

GIST OF N.C.E.R.T

SECTORS OF THE INDIAN ECONOMY

An economy is best understood when we study its components or sectors. Sectoral classification can be done on the basis of several criteria. Here three types of classifications are discussed: primary / secondary / tertiary, organised / unorganised; and public / private. It is important to emphasise the changing roles of sectors. This can be highlighted further by drawing attention of the students to the rapid growth of service sector. While elaborating the ideas provided in the chapter, the students may need to be familiarised with a few fundamental concepts such as Gross Domestic Product, Employment etc.

Another important issue to be highlighted is about the problems caused by the changes in the roles of sectors.

SECTORS OF ECONOMIC ACTIVITIES

There are many activities that are undertaken by directly using natural resources. Take, for example, the cultivation of cotton. It takes place within a crop season. For the growth of the Cotton plant, we depend mainly, but not entirely, on natural factors like rainfall, sunshine and climate. The product of this activity, Cotton, is a natural product. Similarly, in the case of an activity like dairy, we are dependent on the biological process of the animals and availability of fodder etc. The product here, milk, also is a natural product. Similarly, minerals and ores are also natural products. When we produce a good by exploiting natural resources, it is an activity of the primary sector. Why primary? This is because it forms the base for all other products that we subsequently make. Since most of the natural products we get are from agriculture, dairy, fishing, forestry, this sector is also called agriculture and related sector.

The secondary sector covers activities in which natural products are changed into other forms through manufacturing that we associate with industrial activity. It is the next step after primary. The product is not produced by nature but has to be made and therefore some process of manufacturing is essential. This could be in a

factory, a workshop or at home. For example, using cotton fibre from the plant, we spin yarn and weave cloth. Using sugarcane as a raw material, we make sugar or gur. We convert soil into bricks and use bricks to make houses and buildings. Since this sector gradually became associated with the different kinds of industries that came up, it is also called as industrial sector.

After primary and secondary, there is a third category of activities that falls under tertiary sector and is different from the above two. These are activities that help in the development of the primary and secondary sectors. These activities, by themselves, do not produce a good but they are an aid or a support for the production process. For example, goods that are produced in the primary or secondary sector would need to be transported by trucks or trains and then sold in wholesale and retail shops. At times, it may be necessary to store these in godowns. We also may need to talk to others over telephone or send letters (communication) or borrow money from banks (banking) to help production and trade. Transport storage communication banking, trade are some examples of tertiary activities. Since activities generate services rather than goods the tertiary sector is also called the service sector.

Service sector also includes some essential services that may not directly help in the production of goods. For example, we require teachers, doctors, and those who provide personal services such as washermen, barbers, cobblers, lawyers, and people to do administrative and accounting works. In recent times, certain new services based on information technology such as internet cafe, ATM booths, call centres, software companies etc have become important.

COMPARING THE THREE SECTORS

The various production activities in the primary, secondary and tertiary sectors produce a very large number of goods and services. Also, the three sectors have a large number of people working in them to produce these goods and services. The

next step, therefore, is to see how much goods and services are produced and how many people work in each sector. In an economy there could be one or more sectors which are dominant in terms of total production and employment, while other sectors are relatively small in size. How do we count the various goods and services and know the total production in each sector?

With so many thousands of goods and services produced, you might think this is an impossible task!

To get around this problem, economists suggest that the values of goods and services should be used rather than adding up the actual numbers. For example, if 10,000 kgs of wheat is sold at Rs 8 per kg, the value of wheat will be Rs 80,000. The value of 5000 coconuts at Rs 10 per piece will be Rs 50,000. Similarly, the value of goods and services in the three sectors are calculated, and then added up.

Not every good (or service) that is produced and sold needs to be counted. It makes sense only to include the final goods and services. Take, for instance, a farmer who sells wheat to a flour mill for Rs 8 per kg. The mill grinds the wheat and sells the flour to a biscuit company for Rs 10 per kg. The biscuit company uses the flour and things such as sugar and oil to make four packets of biscuits. It sells biscuits in the market to the consumers for Rs 60 (Rs 15 per packet). Biscuits are the final goods, i.e., goods that reach the consumers.

Why are only 'final goods and services' counted? In contrast to final goods, goods such as wheat and the wheat flour in this example are intermediate goods. Intermediate goods are used up in producing final goods and services. The value of final goods already includes the value of all the intermediate goods that are used in making the final good. Hence, the value of Rs 60 for the biscuits (final good) already includes the value of flour (Rs 10). Similarly, the value of all other intermediate goods would have been included. To count the value of the flour and wheat separately is therefore not correct because then we would be counting the value of the same things a number of times. First as wheat, then as flour and finally as biscuits.

The value of final goods and services produced in each sector during a particular year provides the total production of the sector for that year. And the sum of production in the three sectors gives what is called the Gross Domestic Product (GDP) of a country. It is the value of all final goods and

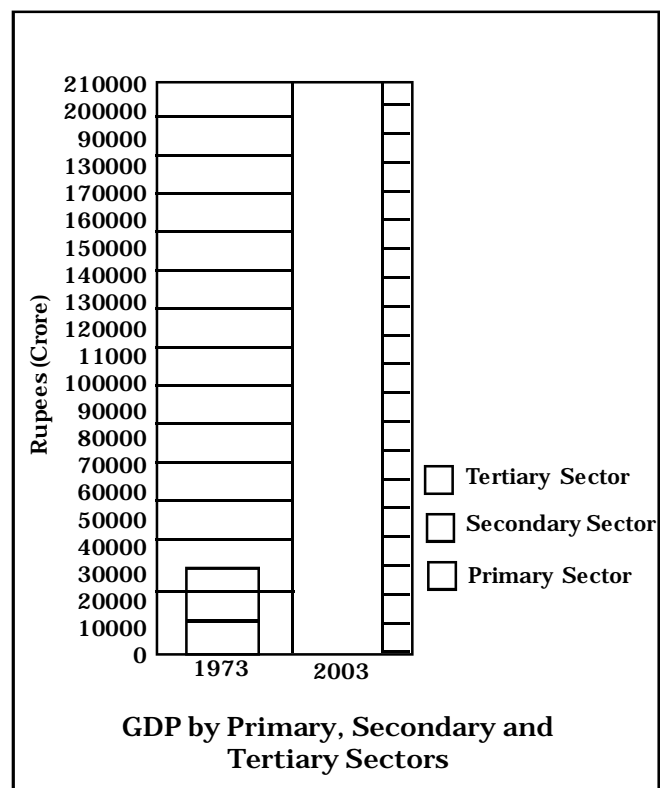
services produced within a country during a particular year. GDP shows how big the economy is.

In India, the mammoth task of measuring GDP is undertaken by a central government ministry. This Ministry, with the help of various government departments of all the Indian states and union territories, collects information relating to total volume of goods and services and their prices and then estimates the GDP.

Historical Change in Sectors

Generally, it has been noted from the histories of many, now developed, countries that at initial stages of development, primary sector was the most important sector of economic activity.

As the methods of farming changed and agriculture sector began to prosper, it produced much more food than before. Many people could now take up other activities. There were increasing number of craft persons and traders. Buying and selling activities increased many times.



Besides, there were also transporters, administrators, army etc. However, at this stage, most of the goods produced were natural products from the primary sector and most people were also

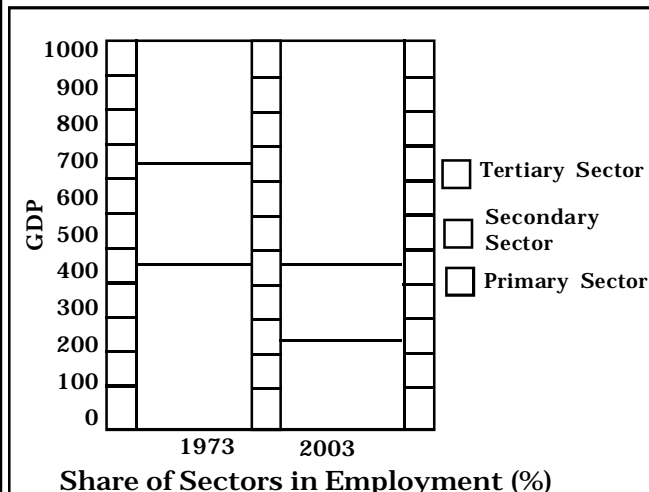
employed in this sector. Over a long time (more than hundred years), and especially because new methods of manufacturing were introduced, factories came up and started expanding. Those people who had earlier worked on farms now began to work in factories in large numbers.

People began to use many more goods that were produced in factories at cheap rates. Secondary sector gradually became the most important in total production and employment. Hence, over time, a shift had taken place. This means that the importance of the sectors had changed. In the past 100 years, there has been a further shift from secondary to tertiary sector in developed countries. The service sector has become the most important in terms of total production. Most of the working people are also employed in the service sector. This is the general pattern observed in developed countries.

PRIMARY, SECONDARY AND TERTIARY SECTORS IN INDIA

Rising Importance of the Tertiary Sector in Production Over the thirty years between 1973 and 2003, while production in all the three sectors has increased, it has increased the most in the tertiary sector. As a result, in the year 2003, the tertiary sector has emerged as the largest producing sector in India replacing the primary sector. Why is the tertiary sector becoming so important in India? There could be several reasons.

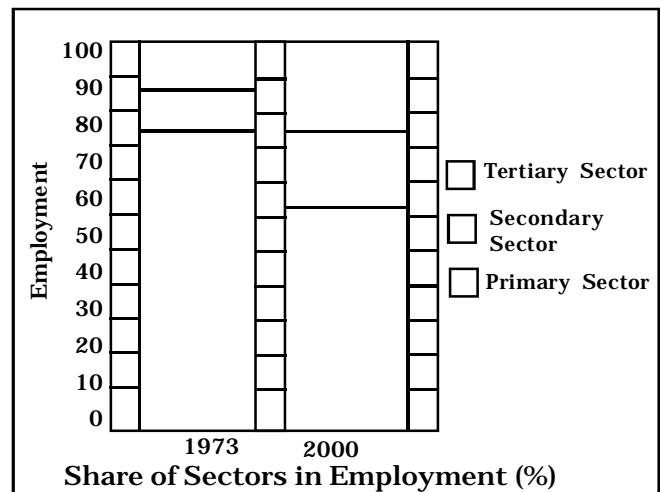
First, in any country several services such as hospitals, educational institutions, post and telegraph services, police stations, courts, village administrative offices, municipal corporations, defence, transport, banks, insurance companies, etc. are required. These can be considered as basic services.



In a developing country the government has to take responsibility for the provision of these services. Second, the development of agriculture and industry leads to the development of services such as transport, trade, storage and the like, as we have already seen. Greater the development of the primary and secondary sectors, more would be the demand for such services.

Third, as income levels rise, certain sections of people start demanding many more services like eating out, tourism, shopping, private hospitals, private schools, professional training etc. You can see this change quite sharply in cities, especially in big cities. Fourth, over the past decade or so, certain new services such as those based on information and communication technology have become important and essential. The production of these services has been rising rapidly.

However, you must remember that not all of the service sector is growing equally well. Service sector in India employs many different kinds of people. At one end there are a limited number of services that employ highly skilled and educated workers. At the other end, there are a very large number of workers engaged in services such as small shopkeepers, repair persons, transport persons, etc. These people barely manage to earn a living and yet they perform these services because no alternative opportunities for work are available to them. Hence, only a part of this sector is growing in importance. You shall read more about this in the next section.



A remarkable fact about India is that while there has been a change in the share of the three sectors in GDP, a similar shift has not taken place in employment. The primary sector continues to be the largest employer even in the year 2000.

Why didn't a similar shift out of primary sector happen in case of employment? It is because not enough jobs were created in the secondary and tertiary sectors. 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. The same applies to tertiary sector as well. While production in the service sector rose by 11 times, employment in the service sector rose less than three times.

As a result, more than half of the workers in the country are working in the primary sector, mainly in agriculture, producing only a quarter of the GDP. In contrast to this, the secondary and tertiary sectors produce three-fourth of the produce whereas they employ less than half the people. Does this mean that the workers in agriculture are not producing as much as they could?

What it means is that there are more people in agriculture than is necessary. So, even if you move a few people out, production will not be affected. In other words, workers in agricultural sector are underemployed. For instance, take the case of a small farmer, Laxmi, owning about two hectares of unirrigated land dependent only on rain and growing crops like jowar and arhar. All five members of her 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.

Now, supposing a landlord, Sukhram, comes and hires one or two members of the family to work on his land. Laxmi's family is now able to earn some extra income through wages. Since you do not need five people to look after that small plot, two people moving out does not affect production on their farm. In the above example, two people may move to work in a factory. Once again the earnings of the family would increase and they would also continue to produce as much from their land.

There are lakhs of farmers like Laxmi in India. This means that even if we remove a lot of people from agricultural sector and provide them with proper work elsewhere, agricultural production will

not suffer. The incomes of the people who take up other work would increase the total family income.

This underemployment can also happen in other sectors. For example 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. Similarly, we see other people of the service sector on the street pushing a cart or selling something where they may spend the whole day but earn very little. They are doing this work because they do not have better opportunities.

How to Create More Employment?

From the above discussion, we can see that there continues to be considerable underemployment in agriculture. There are also people who are not employed at all. In what ways can one increase employment for people? Let us look at some of them.

Take the case of Laxmi with her two-hectare plot of un-irrigated land. The government can spend some money or banks can provide a loan, to construct a well for her family to irrigate the land. Laxmi will then be able to irrigate her land and take a second crop, wheat, during the rabi season. Let us suppose that one hectare of wheat can provide employment to two people for 50 days (including sowing, watering, fertilizer application and harvesting). So, two more members of the family can be employed in her own field. Now suppose a new dam is constructed and canals are dug to irrigate many such farms. This could lead to a lot of employment generation within the agricultural sector itself reducing the problem of underemployment.

Now, suppose Laxmi and other farmers produce much more than before. They would also need to sell some of this. For this they may be required to transport their products to a nearby town. If the government invests some money in transportation and storage of crops, or makes better rural roads so that mini-trucks reach everywhere several farmers like Laxmi, who now have access to water, can continue to grow and sell these crops. This activity can provide productive employment to not just farmers but also others such as those in services like transport or trade.

Laxmi's need is not confined to water alone. To cultivate the land, she also needs seeds, fertilisers, agricultural equipments and pumpsets to draw water. Being a poor farmer, she cannot

afford many of these. So she will have to borrow money from moneylenders and pay a high rate of interest. If the local bank gives her credit at a reasonable rate of interest, she will be able to buy all these in time and cultivate her land. This means that along with water, we also need to provide cheap agricultural credit to the farmers for farming to improve.

Another way by which we can tackle this problem is to identify, promote and locate industries and services in semi-rural areas where a large number of people may be employed. For instance, suppose many farmers decide to grow arhar and chickpea (pulse crops). Setting up a dal mill to procure and process these and sell in the cities is one such example. Opening a cold storage could give an opportunity for farmers to store their products like potatoes and onions and sell them when the price is good. In villages near forest areas, we can start honey collection centres where farmers can come and sell wild honey. It is also possible to set up industries that process vegetables and agricultural produce like potato, sweet potato, rice, wheat, tomato, fruits, which can be sold in outside markets. This will provide employment in industries located in semi-rural areas and not necessarily in large urban centres.

Do you know that in India there are about 200 million children in the school-going age group? Out of this, only about two-thirds are attending schools. The rest are not—they may be at home or many of them may be working as child labourers. If these children are to attend schools, we will require more buildings, more teachers and other staff. A study conducted by the Planning Commission estimates that nearly 20 lakh jobs can be created in the education sector alone. Similarly, if we are to improve the health situation, we need many more doctors, nurses, health workers etc. to work in rural areas. These are some ways by which jobs would be created and we would also be able to address the important aspects of development.

Every state or region has potential for increasing the income and employment for people in that area. It could be tourism, or regional craft industry, or new services like IT. Some of these would require proper planning and support from the government. For example, the same study by the Planning Commission says that if tourism as a sector is improved, every year we can give additional employment to more than 35 lakh people.

We must realise that some of the suggestions discussed above would take a long time to implement. For the short-term, we need some quick measures. Recognising this, the central government in India recently made a law implementing the Right to Work in 200 districts of India. It is called National Rural Employment Guarantee Act 2005 (NREGA 2005). Under NREGA 2005, all those who are able to, and are in need of, work have been guaranteed 100 days of employment in a year by the government. If the government fails in its duty to provide employment, it will give unemployment allowances to the people. The types of work that would in future help to increase the production from land will be given preference under the Act.

DIVISION OF SECTORS AS ORGANISED AND UNORGANISED

Let us examine another way of classifying activities in the economy. This looks at the way people are employed. What are their conditions of work? Are there any rules and regulations that are followed as regards their employment? Kanta works in the 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 regulations which are given in various laws such as the Factories Act, Minimum Wages Act, Payment of Gratuity Act, Shops and Establishments Act etc. It is called organised because it has some formal processes and procedures. Some of these people may not be employed by anyone but may work on their own but they too have to register themselves with the government and follow the rules and regulations.

Workers in the organised sector enjoy security of employment. They are expected to work only a fixed number of hours. If they work more, they have to be paid overtime by the employer. They also get several other benefits from the employers. What are these benefits? They get paid leave, payment during holidays, provident fund, gratuity etc. They are supposed to get medical benefits and, under the laws, the factory manager facilities like drinking water and a safe working environment. When they retire, these workers get pensions as well.

In contrast, Kamal works in the unorganised sector. The unorganised sector 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. Jobs here are low-paid and often not regular. There is no provision --overtime, paid leave, holidays, leave due to sickness etc. Employment is not secure. People can be asked to leave without any reason. When there is less work, such as during some seasons, some people may be asked to leave. A lot also depends on the whims of the employer. This sector includes a large number of people who are employed on their own doing small jobs such as selling on the street or doing repair work. Similarly, farmers work on their own and hire labourers as and when they require.

How to Protect Workers in the Unorganised Sector?

The organised sector offers jobs that are the most sought-after. But the employment opportunities in the organised sector have been expanding very slowly. It is also common to find many organised sector enterprises in the unorganised sector. They adopt such strategies to evade taxes and refuse to follow laws that protect labourers. As a result, a large number of workers are forced to enter the unorganised sector jobs, which pay a very low salary. They are often exploited and not paid a fair wage. Their earnings are low and not regular. These jobs are not secure and have no other benefits.

Since the 1990s, it is also common to see a large number of workers losing their jobs in the organised sector. These workers are forced to take up jobs in the unorganised sector with low earnings. Hence, besides the need for more work, there is also a need for protection and support of the workers in the unorganised sector.

In the rural areas, the unorganised sector mostly comprises of landless agricultural labourers, small and marginal farmers, sharecroppers and artisans (such as weavers, blacksmiths, carpenters and goldsmiths). Nearly 80 per cent of rural households in India are in small and marginal farmer category. These farmers need to be supported through adequate facility for timely delivery of seeds, agricultural inputs, credit, storage facilities and marketing outlets.

In the urban areas, 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. Small-scale industry also needs

government's support for procuring raw material and marketing of output. The casual workers in both rural and urban areas need to be protected.

We also find that majority of workers from scheduled castes, tribes and backward communities find themselves in the unorganised sector. Besides getting the irregular and low paid work, these workers also face social discrimination. Protection and support to the unorganised sector workers is thus necessary for both economic and social development.

SECTORS IN TERMS OF OWNERSHIP: PUBLIC AND PRIVATE SECTORS

Another way of classifying economic activities into sectors could be on the basis of who owns assets and is responsible for the delivery of services. In the public sector, the government owns most of the assets and provides all the services. In the private sector, ownership of assets and delivery of services is in the hands of private individuals or companies. Railways or post office is an example of the public sector whereas companies like Tata Iron and Steel Company Limited (TISCO) or Reliance Industries Limited (RIL) are privately owned.

Activities in the private sector are guided by the motive to earn profits. To get such services we have to pay money to these individuals and companies. The purpose of the public sector is not just to earn profits. Governments raise money through taxes and other ways to meet expenses on the services rendered by it. Modern day governments spend on a whole range of activities. What are these activities? Why do governments spend on such activities? Let's find out.

There are several things needed by the society as a whole but which the private sector will not provide at a reasonable cost. Why? Some of these need spending large sums of money, which is beyond the capacity of the private sector. Also, collecting money from thousands of people who use these facilities is not easy. Even if they do provide these things they would charge a high rate for their use. Examples are construction of roads, bridges, railways, harbours, generating electricity, providing irrigation through dams etc. Thus, governments have to undertake such heavy spending and ensure that these facilities are available for everyone.

There are some activities, which the government has to support. The private sector may not continue their production or business unless

government encourages it. For example, selling electricity at the cost of generation may push up the costs of production of industries. Many units, especially small-scale units, might have to shut down. Government here steps in by producing and supplying electricity at rates which these industries can afford. Government has to bear part of the cost.

Similarly, the government in India buys wheat and rice from farmers at a 'fair price'. This it stores in its god owns and sells at a lower price to consumers through ration shops. The government has to bear some of the cost. In this way, the government supports both farmers and consumers.

There are a large number of activities which are the primary responsibility of the government. The government must spend on these. Providing health and education facilities for all is one example. Running proper schools and providing quality education, particularly elementary education, is the duty of the government. India's size of illiterate population is one of the largest in the world.

Similarly, we know that nearly half of India's children are malnourished and a quarter of them are critically ill. The infant mortality rate of Orissa (87) or Madhya Pradesh (85) is higher than that of the poorest regions of the world such as the African countries. Government also needs to pay attention to aspects of human development such as availability of safe drinking water, housing facilities for the poor and food and nutrition, It is also the duty of the government to take care of the poorest and most ignored regions of the country through increased spending in such areas.