

2. State Income

The State Income Estimates based on current and constant prices, have witnessed significant revisions for earlier years starting with the base year 1993-94 in consonance with the guidelines given by the Central Statistical Organisation regarding Financial Intermediary Services indirectly measured and Consumption of Fixed Capital. In estimation of State Income '*income originating*' approach is being adopted, as opposed to '*income accruing*' approach followed in estimation of National Income.

At constant prices Gross State Domestic Product (GSDP) at Factor Cost, a summary measure of aggregate value of goods and services produced within the geographical boundaries of the State in a particular year, mirrors the performance of the three sectors viz. Agriculture, Industry and Services. There is a remarkable improvement in the performance of the State economy during 2004-05. Gross State Domestic Product at constant prices in 2004-05 rose by an impressive 8.73 per cent from Rs.94959 crores in 2003-04 to Rs.103248 crores in 2004-05 as compared to 3.55 per cent in the preceding year whereas GSDP at current prices rose from Rs.168457 crores in 2003-04 to Rs.188921 crores in 2004-05, exhibiting a growth of 12.15 per cent over 8.61 per cent in 2003-04.

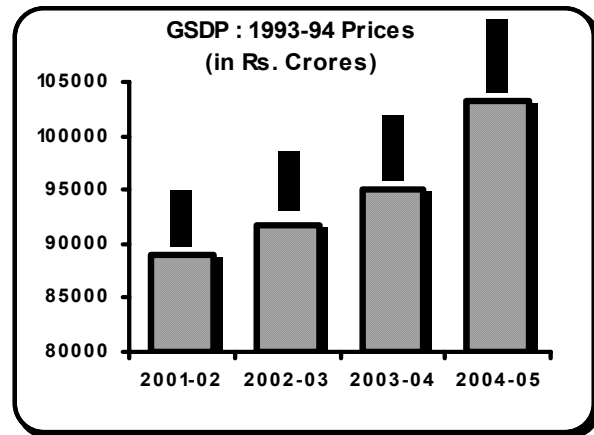


Table-1: Sectoral Growth of Gross State Domestic Product At Factor Cost
(Rs. Crores)

Sector	At Current Prices					
	2002-03 (RE)		2003-04 (QE)		2004-05 (AE)	
	Income	Growth rate (%)	Income	Growth rate (%)	Income	Growth rate (%)
Primary	20304	(-)15.75	20985	3.36	24686	17.64
Secondary	47106	13.01	48681	3.34	53905	10.73
Tertiary	87689	12.75	98791	12.66	110330	11.68
GSDP	155099	8.04	168457	8.61	188921	12.15
At Constant (1993-94) Prices At Factor Cost						
Primary	12814	(-) 20.98	12605	(-)1.63	14409	14.31
Secondary	30175	9.29	29462	(-)2.36	30974	5.13
Tertiary	48714	7.81	52892	8.58	57865	9.40
GSDP	91703	3.03	94959	3.55	103248	8.73

Note: R.E. - Revised Estimates; Q.E. - Quick Estimates; A.E. - Advanced Estimates.

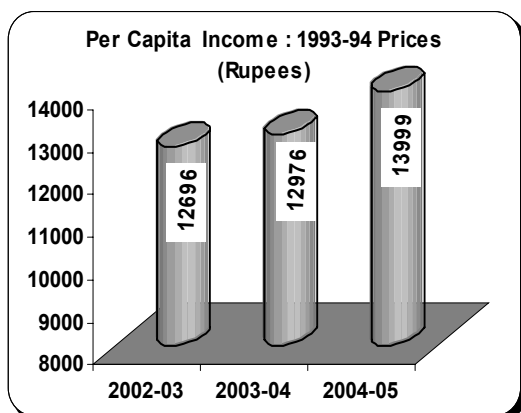
Source: Department of Economics and Statistics, Chennai -6.

Per capita Income:

The per capita income, an indicator of standard of living of the people, is a function of Net State Domestic Product (NSDP) and size of population in that year. The per capita income at constant prices increased from Rs.12976/- in 2003-04 to Rs.13999/- in 2004-05 exhibiting a growth rate of 7.88 per cent as compared to 2.21 per cent obtaining for 2003-04.

Table -2 Trend in Per Capita Income

The per capita income at current prices displayed a growth rate of 11.16 per cent increasing from Rs.23358/- in 2003-04 to Rs.25965/- in 2004-05.



Year	At Current Prices		At Constant Prices	
	Per Capita Income (Rs)	Growth Rate (%)	Per Capita Income (Rs)	Growth Rate (%)
1993-94	8955	-	8955	-
1994-95	10503	17.29	9932	10.91
1995-96	11819	12.53	10147	2.16
1996-97	13269	12.27	10451	3.00
1997-98	15388	15.97	11260	7.74
1998-99	17383	12.96	11592	2.95
1999-2000	18337	5.49	12167	4.96
2000 - 01	20346	10.96	12994	6.80
2001-02	20326	(-0.10)	12484	(-3.92)
2002-03 (RE)	21740	6.96	12696	1.70
2003-04 (QE)	23358	7.44	12976	2.21
2004-05 (AE)	25965	11.16	13999	7.88

Note: R.E. - Revised Estimates; Q.E. - Quick Estimates, A.E. - Advanced Estimates.

Source: Department of Economics and Statistics, Chennai - 6

Primary Sector:

The performance of primary sector which was severely affected during the past few years became vibrant in 2004-05 helped by good fortunes of agricultural sector aided by good monsoon and storage in Mettur Dam. Primary sector consists of four sub-groups viz. 'Agriculture and Allied Activities', 'Forestry and Logging', 'Fishing', and 'Mining and Quarrying'. The sub-group 'Agriculture and Allied Activities' which includes 'Animal Husbandry' is by far the largest category within the primary sector accounting for 86.94 per cent of primary sector income in 2004-05. The severe drought like weather conditions wrecked havoc on the farm front in the recent past. The adverse impact was reflected in the growth of the primary sector in 2002-03 and 2003-04. The near normal rainfall in 2004-05 and for this sector could be able to register a growth rate of 14.31 per cent and fairly good storage at Mettur dam helped agriculture performance and income from 'Agriculture and Allied Activities' grown by 15.88 per cent during 2004-05 compared to (-)2.76 per cent in 2003-04. The performance of sub-group 'Forestry and Logging' was poor with a negative growth of 3.16 per cent in 2003-04 and it could not regain in 2004-05 also. The sub-group 'Fishing' recorded a growth rate of 13.10 per cent in 2004-05 compared to a negative growth of 1.17 per cent in 2003-04. The table given below presents the data on the performance of agriculture during the three years ending 2004-05.

Table -3: Primary Sector : Growth of Sub-Sectoral Income (GSDP) at Constant (1993-94) Prices

Sl. No.	Sub-Sector	(Rs. in Crores)					
		2002-03 (RE)		2003-04 (QE)		2004-05 (AE)	
		Income	Growth Rate (%)	Income	Growth Rate (%)	Income	Growth Rate (%)
1.	Agriculture & Allied Activities	11117	(-) 23.71	10811	(-) 2.76	12527	15.88
2.	Forestry & Logging	468	6.99	453	(-) 3.16	449	(-) 0.91
3.	Fishing	658	(-) 2.24	649	(-) 1.17	735	13.10
4.	Mining & Quarrying	571	6.63	692	21.11	698	0.95
	Primary Sector	12814	(-) 20.98	12605	(-) 1.63	14409	14.31

Note: R.E. - Revised Estimates; Q.E. - Quick Estimates; A.E. - Advanced Estimates.

Source: Department of Economics and Statistics, Chennai -6.

Secondary Sector:

Growth of income originating from the secondary sector has also improved to 5.13 per cent in 2004-05 from a negative growth of 2.36 per cent in the preceding year. The income level increased from Rs.29462 crores in 2003-04 to Rs.30974 crores in 2004-05. Within the secondary sector, all the sub-groups performed well. The performance of the sub-group, 'Manufacturing - Registered' was at 5.50 per cent compared over 4.35 per cent in 2003-04. The sub-group 'Manufacturing - Unregistered' had also displayed a growth rate of 6.29 per cent in 2004-05 compared to a negative growth of 9.48 per cent in the preceding year. The growth of the sub-group 'Electricity, Gas and Water Supply' increased by 10.94 per cent in 2004-05. The income originating from the sub-group 'Construction' has shown an increase from Rs. 6851 crores in 2003-04 to Rs.6967 crores in 2004-05 but the growth rate decelerated from 9.79 per cent in 2003-04 to 1.70 per cent in 2004-05. The plausible factors for this impressive growth in the sub-group was the busy construction sector and liberal extension of credit by the financial intermediaries. Benign interest rates gave a fillip to the housing market. However, the accelerated growth could not be sustained during 2004-05.

Surge in the income originating in the secondary sector particularly in the sub-groups Manufacturing both 'Registered and Unregistered' can be triggered by a few leading high performing industries which have high income elasticities of demand. In order to scaleup the growth of income in the secondary sector, the issue of sick industrial units requires to be addressed. The solutions range from closure to merger and amalgamation. It will result in *synergy - (a) operating synergy in the form of economies of scale and economies of scope and (b) financial synergy*. Dis-investment process is the one possible solution. In addition to this, enhancement of *Total Factor Productivity*¹, rationalisation and modernisation process need to be improved upon. Competitiveness holds the key for both sustained and accelerated growth.

Table -4 : Secondary Sector Growth of Sub-Sectoral Income (GSDP) at Constant (1993-94) Prices

Sl. No.	Sub-Sector	(Rs. in Crores)					
		2002-03 (RE)		2003-04 (QE)		2004-05 (AE)	
		Income	Growth Rate (%)	Income	Growth Rate (%)	Income	Growth Rate (%)
1.	Manufacturing-Registered	12546	3.03	13091	4.35	13811	5.50
2.	Manufacturing-Unregistered	8708	8.31	7883	(-) 9.48	8379	6.29
3.	Electricity, Gas & Water Supply	2681	88.36	1637	(-)38.94	1817	10.94
4.	Construction	6240	4.51	6851	9.79	6967	1.70
	Secondary Sector	30175	9.29	29462	(-)2.36	30974	5.13

Note: R.E. - Revised Estimates; Q.E. - Quick Estimates; A.E. - Advanced Estimates.
Source: Department of Economics and Statistics, Chennai - 6.

Tertiary Sector:

Tertiary sector comprises of nine sub-groups. The process of noticeable tertiarisation has been possible because of growing demand-driven service activities such as 'Communication', 'Banking and Insurance', 'Transport', 'Trade', 'Hotel and Restaurants' and 'Hospitality industry'. These sub-groups may be considered as trial-blazers and pace setters in

¹ Total Factor Productivity is the difference or residual between the average growth rate of the factors of production and the growth rate of real output.

the growth of the service sector. Income originating from the service sector increased by Rs.4973 crores from Rs.52892 crores in 2003-04 to Rs.57865 crores in 2004-05 registering a growth of 9.40 per cent. A look at the disaggregated picture shows that the income stemming from 'Communication' sub-group went up by leaps and bounds i.e. by 21 per cent, followed by 13.11 per cent in income of 'Trade, Hotels and Restaurants' and 9.62 per cent in 'Real Estate, Ownership of Dwelling and Business Services'.

Sun rise activities such as 'Information Technology', 'Business Process Outsourcing' (BPO), Knowledge Process Outsourcing (KPO) and off-shore investments also contribute for the strident growth of tertiary sector in the State.

Table -5 : Tertiary Sector : Growth of Sub-Sectoral Income (GSDP) at Constant (1993-94) Prices

(Rs. in Crores)

Sl. No.	Sub-Sector	2002-03 (RE)		2003-04 (QE)		2004-05 (AE)	
		In- come	Growth Rate (%)	In- come	Growth Rate (%)	In- come	Growth Rate (%)
1.	Trade, Hotel & Restaurants	15547	9.72	16858	8.43	19068	13.11
2.	Railways	554	(-) 2.61	590	6.42	593	0.52
3.	Transport by other means	4323	2.98	4370	1.11	4445	1.69
4.	Storage	70	(-) 5.05	72	3.76	74	3.21
5.	Communication	4608	18.53	5575	20.98	6724	20.59
6.	Banking & Insurance	7103	11.52	7632	7.45	7764	1.74
7.	Real Estate, Owner-ship of Dwelling & Business Services	6198	8.38	6740	8.74	7388	9.62
8.	Public Administration	4290	(-) 4.68	4599	7.19	4787	4.09
9.	Other Services	6021	5.69	6456	7.22	7022	8.78
	Tertiary Sector	48714	7.81	52892	8.58	57865	9.40

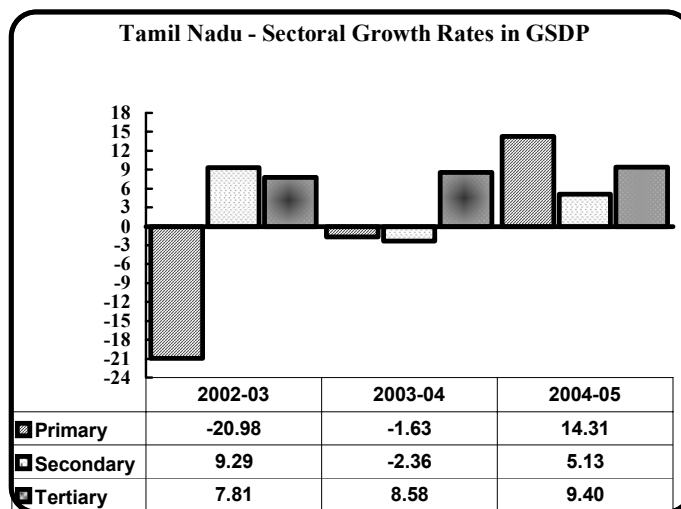
Note: R.E. - Revised Estimates; Q.E. - Quick Estimates; A.E. - Advanced Estimates.

Source: Department of Economics and Statistics, Chennai-6.

Rapid growth of tertiary sector has many policy implications. It provides necessary resilience to the economy in terms of its ability to bear the shocks arising out of a volatile primary sector characterised by swings. Further, this sector gives the impetus for newer sustainable growth model that provides scope for increasing direct and indirect employment besides boosting consumption of a wide range of products.

Trend Analysis -Sector-wise:

A trend analysis for a 10 year period ending 2004-05 was made to ascertain whether the economy moved on a higher growth plane. This exercise reveals that GSDP has been growing at 4.73 per cent per annum during 1994-95 and 2004-05. Disaggregated picture shows that the secondary sector is growing at 4.57 per cent per annum while the service sector is growing at



8.41 per cent. In contrast the primary sector has exhibited a negligible trend growth of 0.63 per cent. During the last decade, the primary sector experienced a negative growth on five occasions during 1995-96, 1996-97, 1999-2000, 2002-03 and 2003-04. Policy implications are that the primary sector requires appropriate policy interventions to ensure that agriculture is diversified. Investment in this sector is deepened besides ensuring the sustainability of this sector, upgrading infrastructure both in the rural and urban areas which will help in improving competitiveness and transaction costs.

**Table – 6 : Growth in Gross Domestic Product (1993-94) Prices
A Trend Analysis**

(Percentage change)

Year	Primary Sector	Secondary Sector	Tertiary Sector	GSDP
1994-95	11.25	15.71	10.82	12.57
1995-96	(-) 12.56	8.84	8.49	3.45
1996-97	(-) 0.84	1.96	10.28	4.95
1997-98	8.53	1.93	12.99	8.20
1998-99	9.00	0.62	5.86	4.73
1999- 2000	(-) 4.77	10.81	7.62	6.11
2000-01	4.54	7.94	8.54	7.61
2001-02	0.08	(-) 9.60	2.07	(-) 2.20
2002-03 (RE)	(-) 20.98	9.29	7.81	3.03
2003-04(QE)	(-) 1.63	(-) 2.36	8.58	3.55
2004-05(AE)	14.31	5.13	9.40	8.73
AAGR	0.63	4.57	8.41	4.73

Note: R.E. - Revised Estimates; Q.E. - Quick Estimates; A.E. - Advanced Estimates.

Source: Department of Economics and Statistics, Chennai - 6.

Tamil Nadu vis-a-vis All India:

The long term trend in incomes and per capita is depicted below.

**Table - 7 : National Income (GDP) vis-a-vis State Income
(GSDP) and Per capita Income at Constant (1993-94) Prices**

Year	All-India		Tamil Nadu	
	GDP (Rs. Crores)	Per Capita (Rupees)	GSDP (Rs. Crores)	Per Capita (Rupees)
1993-94	781345	7690	57549	8955
1994-95	838031 (7.25)	8070 (4.94)	64784 (12.57)	9932 (10.91)
1995-96	899563 (7.34)	8489 (5.19)	67021 (3.45)	10147 (2.16)
1996-97	970082 (7.84)	9007 (6.10)	70336 (4.95)	10451 (3.00)
1997-98	1016595 (4.79)	9244 (2.63)	76105 (8.20)	11260 (7.74)
1998-99	1082747 (6.51)	9650 (4.39)	79703 (4.73)	11592 (2.95)
1999-2000	1148367 (6.06)	10071 (4.36)	84575 (6.11)	12167 (4.96)
2000-01	1198592 (4.37)	10308 (2.35)	91011 (7.61)	12994 (6.80)
2001-02	1267945 (5.79)	10754 (4.33)	89011 (-)2.20	12484 (-)3.92)
2002-03	1318362 (3.98)	11013 (2.41)	91703 (3.03)	12696 (1.70)
2003-04	1430548 (8.51)	11799 (7.14)	94960 (3.55)	12976 (2.21)
2004-05	1529408 (6.91)	12416 (5.21)	103248 (8.73)	13999 (7.88)
AAGR	6.24	4.46	4.73	4.22

Note: Figures in brackets indicate percentage change over the preceding year.

Source : 1. National Accounts Statistics , CSO, New Delhi & Economic Survey 2004-05 GOI.

2. Department of Economics and Statistics, Chennai-6.

Inter District Comparison:

Estimates of income generation at district level is available for the period 1993-94 to 2003-04. It offers insight into the relative level of attainment in economic development of various districts. An analysis of district income has been made in terms of per capita income and the respective growth rates of districts. It is seen that, between 1993-94 and 2002-03, income from all the districts rose at a compound growth rate of 5.3 per cent. Total income generation was more than Rs.4000 crores in eight districts and together accounted for more than 50 per cent of total State income in 2002-03. There are significant inter districts variations in the growth of income. An assessment of the districts based on per capita income showed that Chennai ranked first followed by Coimbatore and Virudhunagar. The lowest per capita income is reported by Villupuram district. A perusal of the relative performance of districts in terms of per capita income shows that eleven districts had per capita income above the State average. It is pertinent to note that estimation of district level of income is the subject matter of debate from the methodological point of view. The details are given in the table below.

Table 8: District Income Estimates: GSDP at Constant (1993-94) Prices

Districts	1993-94 (Rs.Lakhs)	2002-03 (Rs.Lakhs)	CGR (GDP)	Per Capita gdp* (Rs.)	Rank (Per capita)
Chennai	627727	1045488	5.83	24069	1
Coimbatore	511299	899894	6.48	21066	2
Virudhunagar	227661	358885	5.19	20492	3
Kancheepuram	303132	549553	6.83	19098	4
Tiruvallore	277666	513660	7.07	18646	5
Theni	115105	188160	5.61	17200	6
Thoothukudi	178339	267982	4.63	17044	7
Erode	259544	415677	5.37	16102	8
Namakkal	163499	228883	3.81	15326	9
Madurai	226884	387509	6.13	15030	10
Tirunelveli	253725	400508	5.20	14703	11
Dindigul	170094	275982	5.52	14352	12
The Nigiris	75119	106309	3.93	13949	13
Salem	266548	400949	4.64	13293	14
Trichy	195812	313328	5.36	12956	15
Karur	81443	118842	4.29	12701	16
Perambalur	106987	149516	3.79	12573	17
Vellore	284925	436065	4.84	12540	18
Kanniyakumari	150071	210025	3.81	12531	19
Ramanathapuram	89043	145912	5.64	12286	20
Sivagangai	84563	130957	4.98	11335	21
Nagapattinam	115157	166472	4.18	11181	22
Cuddalore	165291	245412	4.49	10738	23
Thanjavur	149751	235952	5.18	10647	24
Pudukkottai	96745	153066	5.23	10487	25
Thiruvarur	89576	118442	3.15	10128	26
Dharmapuri	182834	282943	4.97	9906	27
Thiruvannamalai	135288	192685	4.01	8814	28
Villupuram	171074	231270	3.41	7812	29
State	5754902	9170326	5.31	14695	

Note: * Pertains to GDP 2002-03 & Population 2001 census.,
Source : Directorate of Economics and Statistics Chennai - 6.

Box
Tamil Nadu vis-a- vis Major States :CGR for GSDP and Per capita Income
at 1993-94 Prices

An analysis of economic growth has been made in respect of 15 major States adopting growth in per capita income of respective States during the decade 1993-94 to 2003-04 with a view to identifying the relative performance of Tamil Nadu among the major States in India. It is seen that Tamil Nadu stood fifth in terms of real per capita income next to Gujarat, Maharashtra, Punjab and Haryana.

Sl. No.	State	GSDP (Rs. Crores)			Per Capita Income (Rupees)		
		1993-94	2003-04	CGR	1993-94	2003-04	CGR
1.	Andhra Pradesh	57867	99931	5.62	7416	11333	4.33
2.	Assam	15143	20298	2.97	5715	6520	1.33
3.	Bihar	22812	35667	4.57	3037	3707	2.01
4.	Gujarat	49194	103951	7.77	9796	16779	5.53
5.	Haryana	22131	39993	6.10	11079	15721	3.56
6.	Karnataka	41079	72399	5.83	7838	11799	4.18
7.	Kerala	26326	43344	5.11	7938	12109	4.31
8.	Madhya Pradesh	37971	59960	4.67	6584	8284	2.32
9.	Maharashtra	113320	187386	5.16	12183	16050	2.80
10.	Orissa	18537	28255	4.31	4896	6427	2.76
11.	Punjab	30248	44862	4.02	12710	15800	2.20
12.	Rajasthan	32970	60738	6.30	6182	8571	3.32
13.	Tamil Nadu	57549	96588	5.31	8955	13423	4.13
14.	Uttar Pradesh	80451	111830	3.35	5066	5610	1.03
15.	West Bengal	53424	98374	6.30	6756	10952	4.95
	All-India	781345	1430548	6.23	7690	11799	4.37

Source: Central Statistical Organisation and DOES

Economic Transformation:

Tamil Nadu has been witnessing a subtle structural transformation with a discernable shift towards the dominance of the service sector. The share of primary sector has been on the decline while the share of tertiary sector has been on the rise. However, the share of secondary sector remains more or less constant. The share of primary sector had declined from 43.51 per cent in 1960-61 to 14.68 per cent

in 2004-05 whereas the share of secondary sector was at 20.27 per cent in 1960-61 and peaked at 33.49 per cent in 1980-81. Thereafter, its share has been steadily on the decline which now stands at 26.54 per cent in 2004-05. In the case of the service sector, the share soared from 36.22 per cent in 1960-61 to 58.78 per cent in 2004-05. Thus, the tertiary sector has become the prime mover of the economy. The rapid growth of service sector can be attributed to a transformation of the economy to a knowledge society from being a primary sector oriented one to an increasingly knowledge driven economy.

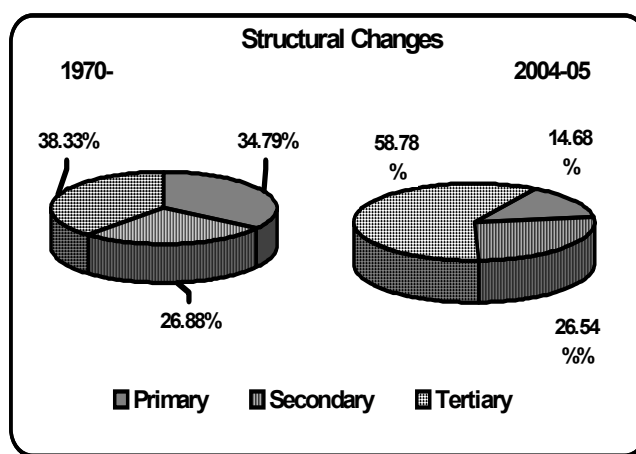


Table - 9: State Economy : Structural Changes

Sl. No.	Sectors	Share in NSDP*						
		1960-61	1970-71	1980-81	1990-91	1993-94	2000-01	2004-05
1.	Primary Sector	43.51	34.79	25.92	23.42	26.24	18.93	14.68
1.1.	Agri. & Allied Activities	42.46	32.78	24.56	21.85	23.92	17.29	12.98
1.2.	Forestry & Logging	0.54	0.62	0.24	0.73	0.76	0.51	0.47
1.3.	Fishing	0.38	0.57	0.63	0.31	0.96	0.62	0.59
1.4.	Mining & Quarrying	0.13	0.82	0.49	0.53	0.59	0.51	0.65
2.	Secondary Sector	20.27	26.88	33.49	33.10	32.16	30.84	26.54
2.1.	Manufacturing - Registered.	6.85	9.68	14.95	16.22	16.10	12.88	10.60
2.2.	Manufacturing – Unregistered	7.91	10.16	12.47	7.95	9.21	8.88	7.79
2.3.	Electricity, Gas and Water Supply	0.17	0.31	0.43	2.03	1.31	2.58	0.78
2.4.	Construction	5.34	6.73	5.64	6.90	5.55	6.50	7.36
3.	Tertiary Sector	36.22	38.33	40.59	43.48	41.60	50.23	58.78
3.1.	Trade, Hotels and Restaurants	16.55	15.81	16.87	16.51	14.29	17.70	20.87
3.2.	Railways	0.20	0.27	0.35	0.37	0.37	0.40	0.34
3.3.	Transport by other means	2.49	4.16	4.40	4.31	4.11	4.01	3.68
3.4.	Storage	--	--	0.13	0.08	0.11	0.08	0.07
3.5.	Communication	0.35	0.64	0.95	0.93	1.50	3.54	6.80
3.6.	Banking & Insurance	1.56	2.11	3.25	5.77	5.83	7.48	8.07
3.7.	Real Estate and Business Services	3.96	4.02	4.99	5.53	5.10	5.57	7.05
3.8.	Public Administration.	0.97	1.66	3.56	4.26	3.82	4.82	4.71
3.9.	Other Services	10.14	9.66	6.09	5.72	6.47	6.63	7.18
	Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00

* - NSDP data adopted for ensuring comparability over the years.

Note: 1960-61 to 1990-91 computation is based on 1980-81 prices. 1993-94, 2000-01 and 2004-05 is based on 1993-94 prices Source: Department of Economics and Statistics, Chennai - 6.

The Annual Report 2003-04 brought out by the Reserve Bank of India observes the following while drawing implications for the rapid growth of service sector. "The service sector has emerged as the engine of growth of the Indian economy. The strength of the services sector needs to be leveraged in view of its enormous growth potential and positive externalities for the commodity / producing sectors. While the rising share of services in the GDP is an encouraging sign of greater degree of diversification of the Indian economy, the corresponding decline in the shares of commodity - producing sectors implies that overall productivity gains in the economy would depend increasingly on the degree of efficiency attained by the services sector.

The sustainability of high growth of services would hinge upon high quality of production and delivery, continuous improvement in productivity and pro-active supply responses in markets where tastes and patterns change rapidly. Customisation will be the

hallmark of strategies for gaining market shares. The global market for the new drivers of service sector growth - 'Information Technology Enabled Services' (ITES) and 'Business Process Outsourcing' (BPO) services - is becoming intensely competitive and is being compressed by protectionist pressures. Diversification of range of services offered as well as geographical markets, further innovations and ensuring customer satisfaction would remain crucial to maintaining India's competitive advantage in major international markets. Improvement in efficiency in the delivery of infrastructure services such as transportation, power, water supply and other urban services is critical to the enhancement of productivity in the commodity-producing and service sectors alike. At this stage of development, construction activity holds the key for enhancing productivity and improving employment prospects across the economy. The modernisation of construction techniques would help in reducing overall costs in all infrastructure sectors and housing”.

Causative factors for economic transformation are analysed below:

A shift in the consumption pattern is a trigger for economic transformation to begin with. According to Engel's Law, the percentage of expenditure would be higher on food items in the early stage of economic development. As the development is gaining momentum, the share of expenditure on non-food items such as social consumption comprising education, health and nutrition, housing and improved sanitary conditions, demand for horticultural produce, pulses, clothing, durable items etc. would be on the move. This shift in consumption pattern has been engendering the economic transformation in the State to a great extent. *The logic behind economic transformation is that the income elasticity of demand for food would be less compared to the income elasticity of demand for other items of expenditure in the event of rising real per capita income.* Higher income elasticity of demand for consumer durables and other items hastens the growth process. In consonance with the changing consumption pattern, the production structure has changed from agriculture-oriented to services-oriented whereas the dependence of work-force for livelihood on agriculture has dwindled from 80 per cent to 60 per cent over time. But still the dependence on the agriculture sector is high and poses a challenge.

Gross Fixed Capital Formation:

Capital formation² is essential to initiate and accelerate the process of economic development. The Tenth Five Year Plan envisages an annual growth rate of 8 per cent and an Incremental Capital Output Ratio (ICOR)³ of 3.8 per cent. Given these two parameters, the saving ratio is set at around 30 per cent of the GSDP. It is worth-noting that the major sources of savings are households, Corporate sector and the Government. The saving emanating from households has been positive and substantial whereas it is negative on the part of the Government. The savings made by the Corporate Sector is also not up to the mark. The functioning of the public sector enterprises is not encouraging because most of the public sector undertakings are cash-starved. It is imperative that the performance of public sector undertakings is fine-tuned so that significant savings will accrue from public sector undertakings. Since Government is facing huge fiscal deficit, especially on the Revenue

² Capital Accumulation is broadly defined to include all expenditure of a productivity - increasing nature. It is simply a response to the stimulus of technical advance. It involves a process that may be termed the beneficent spiral of accumulation. Once an economy begins to develop, its advance can gain momentum. For once investment becomes sufficiently high to increase productivity, then the rising income will increase the capacity of the economy to provide saving for further investment and the rate of development can in turn be greater. As product rises and real income increases, vital capital accumulation can feed upon itself.

³ ICOR: Larger the economies of scale and greater the technical and economic efficiencies, lower will be the ICOR. It will ensure a favourable economic growth.

Account, it is unable to make substantial contribution to the process of capital accumulation. These issues have been invariably factored into the Budget Process.

Data furnished by the Commissioner of Economics and Statistics shows that Gross Fixed Capital Formation at current prices as ratio of State Income stood at 24.05 per cent in 1998-99 against 17.54 per cent in 1993-94. Marginal oscillations has been noticed between years.

Table –10: Ratio of Gross Fixed Capital Formation of GSDP by Industry of Use

(value Rs. Lakhs)

Year	GSDP	Gross Fixed Capital Formation (Current Prices)			Ratio of GFCF to GSDP
	Current Prices	Public Sector	Private Sector	Total	
1993-94	5754902	339737 (33.66)	669730 (66.34)	1009467	17.54
1994-95	6866579	599382 (46.97)	676581 (53.03)	1275963	18.58
1995-96	7820534	624003 (39.88)	940597 (60.12)	1564600	20.01
1996-97	8923735	533549 (25.46)	1562234 (74.54)	2095783	23.49
1997-98	10355034	509257 (22.16)	1788909 (77.84)	2298166	22.19
1998-99	11820918	725106 (25.51)	2117866 (74.49)	2842972	24.05

Note: Figures in brackets indicate percentage to total.

Source: Directorate of Economics and Statistics, Chennai - 6.