates using compound average growth rate (CAGR) and average annual growth rate (AAGR) and (3) finding the impact of gross capital formation (GCF) and labour employed on economic growth using multiple regression analysis in India during post-reform period i.e. 1991-92 to 2011-12. It has been found that the service sector contributes the highest and the agriculture & allied activities sector contributes the lowest share in GDP while the contribution of the industry sector has remained almost constant. As far as the sub-sector analysis is concerned, the trade, hotel, transport & communication sub-sector contributes the highest share in total output. GCF growth rate has found a significant determinant of economic growth and an 1% increase in the GCF growth rate leads to 0.91% increase in the GDP growth rate, while employment does not significantly affect the GDP growth rate.

Keywords: economic reforms, GDP composition, growth trends, gross capital formation, labour employed, CAGR, and AAGR

* Assistant Professor, School of Management, ITM University, Gurgaon. (India)

** Prof Emeritus, School of Management, ITM University Gurgaon (India)

SALES



INTRODUCTION

The economic backwardness of India prior to the introduction of economic reforms in 1991 could be termed as a case of the resource-curse (the paradox of plenty, i.e. countries with abundance of natural resources but having low economic growth and development). The main forces responsible for economic backwardness were colonial exploitation, poor terms of trade, volatility of global market, non availability of advanced technology, inefficient distribution of resources etc. India, virtually had no economic growth during first half of twentieth century and though unspectacular, the economy maintained a growth rate of 4.39% per annum. The development process was completely governed by colonial policies of the alien rulers. After India's independence in 1947, the Indian Govt. adopted economic planning in 1951 and the economy was transformed into a mixed economy based on the existence of three distinct ideologies viz, Socialism, Liberalism and Gandhism. Since independence, India's economic growth experience has been unique as it neither grew at a high growth rate of over 6% per annum like its East and Southeast Asian counterparts nor it had a period of prolonged stagnation/decline such as witnessed by African and Latin American countries.

During the first four decades of economic planning, India followed a model of growth through State enterprises and applied significant controls on private sector industrialization through licensing policies.

This model resulted in India getting into a spiral of major economic crisis in terms of mounting fiscal deficit and erosion of foreign exchange reserves due to huge imbalance in balance of payment / trade. Early 90s resulted in India on the brink of economic disaster and had to pledge gold reserves to temporarily borrow foreign exchange to remain solvent on current account payments.

Forced by the severe economic debacle, the liberalisation policy found its way focusing; liberalization instead of control, limiting the role of public sector and encouraging the participation of private sector, allowing foreign direct investment, carrying out a number of fiscal reforms, legal reforms and providing a framework for global institutions to set up base in India.



LITERATURE REVIEW

Economic growth measurement and the identification of its determinants has been a subject of long discussion in economic literature ranging from classical model to present economic reforms models. Harrod (1948) examined the impact of capital-output ratio, saving, investment and optimum utilization of resources on the steady growth and propounded that equality of warranted growth rate, actual growth rate and natural growth rate is the condition for equilibrium of steady growth. Robinson (1956) gave golden age model of economic growth. She found that rate of capital accumulation and labour force are the main determinants of economic growth and the equality between the two is necessary for equilibrium growth rate. Solow (1956) postulated that growth rate of labour and capital is the crucial

determinant of economic growth and capital-labour determines the level of investment and income in the economy. Domar (1957) emphasised upon the role of investment on productivity and growth. Duesenberry (1958) gave optimum growth model recognising that growth occurs because the actual capital-output ratio lies quite far below the optimum ratio to induce sufficient investment that permits income to grow as fast as or faster than capital accumulation. Neo-classical growth model with technical progress emphasised upon the role of technical progress in economic growth of any nation.



OBJECTIVES

Economic reforms have proved to be the main force behind the sound economic growth in India in last two decades and there have been significant changes in the composition of GDP.

This paper analyses the GDP composition and sector-wise growth rates during post-reform period in India. Following are the objectives of this paper:

1. To examine the change in composition of gross domestic product (GDP).
2. To examine the change in share of sub-sectors in the aggregate industry and service sectors.
3. To study sector-wise growth trends in Indian economy.
4. To study growth of capital formation and labour force in India and impact of the two on GDP growth.



RESEARCH METHODOLOGY

This paper is based on secondary data taken from Handbook of Statistics on Indian Economy 2011-12, Reserve Bank of India. This paper covers a period of 20 years from 1991-92 to 2010-11. Data for 2009-10 are Provisional Estimates, 2010-11 are Quick Estimates and 2011-12 are Revised Estimates.

GDP Composition: The composition of GDP has been studied in terms of percentage share of agriculture & allied activities, industry and service sectors and their sub-sectors viz. mining & quarrying, manufacturing and electricity, gas & water supply for industry sector and construction, trade, hotel, transport & communication, financing, insurance, real estate & business and community, and social & personal services for service sector.

Growth Trends: Growth trends have been examined in terms of compound average growth rate (CAGR) per annum and average annual growth rate (AAGR). The entire period (1991-92 to 2011-12, named as Period III) is divided into two sub-periods as Period I, first decade after economic reforms (1991-92 to 2000-01) and Period II, second decade after economic reforms (2001-02 to 2010-11).

Economists distinguish between the terms economic growth and economic development as the former deals with the problems of developed and rich countries while the later that of underdeveloped and developing countries. Economic growth implies more output where as economic development

is defined in terms of both more output and changes in technical institutional arrangements by which it is produced. "Development is a discontinuous and spontaneous change in the stationary state which forever alters and displaces the equilibrium state previously existing; while growth is a gradual and steady change in the long run which comes about by a general miracle in the rate of savings and population" (Schumpeter, 1912/1934).

Following are two methods which have been applied to measure economic growth:

A. Simple Growth Rate:

$$Y_n = Y_0 + \frac{Y_0 \times r \times n}{100} \text{----- (1)}$$

$$r = \frac{(Y_n - Y_0) \times 100}{Y_0 \times n} \text{----- (2)}$$

Where Y_n = GDP at the end of the period, n = length of the period and r = rate of economic growth.

B. Compound Growth Rate:

$$Y = ab^t e^u \text{----- (3)}$$

Where $b = 1 + r$ and r is the compound growth rate.

Y = gross domestic product (GDP)

t = time

The logarithmic transformation of the above function gives:

$$\log Y = \log a + t \log b + u \text{----- (4)}$$

And the values of $\log a$ and $\log b$ have been estimated using the following two normal equations:

$$\sum \log Y = n \log a + \log b \sum t$$

$$\sum t \cdot \log Y = \log a \sum t + \log b \sum t^2$$

As equation (4) is a log-linear function, therefore, CAGR has been computed by using following formula:

$$\text{CAGR (r\%)} = (\text{AL} (\log b) - 1) \times 100$$

Impact of Capital Formation and Labour Employed on Economic Growth

To study the impact of gross capital formation (GCF) and labour employed on economic growth, following linear regression model has been used:

$$\text{GDPR} = b_0 + b_1 \text{GCFR} + b_2 \text{LEMR} + u_i \text{----- (5)}$$

Where GDPR = annual growth rate of GDP, GCFR = annual growth rate of gross capital formation and LEMR = annual growth rate of labour employed (public sector and organised private sector)



ROSS DOMESTIC PRODUCT COMPOSITION

GDP composition implies the contribution of different sectors in the gross domestic product of the country. The contribution of three main sectors viz. Primary (agriculture and allied activities), Secondary (industry sector) and Tertiary (service sector) during post-reform period is shown in table 1. It is evident from the table that Indian economy is clearly on path of development as the contribution of primary sector in GDP has constantly declined, secondary sector's share has been almost constant till 2009-10 followed by a decline and the share of tertiary sector showing a constant growth. During the post-reform period, there has been a drastic change in the GDP composition as primary sector contribution has declined from 28.60% in 1991-92 to 14.01% in 2011-12. The share of secondary sector has almost been constant till 2009-10 (little over 20%) but decreased to 19.22% in 2011-12. The proportion of tertiary sector has continuously increased from 51.13% in 1991-92 to 66.77% in 2011-12. Thus, table 1 shows that composition of India's GDP has greatly changed during the post-reform period where the share of primary sector share has declined and tertiary sector share has increased.

Table 1: Sector-wise Composition of India's Gross Domestic Product (in percent)

Year	Agriculture & Allied Activities	Industry Sector	Service Sector
1991-92	28.60	20.27	51.13
1992-93	28.97	19.85	51.18
1993-94	28.32	20.14	51.54
1994-95	27.87	20.90	51.23
1995-96	25.76	21.97	52.26
1996-97	26.27	21.96	51.78
1997-98	24.49	21.47	54.05
1998-99	24.41	20.83	54.75
1999-00	23.27	20.36	56.37
2000-01	22.31	20.69	57.00
2001-02	22.42	20.03	57.55
2002-03	20.13	20.58	59.28
2003-04	20.32	20.12	59.56
2004-05	19.03	20.22	60.75
2005-06	18.27	20.05	61.67
2006-07	17.37	20.66	61.97
2007-08	16.81	20.65	62.54
2008-09	15.77	20.14	64.10
2009-10	14.70	20.24	65.07
2010-11	14.51	19.95	65.54
2011-12	14.01	19.22	66.77

Source: Calculated from Handbook of Statistics on Indian Economy, RBI, 2011-12

5.1 Industry Sub-Sectors' Contribution to GDP and Aggregate Industry Sector:

Industry sector plays a vital role in the economic development of any region as it provides the infrastructure base. The contribution of industry sub-sectors in India's GDP and aggregate industry sector is shown in table 2. The share of mining & quarrying and electricity, gas & water supply in GDP has declined during the period as the share of mining & quarrying was 3.55% in 1991-92 and it decreased to 2.24% in 2011-12. While the share of electricity, gas & water supply declined from 2.17% in 1991-92 to 1.86% in 2011-12. The share

water supply contributes the lowest share which is 9.68%, almost same as in 1991-92.

5.2 Service Sub-Sectors' Contribution to GDP:

Service sector contributes the largest share in GDP of India and has sub-divided into four sub-sectors viz. firstly construction, secondly trade, hotel, transport & communication, thirdly financing, insurance, real estate & business and fourthly community, social & personal services as shown in table 3. The table reveals that contribution of first three sub-sectors in GDP has increased from 1991-92 to 2011-

Table 2: Contribution of Industry Sub-sectors in GDP & Aggregate Industry Sector in India (in percent)

Year	Mining & Quarrying	Manu- facturing	Electricity, Gas & Water Supply	Mining & Quarrying	Manu- facturing	Electricity, Gas & Water Supply
	Share in GDP			Share in Aggregate Industry Sector		
1991-92	3.55	14.54	2.17	16.92	73.35	9.73
1992-93	3.41	14.24	2.20	17.54	71.76	10.70
1993-94	3.27	14.63	2.24	17.16	71.74	11.10
1994-95	3.36	15.24	2.30	16.23	72.65	11.12
1995-96	3.31	16.38	2.29	16.06	72.92	11.02
1996-97	3.08	16.63	2.24	15.05	74.53	10.42
1997-98	3.24	15.92	2.31	14.05	75.75	10.20
1998-99	3.12	15.39	2.32	15.09	74.16	10.75
1999-00	3.02	15.07	2.27	15.00	73.89	11.11
2000-01	2.97	15.50	2.22	14.85	74.02	11.13
2001-02	2.86	15.02	2.14	14.33	74.93	10.74
2002-03	2.98	15.44	2.16	14.29	75.01	10.70
2003-04	2.84	15.19	2.09	14.50	75.01	10.49
2004-05	2.86	15.25	2.11	14.10	75.51	10.39
2005-06	2.65	15.34	2.06	14.15	75.42	10.43
2006-07	2.60	16.00	2.06	13.21	76.50	10.29
2007-08	2.46	16.14	2.04	12.57	77.47	9.96
2008-09	2.36	15.78	2.00	11.93	78.19	9.87
2009-10	2.31	15.97	1.96	11.71	78.37	9.92
2010-11	2.24	15.84	1.86	11.43	78.90	9.68

Source: Calculated from Handbook of Statistics on Indian Economy, RBI (2011-12)

of manufacturing sub-sector in GDP has increased from 14.54% in 1991-92 to 15.84% in 2011-12. Here it is also important to examine the share of different sub-sectors in aggregated industry sector. Table 2 reveals that manufacturing is largest industry sub-sector and contributes 78.90% share in aggregate industry sector in 2011-12 while electricity, gas &

12 while the contribution of community, social & personal services has declined from 13.58% in 1991-92 to 13.05% in 2011-12. Among all four sub-sectors, trade, hotel, transport & communication contributes the maximum among all four sub-sectors which has increased from 17.83% in 1991-92 to 27.23% in 2011-12.

Table 3: Contribution of Service Sub-sectors in India's GDP (in percent)

Year	Construction	Trade, Hotel, Transport & Communication	Financing, Insurance, Real Estate & Business	Community, Social & Personal Services
1991-92	7.12	17.83	12.60	13.58
1992-93	7.00	17.89	12.62	13.67
1993-94	6.66	18.09	13.28	13.51
1994-95	6.59	18.69	12.96	12.98
1995-96	6.51	19.74	13.04	12.97
1996-97	6.15	19.78	12.84	13.00
1997-98	6.50	20.35	13.73	13.47
1998-99	6.47	20.55	13.88	13.86
1999-00	6.52	21.19	14.02	14.64
2000-01	6.63	21.63	14.05	14.68
2001-02	6.54	22.26	14.27	14.48
2002-03	6.81	23.22	14.79	14.47
2003-04	7.08	23.88	14.48	14.12
2004-05	7.70	24.49	14.71	13.84
2005-06	7.93	25.07	15.13	13.54
2006-07	7.99	25.53	15.74	12.70
2007-08	8.10	25.91	16.12	12.42
2008-09	7.99	26.09	16.92	13.09
2009-10	7.89	26.56	17.08	13.53
2010-11	7.86	27.23	17.40	13.05

Source: Calculated from Handbook of Statistics on Indian Economy, RBI (2011-12)

5.3 Service Sub-Sectors' Contribution to Aggregate Service Sector:

The contribution of service sub-sectors in aggregate service sector is shown in table 4. The contribution of construction and community, social & personal services sub-sectors has declined over the years during post-reform period which was 14.24% in 1991-92 and declined to 12.13% in 2011-12 for construction and 27.00% in 1991-92 and decreased to 20.80% in 2011-12 for community, social & personal services. While

contribution of trade, hotel, transport & communication and financing, insurance, real estate & business sub-sectors has increased. The share of trade, hotel, transport & communication increased from 35.55% in 1991-92 to 40.82% in 2011-12 while the share of financing, insurance, real estate & business increased from 23.21% in 1991-92 to 26.25% in 2011-12. Thus trade, hotel, transport & communication sub-sectors is the most contributing in aggregate service sector and construction is the least contributing sector.

Table 4: Contribution of Service Sub-sectors in India's Aggregate Service Sector (in percent)

Year	Construction	Trade, Hotel, Transport & Communication	Financing, Insurance, Real Estate & Business	Community, Social & Personal Services
1991-92	14.24	35.55	23.21	27.00
1992-93	13.93	34.86	24.65	26.56
1993-94	13.68	34.95	24.67	26.71
1994-95	12.92	35.11	25.76	26.21
1995-96	12.87	36.49	25.30	25.34

Year	Construction	Trade, Hotel, Transport & Communication	Financing, Insurance, Real Estate & Business	Community, Social & Personal Services
1996-97	12.45	37.77	24.96	24.83
1997-98	11.87	38.21	24.81	25.11
1998-99	12.02	37.66	25.40	24.92
1999-00	11.82	37.53	25.34	25.31
2000-01	11.56	37.60	24.88	25.96
2001-02	11.64	37.95	24.66	25.76
2002-03	11.36	38.68	24.80	25.16
2003-04	11.48	39.17	24.94	24.41
2004-05	11.89	40.10	24.31	23.70
2005-06	12.68	40.31	24.22	22.79
2006-07	12.87	40.64	24.54	21.95
2007-08	12.89	41.20	25.40	20.50
2008-09	12.95	41.42	25.77	19.86
2009-10	12.47	40.71	26.40	20.43
2010-11	12.13	40.82	26.25	20.80

Source: Calculated from Handbook of Statistics on Indian Economy, RBI (2011-12)

SECTOR-WISE GROWTH TRENDS

Since 1991, a series of economic reforms such as liberalization, privatization, globalization, de-licensing, tax reforms, tariff reduction etc., have been introduced in Indian economy. They have positive impacts on economic growth. Phenomenal economic growth has been registered during last two decades. To analyse sector-wise growth trends compound average growth rate (CAGR) and average annual growth rate (AAGR) has been calculated for three period viz. Period I (1991-92 to 2000-01), Period II (2001-02 to 2010-11) and Period III (1991-92 to 2010-11 as shown in table 5.

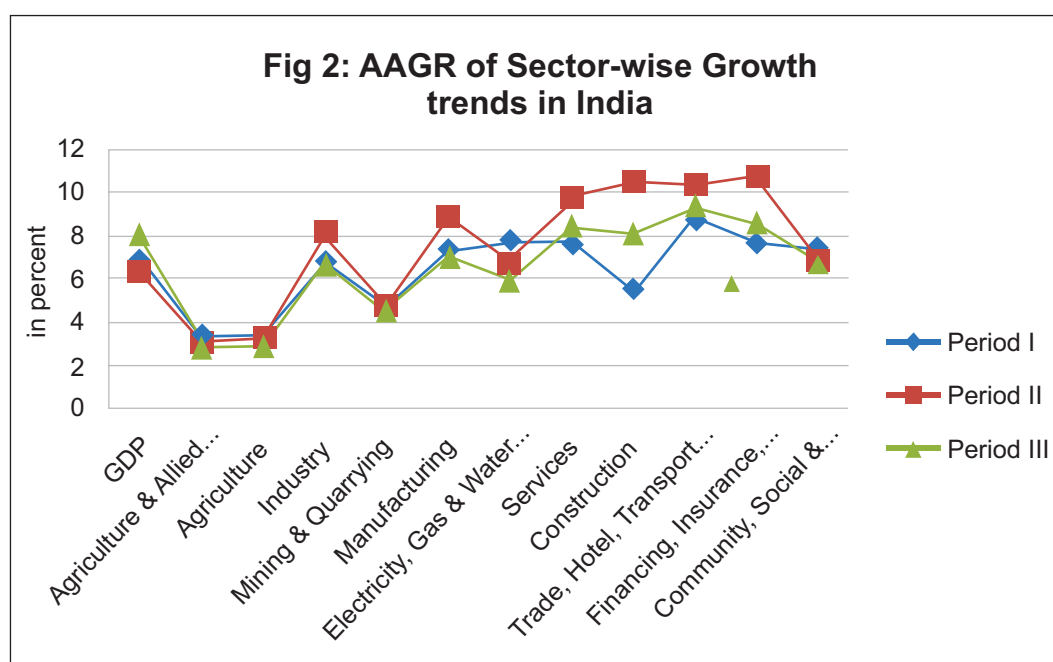
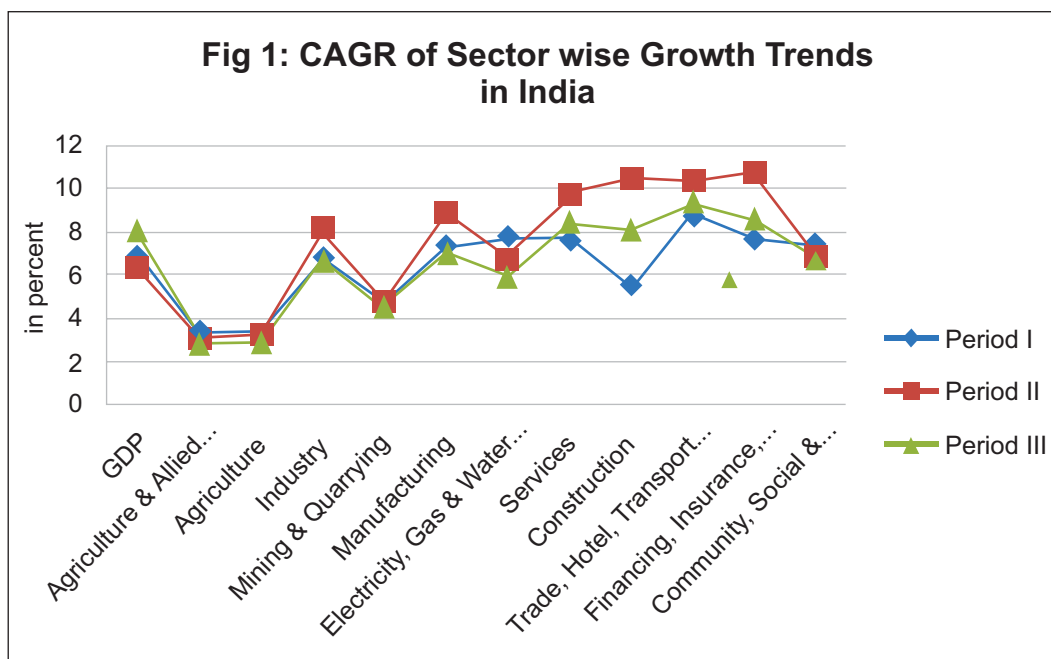
CAGR of GDP was 6.9%, 6.4% and 8.1% for period I, period II and period III respectively while AAGR of GDP was 6.69%,

5.75% and 7.64% for the above three periods respectively. These growth rates show that for the entire economy, growth rate was higher in the first decade after economic reforms than second decade. CAGR of agriculture & allied activities has decreased from period I (3.3%) to period II (3.1%) while it is 2.8% in period III. Industry and service sectors have registered increase in CAGR from period I to period II. Industry sector registered a CAGR of 6.8% in period I, 8.1% in period II and it is 6.7% in period III. Service sector registered a CAGR of 7.7% in period I, 9.7% in period II and 8.4% in period III. This shows that agriculture and allied activities sector's CAGR has been less than that of GDP while service sector's CAGR has been more in all three periods whereas industry sector's CAGR has been less than that of GDP in period I & III and more in period III. The same results have also been given by AAGR.

Table 5: Sector-wise Growth Trends in Indian Economy (in percent)

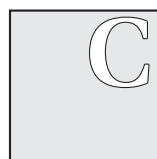
Sectors	Period I		Period II		Period III	
	CAGR	AAGR	CAGR	AAGR	CAGR	AAGR
GDP	6.9	6.69	6.4	5.73	8.1	7.64
Agriculture & Allied Activities	3.3	2.84	3.1	3.19	2.8	3.01
Agriculture	3.3	2.80	3.3	3.35	2.9	3.07
Industry	6.8	5.81	8.1	7.27	6.7	6.54
Mining & Quarrying	4.6	4.05	4.7	4.68	4.5	4.37
Manufacturing	7.3	6.09	8.9	7.91	7.2	7.0
Electricity, Gas & Water Supply	7.8	6.81	6.7	5.77	5.9	6.29
Services	7.7	7.18	9.7	9.15	8.4	8.17
Construction	5.5	5.06	10.5	9.53	8.1	7.3
Trade, Hotel, Transport & Communication	8.9	7.9	10.4	10.14	9.4	9.02
Financing, Insurance, Real Estate & Business	7.7	7.85	10.8	9.98	8.6	8.91
Community, Social & Personal Services	7.4	6.71	6.8	6.41	6.8	6.56

Source: Calculated from Handbook of Statistics on Indian Economy, RBI (2011-12)



As far as sub-sectors' growth rates are concerned, electricity, gas & water supply and community, social & personal services are only sub-sector where growth rates have decreased from first decade after economic reforms to second decade. In period I and III Trade, Hotel, Transport & Communication sub-sector registered highest growth rate i.e. CAGR (8.9%) and AAGR (7.9%) in period I and CAGR (9.4%) and AAGR (9.02%) in period III. In period II, Financing, Insurance, Real Estate & Business sub-sector registered the highest CAGR (10.8%) while Trade, Hotel, Transport & Communication registered the

highest AAGR (10.14%). Agriculture growth has, however, been the lowest in all three periods.



APITAL FORMATION AND LABOUR FORCE (EMPLOYMENT)

Capital formation and employment are two main driving forces behind economic growth of any region and economic reforms of 1991 in India have induced a high amount of investment and led to gross capital formation and employment at faster rate.

Table 6: Capital Formation and Employment in India

Year	Gross Capital Formation At Constant Price(in Rs. billion) Base 2004-05=100	Employment in Public Sector	Employment in Organised Private Sector	Total Employment
		In million		
1991-92	3630.28	19.21	7.85	27.06
1992-93	3268.03	19.33	7.85	27.18
1993-94	3764.93	19.45	7.93	27.38
1994-95	3510.32	19.47	8.06	27.53
1995-96	4099.39	19.43	8.51	27.94
1996-97	4858.71	19.56	8.69	28.25
1997-98	4428	19.42	8.75	28.17
1998-99	5236.35	19.41	8.7	28.11
1999-00	5506.91	19.31	8.65	27.96
2000-01	6716.71	19.14	8.65	27.79
2001-02	6262.07	18.77	8.43	27.2
2002-03	6950.12	18.58	8.42	27
2003-04	7148.9	18.2	8.25	26.45
2004-05	7987.15	18.01	8.45	26.46
2005-06	10522.32	18.19	8.77	26.96
2006-07	12237.17	18	9.24	27.24
2007-08	14107.54	17.67	9.88	27.55
2008-09	16534.38	17.8	10.38	28.18
2009-10	16262.2	17.86	10.85	28.71
2010-11	18146.41	NA	NA	NA
CAGR (%)	10.4	-0.6	1.3	0.0
AAGR (%)	9.53	-0.34	1.86	0.38

Source: Calculated from Handbook of Statistics on Indian Economy, RBI (2011-12)

It is evident from table 6 that GCF increased to Rs. 18146.41 billion in 2010-11 which was Rs. 3630.28 billion in 1991-92. It increased at an annual CAGR of 10.4% and AAGR of 9.53%. Labour employed in public sector has decreased from 19.21 million in 1991-92 to 17.86 million in 2009-10 with an annual

CAGR of negative 0.6% and at AAGR of negative 0.34%. Employment in organised private sector has increased from 7.85 million in 1991-92 to 10.85 million in 2009-10 with an annual CAGR of 1.3% and at AAGR of 1.86%. Total employment has increased from 27.06 million in 1991-92 to 28.71 million in 2009-10.

**Table 7: GDP Growth-Gross Capital Formation (GCF) & Labour Employed Growth:
Regression Statistics during Post-Reform Period in India**
Dependent Variable: GDPR
Independent Variables: GCFR & LEMR

Variables	Coefficients	Standard Error	t-Statistics
Intercept	5.516*	0.567	9.730
GCFR	0.91*	0.037	2.492
LEMR	0.568	0.346	1.641
R Square	0.336	Observations	19
Adjusted R Square	0.253	Standard Error	1.8144
D-W Statistics	1.965	F-Statistics	4.043*

*Significant at 1% level.

Impact of GCF and labour employed growth rate on GDP growth rate in India during the period from 1991-92 to 2009-10 has been analysed using multiple regression analysis shown in eq. 11 and results have been shown in table 7. It is evident from the table 7 that growth rate of GCF significantly affect the GDP growth rate and 1% increase in GCF growth rate leads to 0.91% increased in GDP growth rate while labour employed does not significant affect GDP growth rate during the period of study.



CONCLUSION

The problem of underdeveloped and developing countries is that either their resources are unknown to them or they are underutilized, though they have rich natural resources; while most of the developed countries already know their resources and have developed them to a considerable extent. Looking at this problem of underdeveloped and developing countries, economic development is a long process and requires joint working effort of Govt., market forces, and factors of production. These countries require increase in productivity and efficiency of their factors of production to increase production of goods and services which positively correlate the welfare of masses in general. Economic reforms in India have successfully led to the better utilization of natural resources of the nation.

This paper has examined the GDP composition, sector-wise growth trends and impact of gross capital formation and labour employed on economic growth after the introduction of economic reforms in 1991 in India. It has been found that service sector has been the driving factor to the total output and there has been a considerable decline in the share of agriculture and allied activities while share of industry sector has remained almost constant. This change in the composition of GDP shows that India's pattern of growth is in line with the growth model followed hitherto by other developed countries. Economic reforms have also affected the growth rate of different sectors in Indian economy. Growth rate of trade, hotel, transport & communication sub-sector has been highest. It shows that after globalization this sub-sector has rapidly grown and Govt. policies of trade and telecom have been successful. Economic reforms have positively affected capital formation and it has been found through regression analysis applied that GCF growth rate has significantly affected economic growth in India (table 7). Employment figures (table 6) clearly show that privatization policy has led to increase in organised private sector employment while employment in public sector has declined. Thus economic reforms have translated to a positive curve of economic growth in India and this model of growth should continue to be followed. Regression analysis establishes that there is a positive correlation between the rate of capital formation and rate of economic growth.

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