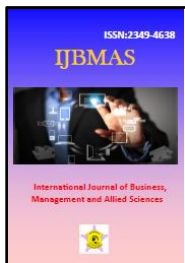

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**CHANGING PARADIGMS OF SERVICE SECTOR EMPLOYMENT IN
INDIA**

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ABSTRACT

'Services' represent a heterogeneous group of activities and has now become a prominent sector in the economies of most developed and developing countries, in terms of its contribution to national income, trade flows and foreign direct investment. The case of India is also not very different, although the recent euphoria is created by increasing tradability caused by the changing nature of services, invention of technology, and opportunities opened by General Agreement on Trade in Services. The service sector in India is characterized by the asymmetrical relationship between income and employment generation. The increasing share of services in GDP (54.1%) and stagnant employment generated (24%) from the sector can have grave implications for the country where unemployment continues to be a major problem. The reasons for the asymmetrical relationship in income and employment generation, is embedded in the pattern of service sector growth experienced in the country.

Objective, Methodology and Data sources

The present study is an attempt to understand the changing structure of service sector employment in India over the years, at disaggregated level. For the purpose changes in the nature, pattern and trends in service sector employment will be examined. The industrial classification of work force will be analysed at single, two and three-digit level, capturing differences in male and female employment in rural and urban areas. The time frame for the study has been chosen, from 2011-16, taking into account the period, which witnessed service sector growth in India, apart from the consideration of comparable data sources which includes quinquennial rounds on employment and unemployment

Section I

Introduction

Service sector once considered to be unproductive in conventional economic theory has now become a prominent sector in the economies of most developed and developing countries, in terms of its contribution to national income, trade flows and foreign direct investment. Invention of technologies and changing nature of services are some factors responsible for this phenomenon. The case of India is not different from the global picture. The service sector is now considered to be 'engine of growth' in the country, with 54.1% contribution to GDP and significant share in other

macro economic variables.¹ However, despite the structural change² experienced in the generation of income, the employment generated in service sector continues to be low, around 24% In this context we intend to undertake a detailed study on the structure of service sector employment in India, to capture changes taking place at the sub sectoral level and to identify possible explanation for such phenomenon.

The rest of the paper is organised as follows. Section II deal with the conceptualisation of 'services' and situates the service sector in economic theory. Section III presents a brief review of the nature of service sector growth in Indian economy, followed by section IV, which provides an analysis of trends and patterns of service sector employment. And section V concludes.

Section II

(a) Conceptualisation of 'Services'

The service sector often used synonymous with tertiary or residual sector, conventionally represented a heterogeneous group of economic activities that are non storable, non-transferable and intangible. Though the division of the economy into primary and secondary sectors dates back to the *physiocrats*, the tertiary sector did not receive much attention, due to their small share compared to other sectors and the implied notion that tertiary activities are 'luxurious'. For the same reason it received mere passing reference in classical and Marxist writings, where it was considered as unproductive.

'Services' as category, gained significance during the first quarter of the 20th century and their role in the process of economic development were largely captured by the 'stage theories of development'. For the first time in 1939, Fisher classified the economy into primary, secondary and tertiary sector. Later Kuznets introduced a more neutral term 'services' instead of tertiary, there by bringing the sector into economic discussion (Kuznets, 1972). However there was no consensus, on what constitutes the service sector not only in the work of different authors³ but also in the work of the same author.⁴ Although a service was generally understood as an economic activity other than which produced goods, there existed non-agreement on the dividing line between goods and services or what lies in the boundaries of the service sector (Fuchs, 1968; Stigler, 1956). The nature of output, simultaneity of production and consumption, organization of production and the level of capital intensity were used to define 'service'. To Hill, 'a service may be defined as a change in the condition of a person, or of a good belonging to some economic unit, which is brought as the result of the activity of some other economic unit, with the prior agreement of the former person or economic unit' (Hill 1977: 318). With the increasing role of services, there emerged a series of studies that classified services according to their nature, stage of consumption, thereby providing a framework to define what falls in the category of 'services'.⁵

For the purpose of the present study, we have included agriculture, livestock, fisheries, forestry mining and quarrying under *primary*; manufacturing, construction, electricity, gas and water supply under *secondary* and all other economic activities like trade and hotels, transport and

¹ Services contribute 30% of the total FDI flow in 2003 and growth of service trade was around 6.5% and share in total trade 24%. India expanded its market share in world service export from 0.6% to 1.3 percent and became the 18th largest service exporter.

² In the discipline of economics, the term structural change is used to represent variations in the relative size of primary, secondary and tertiary sectors in terms of its share in output, employment and productivity or in other macro economic variables. In the present study the term denotes changes occurring between or within sectors.

³ The sub sectors transport, communication and public utilities, has received differential treatment from scholars, on whether they fall in services or in manufacturing. See Maurice Lengell e 1966; George J. Stigler 1956; Victor R. Fuchs 1968; B.M Deakin and K.D. George, 1965; J.A Dowie 1966 and Gur Ofer, 1967 for details.

⁴ For instance, initially Simon Kuznets has included transport, communication and public utilities in 'service sector' but in his later works it was classified under 'industry' (Simon Kuznets, 1955, 1972).

⁵ For instance see Bhagwati (1984), Katouzian (1970), Elfring (1989) and WTO classification.

communications, financial and business services, and community and personal services in *service* sector activities.

(b) Situating Services in Economic Theories

Theories dealing with the dynamics of the service sector in the process of economic growth can be broadly grouped under two heads: that dealing with the growth of service sector in the developed countries and that explaining service sector growth in the less developed countries. While 'stage theories of development' capture the former, an explanation of the experience of service sector growth in the less developed countries is found in the surplus labour hypothesis and in arguments put forward by the dependency school.

The stage theories suggest that countries pass through a sequence of phases in the course of development and an advanced economy is characterized by a larger contribution of services in its national income and employment. Though 'stages' in the growth processes did receive attention by earlier theorists⁶, it was Fisher's study that brought the service sector to central stage (Fisher 1935). It was pointed out that higher average level of real income per head is always associated with a high proportion of the working population engaged in tertiary industries and vice versa (Cark, 1940). A relatively high-income elasticity of demand for services compared to goods and low productivity per worker in services compared with other sectors, were the reasons identified to explain this phenomenon. However both the arguments were met with wide criticism. As pointed out by many, services consist of activities with varying income elasticity of demand (Summers, 1985) and there is no strong evidence to show that growth in service sector in the advanced countries has been the result of higher income elasticity of demand for services compared to goods (Stigler, 1956; Fuchs, 1968; Worton, 1969; Gershuni and Miles, 1983). Studies also point out the variation of the relative importance of different sub-sectors during different stages of development (Bauer and Yamey, 1951; Katouzian, 1970; Bhalla, 1971). However the analytical argument of Fisher and Clark was given an empirical grounding by Kuznets, in a cross-sectional analysis covering 25 countries for more than a century (Kuznets, 1972). His argument was later strengthened by the findings of Yves Sabolo (1975), Lyn Squire (1981) and Paul Bariroch (1975). While the study by Fuchs (1968) explained the service sector growth as due to low productivity, questions were also raised on the underestimation of services output (Griliches, 1992). The decline in manufacturing and the corresponding shift to services were widely held to be unsupportable in the long run, since services depend critically on manufacturing for their existence. However the increasing similarity of services with commodities and the changing trade regime making services tradable across borders has enabled the service sector to emerge as the major driving force in economic growth.

In less developed countries, income elasticity of demand for services sector cannot explain high service growth (Bauer and Yamey, 1951 and Bhalla, 1970). 'Excess labour supply', is explanation provided in the context of less developed countries, where the sub sectors that experience growth are petty services that require little capital and skill and to which entry is relatively easy (Kuznets, 1959), limiting the size of employment only to the supply of labour offered at that wage (Udall, 1976).

Another explanation for the service sector growth in less developed countries is the one provided by the 'dependency' school. According to Andre Gunder Frank (1978) and Samir Amin (1974, 1976), the 'hypertrophy' of the service sector in the less developed countries is deeply embedded in the historical development process of these countries. Distortion towards the service sector according to Amin, 'in the conditions governing the integration of pre-capitalist societies into international capitalist market' and he notes that the larger is the degree of integration, larger is the size of the tertiary sector (Amin, 1974, p: 194 and 1976, p: 245-239). According to Amin, Clark's theory fails to explain service sector growth in the periphery, where the reasons for the growth lies in

⁶ Stage theorization can be traced to the writings of Aristotle, William Petty and Adman Smith, which were later continued by Frederich Lit of German Historical School. For a detailed discussion see Hoselitz 1960; Brenner, 1965; Datta, 1973.

diverting local capital from industry to commerce, which helps export and creates large scale unemployment.

To arrive at a meaningful explanation for service sector growth there is a need to undertake an enquiry that is economy specific, as each individual economy has a specific trajectory of development, which also reflects on sectoral growth pattern. It is in the above theoretical background we intend to understand the nature and pattern of service sector employment in India.

Section III

Service Sector in Indian Economy

The 'disproportionality' of service sector growth in the Indian economy was noted during the seventies, when its contribution to national income was close to 40%, and employment stagnated around 20% (Mitra, 1988; Mazumdar, 1995). The services growth in India was attained before the full development of industry, with the net result that per capita income from this sector exceeded per capita income of primary and secondary sectors by more than fifty percent, distinct from other country experiences (Mitra, 1988). Such predominance of services was attributed to the de-industrialisation process pursued in British India (Bagchi, 1982) and can have serious implications for inflation, income distribution and balance of payments (Bhattacharya and Mitra, 1990).

As pointed out earlier at present services contribute more than half of country's GDP. The following table shows the contribution of the service sector in growth rate and GDP share for the past two decades. It was after 1993-94, the services share in GDP began to increase steadily, although in the earlier decade it around 40%. And the sectoral contribution⁷ of service sector in GDP

Table 1: Growth Rate and Sectoral Share (%)

Sector	Growth Rate		Share in GDP	
	2009/10-2011/12	2013-14/2015-16	2015-16	2017
Primary	3.08	2.37	41.02	22.81
Secondary	5.93	6.39	22.04	24.78
Services	6.73	8.40	36.94	52.40
GDP	5.18	6.20		

Source: CSO,APGOVT,15-16

Note: Growth rates are annual averages, calculated from GDP at constant prices

Within the services, sub sectors like banking and insurance, followed by communication have the highest growth rate during 2010-11/12 to 2015-16, although trade, banking and insurance contribute the largest share in GDP among the various service sub sectors (see Table 2) the business sector recorded high growth rates, although its share in GDP continues to be low. In communication services, the growth rate was mainly contributed by telecom sector growth; in the case of banking the moving sub sector was non-banking financial intermediaries and education and health services in the case of residual services (Gordon and Gupta, 2004).

Table 2: GDP Growth and Sectoral Shares

Sector	Avg. Growth in 2010-11 (Share in GDP)	Avg. Growth in 12-13 (Share in GDP)	Avg. Growth in 15-16 (Share in GDP)
Trade and Hotels			
Trade	4.8(11.7)	5.9(11.9)	7.3(13.7)
Hotels & Restaurants	4.8(0.7)	6.5(0.7)	9.3(1.0)
Transport and others			
Railway	4.2(1.5)	4.5(1.4)	3.6(1.1)

⁷Sectoral contribution is computed following the methodology of Chenery and Syrquin using the expression: $gv = \sum P_i gv_i$, where gv_i and gv are the growth rates of sector V_i and the total output V , respectively ($V = \sum V_i$), and the weights are the sectoral output shares, $P_i = V_i/V$. $P_i gv_i$ is the contribution of i th sector to overall growth.

Transport by other means	6.3(3.6)	6.3(3.8)	6.9(4.3)
Storage	5.5(0.1)	2.7(0.1)	2(0.1)
Communication	6.7(1.0)	6.1(1.0)	13.6(2.0)
Finance			
Banking	7.2(1.9)	11.9(3.4)	12.7(6.3)
Insurance	7.1(0.5)	10.9(0.8)	6.7(0.7)
Real Estate	2.6(4.0)	7.7(4.8)	5.0(4.5)
Business Services	4.2(0.2)	13.5(0.3)	19.8(1.1)
Legal Services	2.6(0.0)	8.6(0.0)	5.8(0.0)
Residual services			
Public Administration	6.1(5.3)	7.0(6.0)	6.0(6.1)
Personal Service	1.7(1.6)	2.4(1.1)	5.0(1.1)
Community Services	4.8(4.0)	6.5(4.3)	8.4(5.5)
Other Services	3.4(1.1)	5.3(1.0)	7.1(0.7)

Source: computed from National Accounts Statistics

As pointed out earlier, the Indian service sector employs a lower proportion of labour force, compared with its contribution to national income, and the growth process of service sector is termed as 'jobless', which is reflected in the declining employment elasticity⁸, which is less than unity in all cases. The decline in employment elasticity was sharper after the 1990s. Apart from the general fall in employment elasticity, in activities like banking, where income growth is high, displays declining employment growth. In banking and finance there has been a fall in the employment elasticity, probably due to computerization of jobs, despite a tremendous increase in banking activities during last few years. Often the boom in information technology (IT) is pointed as a visible outcome of service sector growth. But the truth is that the contribution of IT to the country's GDP is only around 4.1% and employs less than one million people in the total labour force of 450 million (Dasgupta and Singh, 2005). Further taking into consideration the level of education accessible to majority of workforce in India, IT is not a prescription for the unemployment problem in India at least in the near future. As evident from the below table, employment elasticity turned to be negative in the case of public administration and other residual services, in the last ten year. Generally we can say that the disproportional relationship in income and employment in the services have increased during the post liberalization period.

Table 3: Employment Elasticity to GDP

	2010-11	2011-12	2013-14	2015-16	2016-17
Trade	0.71	0.85	1.08	0.97	0.58
Hotels & Restaurants	0.69	0.91	0.49	0.63	0.35
Transport	1.00	0.55	1.08	0.79	0.49
Banking & Finance	1.21	0.55	0.87	0.70	0.45
Public Administration	0.87	0.60	0.95	0.71	-0.08
Residual Services	0.62	0.17	1.86	0.92	-0.26

Source: GDP figures and estimated growth of usual status workers

⁸Calculated as, the percentage changes in employment divided by the percentage changes in GDP in each period. Increase in elasticity can occur due acceleration in the growth of productivity per person employed, which is a desirable outcome, especially if it is taking place in sectors where productivity per person employed is very low. Employment elasticity's may be very low in sectors where there is a great deal of under-employment, which means there is considerable room for output to expand without an expansion in measured employment.

from different NSS rounds

A reason often pointed out for the slow employment growth in Indian service sector is the high labour productivity and the income growth happening in certain sub sectors that uses skilled labour (Gordon and Gupta, 2004). This is in sharp contrast with other country experiences, where high growth rate of employment in services is explained with low productivity in services. However demand push factors only partly explain the service sector growth in India (Handsa, 2002). Factors like unprecedented increase in government activities⁹, demonstration effect creating demand pattern similar to those of high income countries (Panchamukhi et al., 1986), outsourcing of certain manufacturing activities to service sector (Bhattacharya and Mitra, 1989), urbanization and trade facilitated by new technology (Mitra, 1992; Gordon and Gupta, 2004) act as pull factors for the growth of service sector.

The extent of disproportionality between output and employment in service sector also differs between organised and unorganised activities. While in the organised service sector, income grew more than employment; the relationship is reverse in the unorganised sector (Bhattacharya and Mitra, 1989). This happens in less developed countries where service sector grow not because of high-income demand, but due to unemployment (Ghosh, 1991). As every supply of labour creates its own employment in services, by sharing out a given amount of work (Bhalla, 1970) and such a process cannot be considered as a sign of economic development (Rao, 1954). The little increase in service sector employment is often as a result of the proliferation of low paid jobs, especially in the large private unorganised sector within services (Chandrasekhar and Ghosh, 1999; Joshi, 2004). Even in the case of organised services employment opportunities is decreasing in those sectors where income growth is high, as in the case of finance, which is a matter of concern (see Table 4).

Table 4: Share of Services in Organized Employment (%)

Sectors	2014-15	2016-17
Wholesale & Retail Trade	1.62	1.31
Transport, Storage Communications	30.11	21.44
Financial Services	43.36	32.67
Community, Personal & Social Services	34.02	34.61

Source: Planning Commission, 2001

The nature of employment¹⁰ in services varies from high percentage of self-employed in trade and hotels to large share of casual workers in residual category. Also public administration within the residual services provides significant amount of regular employment (see Table 5). Our preliminary enquiry with respect to age composition shows that, in trade and hotels and residual services, there is a large percentage of child labour, and persons above 60+ years indicating the informal nature as well as the low quality of service sector jobs (see Table 6).

Table 5: Nature of Employment in Services, (%) CHANGE

		Self	Regular	Casual
Rural	Trade & Hotels	68.0	9.0	20.0
	Transport	12.8	13.6	27.2
	Finance	2.2	4.3	2.1

⁹ However Dutta's (1989) work on the tertiary sector over the period 1950-51 to 1983-84 shows that there is no significant difference between the rate of growth of net material product and net domestic product. While R. Nagaraj (2000) has argued that growth of service sector is not statistically significant for the 1990s.

¹⁰ The nature of employment can be self-employed, regular or casual. Self-employed worker are those who work on their own farm or non-farm based enterprise or those how are engaged independently in a profession or trade on own account with one or more partners. It can be either as own account worker, employers or helpers. Regular workers are paid regular wages or salaries, while in the case of casual worker employment and payment are not regular.

	Residual Services	17.0	73.0	50.6
Urban	Trade & Hotels	73.6	20.8	42.7
	Transport	10.6	13.5	23.6
	Finance	5.3	8.2	2.2
	Residual Services	10.5	57.5	31.4

Source: NSS 55th round, calculated from unit level data

Table 6: Age wise Distribution of Service Workers, (Main, %)

Industrial category		Age group		
		5-14 y	15-59 y	60+y
Trade & Hotels	P	14	19.9	24.6
	M	19.3	22.4	26.7
	F	3.7	8.1	14.5
Transport	P	2.3	8.9	4.6
	M	3.2	10.4	5.3
	F	0.5	1.5	0.9
Finance	P	1.4	4.3	3.7
	M	1.5	4.5	3.9
	F	1.2	3.1	2.3
Other Services	P	11.2	21.7	18.3
	M	9.1	19.6	17.1
	F	15.3	31.9	24.5

Source: Census, 2001

From the discussion above we come to the conclusion that India's service sector displays dualism in income and employment generation. However to locate the reasons for the lack of employment generation in service sector it is essential to understand the trends and pattern of service sector employment and changes over the years at the disaggregate level

Conclusion

In the present paper we have attempted to capture changing structure of the service sector employment in India, over the past three decades. Though at the macro level not much change has occurred there are many changes concealed at the employment at sub sector level. At the one digit level within the service sector a structural change occurred especially with respect to male employment-a shift from residual services to trade and hotels. Within trade and hotels there is a slow shift of trade from food articles to non-food articles. Finance and transport are the other two sectors that improved their position. Though the sectoral share of finance and transport sector is comparatively less, employment opportunities for skilled labour are increasing in sub sectors like, communication and software consultancy. In the finance sector there is a decrease in the aggregate employment opportunities, due to computerisation and increased role of private banks in financial transactions. In the case of females, though no such changes are evident, share of sectors other than 'residual services' have been improving its position. From a growth process initiated from excess labour supply and increased government intervention, the services in India are slowly undergoing a structural change. Not only is the employment generation in the service sector remain low; the new opportunities are created for labour with certain 'skills'. This will have serious implication on income inequality. Further, with the increasing role played by the private sector, nature of employment will also change.

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