UPSC

NCERT Summary

Sectors of the Indian Economy- 1

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 son. 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 he 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 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 th is 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 al so called the service sector.
Service sector also in cludes so me 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's. barbers, cobblers, lawyers, and people to do administrative and ac counting 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 w heat 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 h ow 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 Indi an 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.

PRIMARYSECONDARY 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 are sult, more than half of t he 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 where as 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 under employment, 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 an d 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 sec tor and provide them with proper work elsewhere, agricultural production will not suffer. The incomes of the people w ho 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.