

SECTORS OF THE INDIAN ECONOMY

CHAPTER COVERAGE

- Primary, Secondary and Tertiary sector
- Public & Private sector
- Importance of service sector
- NREGA, 2005
- Division of Sector as organised and unorganised
- Calculation of GDP
- Unemployment (Disguised)

Sectors

People in society are engaged in various economic activities. Some produce goods where as some produce services. In order to understand these activities people are divided into groups. These groups are called **sector or activity**.

I. Primary sector :

- (a) Those occupations which are closely related to man's natural environment. Hunting, fishing, lumbering, animal rearing, farming and mining are important example of primary activity.
- (b) This sector is also called agricultural and related sector.
- (c) Primary products are the base for all other products that we subsequently make.

II. Secondary sector :

- (a) The occupation which produce finished goods by using the product of primary activity as raw materials are included in secondary activity. e.g. Manufacturing of cloth from cotton, sugar from sugarcane and steel from iron ore etc.
- (b) This sector is related to industries and hence can be called industrial sector.
- (c) The product is not produced by nature.

III. Tertiary sector :

- (a) These are activities that help in the development of primary and secondary sector.
- (b) These activities by themselves do not produce a good but they are an aid or a support for the production process.
- (c) Since these activities generate services rather than goods. They are called service sector. e.g. Transport, storage communication, Banking etc.
- (d) In this sector services may be classified in two groups.

(i) Commercial services : It includes Banking, Insurance, Packing, Advertising, Communications, Transport, Railways, Internet cafe. ATM, Call centers etc.

(ii) Personal services : It includes Teaching, Nursing, Police, Medical, Entertainment, Barber, Cobblers, and Lawyers etc.

The contribution of Tertiary sector to G.D.P. is 49.1%, 22.7% of the working population continues to be engaged in Tertiary sector.

➤ **Comparing the three sectors**

1. Intermediate Goods :

Those goods which are sold by one firm to another either for resale or for further processing. e.g. paper sold by a paper mill to a publisher is intermediate goods.

In other words these goods which are within the boundary line of production. The value of these goods is not included in the national income of a country. Their value is reflected in the value of final goods.

2. Final Goods :

Those goods which are used either for final consumption or for capital formation. These are not resold.

In other words final goods have crossed the boundary line of production and are ready for use by the final users.

3. Double counting :

The counting of the value of a product more than once is called double counting.

Gross Domestic Product : The market value of the final goods and services produced within the domestic territory of a country during one year.

➤ **Importance of the tertiary sector**

Factors responsible for the growth of tertiary sector.

1. Basic Services :

In any country several services such as hospitals, schools, post and telegraph, police station, courts, insurance, defense, transport, banks etc are required. These can be considered as basic services. The government has to take responsibility for the provision of these services.

2. Development of means of transport and communication :

The development of agriculture and industry leads to the development of services such as transport communication, trade etc. All these come under tertiary sector.

3. More income more services :

The per capita income in our country is rising. As income level rises the demands of people are also rising.

4. New services :

With modernisation and globalisation some new services based on information and communication technology have become important and essential.

5. Role of tertiary sector in the Indian economy :

- (i) India is a developing country. Since 1991 India has adopted new economic policy-Globalisation, Liberalisation, welcoming MNCs and Foreign investment. Due to change of economic policies tertiary sector is growing in India. Basic amenities like education, health care services related with Information Technology, ATM booths, call centres etc. provides employment to educated Indians.
- (ii) The share of tertiary sectors in GDP is growing day by day. The rate of growth of tertiary sector with other sector in terms of GDP indicates clearly that share of tertiary sector in GDP (%) has increased greatly since last 30 years (from 1973 to 2003). In 1973 the share of tertiary sector in GDP was from 35 to 40%. It has increased in 2003 from 50 to 60%.
- (iii) The share of tertiary sector in employment (%) has also increased in last 30 years. In 1973, share was nearly 10 to 15% but it has increased from 20 to 22% in 2003. Though tertiary sector is not playing the role of providing employment over expectation, the primary sector continues to be the largest employer even in the year 2000.
- (iv) Tertiary services increase efficiency of people.
- (v) They provide the countrymen necessary information and knowledge.

6. Reasons for increase in the service employment throughout the work :

- (i) Rising per capita income in the developed countries has generated proportionately larger increase in the demand for many kinds of services specially health care, entertainment and transport.
- (ii) The increasing value of time has led to more household functions being accomplished outside of home.
- (iii) Medical services as a proportion of Gross National Product (GNP) in a year, have increased steadily in Europe, North America and Japan.
- (iv) There is also demand for medical care from elderly people.
- (v) There is demand for educational services at all levels with the increase in demand for literacy and computer skills at workplaces.



Importance of Primary sector

- 1. The secondary and tertiary sector have failed to create enough jobs.
- 2. Even though industrial output or the production of goods went up by eight times during the period, employment in the industry went up by only 2.5 times.
- 3. More than half of the workers in the country are still working in the primary sector mainly in agriculture, producing only a quarter of the GDP.
- 4. **‘Majority of people in India are engaged in Primary services :**

India is a developing country. It has been declared by several economists of the world that in near future India will be super power. Still today most of the people in India are engaged in primary occupations because India provides all types of primary products to the world. Human occupation is influenced by geographical environment of a particular region. People living in different parts of the world choose from amongst their physical environment only that occupation which can easily support them and can meet all their material

needs. India is engaged in their efforts to meet their basic needs and has no time to produce all the articles as surplus and has not made use of science and technology. The pace of development among developing countries is very slow, that is why a comparatively small number of people are engaged in tertiary occupations.

➤ **Disguised Unemployment**

It is a situation in which more workers are working in an activity than required.

Disguised Unemployment :

Situations where people are apparently working but all of them are made to work less than their potential. This kind of underemployment is hidden in contrast to someone who does not have a job and is clearly visible as unemployed. Hence, it is also called disguised unemployment. This underemployment can also happen in other sectors. There are thousands of casual workers in the service sector in urban areas who search for daily employment. They are employed as painters, plumbers, repair persons and others doing odd jobs. Many of them don't find work everyday. They are engaged in work where they may spend the whole day but earn very little. They are doing this work because they do not have better opportunities.

Difference between open unemployment and disguised unemployment :

Open unemployment is different from disguised unemployment. Under open unemployment someone does not have a job and is clearly visible as unemployed. While under disguised unemployment situation we find hidden situation of unemployment. It is not clearly visible.

To understand differences between both types of unemployment-Open employment and disguised employment, we take the following example.

For instance we can take the case of small farmer of a village. He owns nearly two hectares of unirrigated land. All seven members of his family work in the plot throughout the year. Why ? They have nowhere else to go for work. You will see that everyone is working, none remains idle, but in actual fact their labour effort gets divided. Each one is doing some work but no one is fully employed. This is the situation of underemployment, where people are apparently working but all of them are made to work less than their potential. This kind of underemployment is hidden in contrast to someone who does not have a job and is clearly visible as unemployed. Hence, it is also called disguised unemployment.

How to create more employment.

1. Diversification of Agriculture :

More than 60 % of our workers are employed in agriculture but our farmers are producing only limited crops. There is need to diversify agriculture. Farmers should be encouraged to adopt pisciculture, horticulture animal rearing etc. along with cultivation of crop.

The government can spend some money or banks can provide a loan, to construct wells or other irrigation facilities to irrigate the land. A dam can be constructed or canals can be dug to irrigate many farms. This could lead to a lot of employment generation within the agricultural sector itself reducing the problem of underemployment.

2. Cheap Credit :

Most of the farmers depend on informal sources of credit. Government should encourage the commercial banks to provide loans to the farmers at cheaper rates.

3. Provision of basic facilities :

Our rural areas lack basic facilities like roads, transportation, banking, market etc. The government should invest some money in these sectors so that Indian village can be linked to other market. This activity can provide productive employment to not just for farmers but also other such as those in services like transport or trade.

4. Promotion of local industries :

Promote and locate industries especially the cottage and small scale industries in semi rural areas where a large number of people may be employed.

5. Improvement in Education & Health :

Most of the Indian villages lack education and health facilities. A study conducted by the planning commission estimates that nearly 20 lakh job can be created in education sector alone. Similarly. We need many more doctors, nurses, health workers in rural areas.

6. Tourism or regional craft industry, or new services like IT require proper planning and support from the government. Study by the Planning Commission say that if tourism as a sector is improved, every year we can give additional employment to more than 35 lakh people.

➤ National Rural Employment Gurantee Scheme (NREGA)

◆ Main features of the scheme are :

1. The scheme targets, Scheduled Castes (SC) and Scheduled Tribes (ST) and poor women who suffer from poverty.
2. To provide livelihood to the people below the poverty line, guarantees 100 days of wage employments in a year to every household in the country.
3. Under the scheme, the Gram Panachayat after proper verification will register household and issue job cards to registered household.

➤ Division of sector as organised and unorganised

1. Organised sector :

Organised sector covers those enterprises or places of work where the terms of employment are regular and therefore people have assured work. They are registered by the government and have to follow its rules and regulation which are given in various laws such as Factories Act, Minimum Wages Act, Payment of Gratuity Act, Shop and Establishment Act. etc.

◆ **Advantages of organised sector :**

1. Workers in this sector enjoy security of employment.
2. They work only for fixed number of hours. If they work more, they have to be paid overtime by the employer.
3. They also get several other benefits from the employers like paid leave, payment during holidays, provident fund etc.
4. They also get several other benefits.
5. The workers working in organised sector also get pension after retirement.

◆ **Unorganised sector :**

It is a sector which is not registered by the government. It is characterised by small and scattered units, which are largely outside the control of the government. There are rules and regulations but these are not followed.

◆ **Disadvantages of unorganised sector :**

1. Workers working in unorganised get less wages.
2. There is no provision for overtime, paid leaves, holidays, leaves due to sickness etc.
3. Employment is subject to high degree of insecurity people can be asked to leave without any reason.
4. A large number of people doing small jobs come under unorganised sector.
5. Land-less and casual workers also come under unorganised sector.
6. People working in unorganised sector are exploited.

➤ **Unorganised sector of rural areas**

In the rural areas, the unorganised sector comprises mainly of workers in small scale industry, casual workers in construction, trade and transport etc and those who work as street vendors, head load workers, garment makers, rag pickers etc.

◆ **Workers in the unorganized sector need protection from following three issues :**

1. **Wages :** Equal wages should be paid to both male and female workers. There should be increment as well as Dearness Allowance (DA) twice in a year as it is paid by the government.
2. **Safety :** The worker should be given safety in their employment as well as their body and mind. Generally no worker should be asked to leave his job and if he is asked to do so enough compensation should be provided to him or her. On duty or on going for duty or coming from working place if something goes wrong with the worker, the worker should be given economic protection and if necessary a job should be provided to his family member.

3. **Health :** Worker should be given free health care services, medicine, and medical checkup and nursing and doctors facilities. These facilities must be extended to his entire dependents.

➤ **How to protect workers in the unorganised sector**

1. Alternative sources of employment :

This is the best policy, on long term basis, to create ample opportunities of employment in the areas other than agriculture.

2. Public Works Programmes :

Majority of the people get employment during sowing and harvesting periods. For the remaining part of the year they usually remain unemployed. It is necessary to organize the public works programmes to the rural workers throughout the year.

3. Social Security :

The workers of unorganised sector have no social security of job. So there sincere efforts are needed.

➤ **Sector in terms of ownership**

On the basis of ownership of resources economic activities can be classified as -

1. Private sector :

It is the sector which is controlled, managed and owned by the individual. e.g. Hindustan lever, Tata Iron & Steel co, Bajaj Auto etc.

2. Public sector :

It is the sector which is controlled, managed and owned by the government e.g. Indian Railway, BHEL, Sindri Fertilizer ltd.

◆ Motivation :

The private sector activities are centred around profit motives and the concept of service is of secondary consideration.

Public sector activities are determined by the social welfare consideration with the motive of providing basic needs of people of the country and the profit motives are secondary consideration.

➤ **Role of Governement or Public sector**

1. Development of infrastructure :

Development of infrastructure comprising of transport, power communication, basic industries etc. is a precondition of growth. Expenditure on the development of infrastructure is known as social over head costs.

2. Development of backward areas :

The government finds it necessary to start industrial production in these areas on its own.

3. Basic facilities :

Running proper schools and providing education is the duty of the government.

4. Other problems :

There are many other problems like malnourishment, high infant mortality rate, unsafe drinking water etc. which need special attention. These problems can be solved only with the help of government.

◆ **Contribution of Public Sector to the Economic Development of a Nation :**

It is quite necessary to have a public sector because of the following reasons :

1. The public sector provides many essential things at quite a reasonable cost which the private can not provide.
2. The public sector can set up heavy industries which require a lot of money, but private sector cannot do so.
3. The public sector has the benefit of the people above everything because its purpose is not to earn money but to benefit the people at all costs.
4. The public sector is mainly held by the government which so often bears some of the cost for the benefit of the public especially for the poor people. People are given wheat, kerosene oil etc. at the lower prices than they buy from the market.

GLOSSARY

1. **Primary Activity** : Those occupation which are closely related to man's natural environment e.g. gathering hunting, fishing, agriculture etc.
2. **Secondary activity** : The occupations which produce finished goods by using the products of primary activities as raw material. e.g. sugar from sugarcane, manufacturing of cloth from cotton etc.
3. **Tertiary activity** : This activity consists of all service occupations. e.g. transport & communication trade, health, education and administration etc.
4. **Intermediate goods** : Those goods which are sold by one firm to another for resale or for further processing.
5. **Final goods** : They have crossed the boundary line of production and are ready for use by the final users. e.g. cloth, coolers, T.V. etc.
6. **Double counting** : The counting of the value of a product more than once is called double counting.
7. **Gross Domestic Product** : It is the market value of the final goods and services produced within the domestic territory of a country during one year.
8. **Disguised Unemployment** : It is the situation in which more workers are working in an activity than required.
9. **Public sector** : It is the sector which is controlled, managed and owned by the government.
10. **Private sector** : It is owned, controlled and managed by an individual or by a group of individuals.