

# The Role of Service Sector in Indian Economy

Notes

## Sectors of The Indian Economy



*Primary Sector  
(or Agriculture and related sectors)*



*Secondary Sector (or Industrial sector)*



*Tertiary Sector (or Service sector)*

### ***Important Terms and Concepts***

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#### **1. Classification of sectors of the Indian economy.**

##### **(i) On the basis of nature of activities**

- (a) Primary sector
- (b) Secondary sector
- (c) Tertiary sector

##### **(ii) On the basis of ownership**

- (a) Private sector

(b) Public sector

2. **Primary Sector (or Agriculture and related sectors).** It includes all those economic activities which are connected with extraction and production of natural resources, e.g., agriculture, fishing, mining, etc.
3. **Secondary Sector (or Industrial sector).** It includes all activities which are concerned with the processing of materials which have already been extracted at the primary stage, e.g., the mining of iron ore is primary industry, but manufacture of steel is secondary industry.
4. **(a) Tertiary Sector (or Service sector).**  
It is concerned with providing support services to primary and secondary sector and includes transport, banking, insurance, warehousing, communication, advertising, etc. It facilitates smooth flow of goods and services in the economy. Importance of tertiary sector has been observed in the last decade and its contribution to GDP has also risen.  
**(b) Growth of Service Sector in India.** Service sector has grown tremendously in the last decades in India. It is expected that India will be the third largest economy in the world in coming years. This sector is an important user of information and communication technologies.  
**(c) India as a major service provider to the world.** In the recent years, India has become a major service provider to the world along with service sectors like financial services, telecommunications and transport. It has a great potential to expand.
5. **Private Sector.** Private individuals or companies possess the ownership of assets and delivery of services, e.g., TISCO.
6. **Public Sector.** Government possesses the ownership of assets and delivery of services, e.g., Railways.
7. **Organised Sector.** Here, people have assured work and terms of employment are regular. Rules and regulations given in various laws are followed as they are registered by the government.
8. **Un organised Sector.** It consists of small and scattered units which are largely outside the control of the government. It is characterised by low-paid and insecure jobs. Rules and regulations are not followed.
9. **Economic Activities.** It covers all those activities which are undertaken by people with the object of earning money, e.g., a worker working in a factory and a teacher teaching in a school.
10. **Non-Economic Activities.** It covers all those activities which are undertaken to satisfy social, psychological and emotional needs, e.g., person engaged in religious work and housewife looking after the household.

11. **Gross Domestic Product (GDP) of a country.** Value of all final goods and services produced within a country during a particular year. It is the money value of the gross output of the nation.
12. **Final Goods.** All goods which are meant either for consumption by consumers or for investment by firms are called final goods. They are finished goods meant for final use.
13. **Intermediate Goods.** All goods which are used as raw material for further production of other goods or for resale in the same year are known as intermediate goods, e.g., biscuits are final goods but flour, milk, sugar, salt, fuel, etc. used in making biscuits are intermediate goods.
14. **For Calculating GDP.** Value of only final goods (and not of intermediate goods) should be included. Its reason is that value of intermediate goods is already included in the value of final goods when these are converted into final goods. For example, the value of biscuits (final good) already includes the value of flour, milk, sugar, etc. (Intermediate goods). If we include value of intermediate goods along with the value of final goods, it will lead to the problem of double counting {i.e., counting of value of same product more than once}. Hence to avoid the problem, intermediate goods are included in estimation of GDP (national income also).
15. **Unemployment.** It refers to a situation when a person is able and willing to work but does not get an opportunity to work.
16. **Disguised Unemployment.** A situation in which more persons are employed on a job than are optimally required. If a part of the labour force is withdrawn and the total production remains unchanged, this withdrawn labour will be known as disguised unemployed labour.
17. **Seasonal Unemployment.** Unemployment caused by the fact that certain activities can be pursued only during specified periods, e.g.. The demand for agriculture all ab our increases at the time of sowing and harvesting. During the interval between sowing and harvesting, there is a fall in employment. It is also found in seasonal industries like ice factories.
18. **Structural Unemployment.** Unemployment caused by the fact that the economy fails to generate enough jobs. It is the result of the backwardness and low rate of economic development of a country. It is generally witnessed in the underdeveloped countries. e.g., A change of energy use from coal to electric power is bound to curtail coalmining activity and cause unemployment there.
19. **Cyclical Unemployment.** It is due to slackening of demand for goods, generally witnessed in developed countries.

- 20. Technological or Technical Unemployment.** When the introduction of new technology causes displacement of workers, it is called technological unemployment, e.g., introduction of computers reduces the need for labourers drastically in an economy. Motorised transport rendered those engaged in manually driven hand carts, tongs, etc. unemployed.
- 21. Frictional Unemployment.** The temporary unemployment which exists during the period of the transfer of labour from one occupation to another is called frictional unemployment. It is due to ignorance of labour about job opportunities. e.g., Big industrial units and polluting industries have been moved out of the large towns and cities like Delhi and are now located at distant places. The labour there thrown out of job is either unwilling or unable to move to these new locations of work. This has rendered many workers unemployed thus giving rise to frictional unemployment.
- 22. Open Unemployment.** In the agricultural sector we have a large group of landless labourers who seek wage employment on farms. But many people fail to get employment and hence remain chronically unemployed. Since they openly search for employment and hence their unemployment is not hidden, this is called open unemployment.
- 23. Relation of Population Growth and Unemployment.** When the number of people increases in a country much faster than the rate at which the number of employment opportunities increases, that situation may lead to unemployment.
- 24. Skilled Labour.** He is the one who has proper training and education to work in a particular field.
- 25. National Rural Employment Guarantee Act 2005 (NREGA 2005).** Under this Act, Guaranteed 100 days of employment in a year or unemployment allowances to the people should be provided by the government.
- 26. Role of Infrastructure.** Infrastructure plays an important role in the economic development of an economy. It can quicken or impede the development of an economy. Important infrastructural services are—energy, transport, communication, education and health.

**Role of Education.**

Education plays an important role in the overall development of a human being and a society. Therefore, stress on imparting education has been given up in our constitution which says education should be free for children below 14 years of age. Under the various plans, education facilities have been expanded at all levels in India and as a result, not only the literacy rate has risen but the percentage of children availing school education has also increased. The National Policy on Education (NPE) was made in 1986 and further modified in 1992. It emphasizes 3 aspects in respect of elementary education :

- (a) universal access and enrolment.

(b) universal retention of children upto 14years of age; and

(c) a substantial improvement in the quality of education. NPE had set a goal of expenditure on education at 6 percent of the GDP. As against this target, the actual expenditure of central and state governments was 3.49 per cent of GDP in 2004-05.

### **Role of Health.**

For good health, two things are essential:

(a) Balanced and nutritional diet and

(b) Medical care.

The general health standard in India is quite low. This is quite inevitable as nearly one fourth of the population lives below the poverty line. These people do not have nutritional diet, adequate medical care and hygienic conditions. As a result, the overall health conditions are poor in India.

In recent years (since sixth plan) there has been a change in the whole approach towards health services- Under the new approach, the focus is not on providing hospitals but on providing better health and medical care services to the poor people.

A community based programme on health care and medical services in rural areas was launched. Apart from developing health services, the control of communicate diseases is now being given the highest priority. As a result of these efforts, there has been a fall in the incidence of certain diseases like T.B., leprosy and polio. But a rise in the incidence of certain diseases like AIDS, blindness, cancer, etc. has also been noticed. These require immediate attention, care and action.

- 27. Need for Public Investment.** Private investment is aimed at profit motive for which it sometimes ignores regional balanced development, equality of income and development of basic industries. Therefore, there is a great need for public investment to ensure rapid and balanced economic development and growth of the economy.
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