

10th – Sectors of the Indian Economy



People are engaged in various economic activities. Some of these are activities producing goods. Some others are producing services. One way of understanding these activities is to group them using some important criterion. These groups are also called sectors.

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.

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 ways of manufacturing that we associate with industrial activity. It is the next step after primary. The product is not 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. Since this sector gradually became associated with the different kinds of industries that came up, it is also called an industrial sector.

After primary and secondary there is a third category of activities that fall 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 them, 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 letter (communication) or borrow money from banks (banking) to help production and trade. Transport, storage, communication, banking, trade are some examples of tertiary activities. Since these 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 washer men, barbers, cobblers, lawyers, and people to do administrative and accounting works.

Comparing The Three Sectors

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.

How do we count the various goods and services and know the total production in each sector?

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



10th – Sectors of the Indian Economy



value of 5000 coconuts at Rs 10 per coconut will be Rs 50,000 Similarly the value of goods and services in the three sectors are calculated. and then added up. Remember, there is one precaution one has to take. 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 grind 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 consumer for Rs 60 (Rs15 per packet).Biscuits are the final goods i.e. good that reach the consumer.

Why are only final goods and services counted? In contrast to final goods such as wheat and the wheat flour in this example are intermediate goods. Intermediate goods are used up in producing final 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)

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.

Rising Importance of the Tertiary Sectors in Production

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 service

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.

Fourth, over the past decade or so, certain new services such as those based on information and communication technology have become important and essential.

- 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.

Where are most of the people employed?





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

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.

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 under-employed.

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 Jawar and arhar. All five members of her family working 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. The government can spend some money or banks can provide a loan to construct a well for family to irrigate the land.
2. A new dam can be constructed and canals can be 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.
3. The government can invest some money in transportation and storage of crops, or makes better rural roads so that mini-trucks reach everywhere.
4. The local banks could give the credit at a reasonable rate of interest.
5. 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.
6. 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.

Division of Sectors as Organized and Unorganized

Organized 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 Establishment Act etc. It is called organized because it has some formal processes and procedures. Workers in the organized 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

10th – Sectors of the Indian Economy



employer. They also get several other benefits from the employers. They get paid leave, payment during holidays, provident fund, gratuity etc. They are supposed to get medical benefits under the laws, the factory manager has to ensure facilities like drinking water and a safe working environment.

The unorganized sector is characterized by small and scattered units which are largely outside the control of the government. There are rules and regulation but these are not followed. Jobs here are **low-paid and often not regular**. There is **no provision for overtime, paid leave, holidays, leave due to sickness** etc. Employment is not secure.

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 more to these individual 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.

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.

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. We have discussed some of these issues in the first chapter. Running proper schools and providing quality education, particularly elementary education is the duty of the government.