

JOBLESS GROWTH IN THE INDIAN ECONOMY AND THE SERVICE SECTOR

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ABSTRACT: The problem of jobless growth in the Indian economy concurrent with the rapid growth of the service sector has been a contentious issue among economists. Some economists argue that the service sector has a number of backward and forward linkages, the Information Technology (IT) sector generates four jobs for every one job created in the IT sector and as such growth of the service sector is a better propeller of economic growth than growth in industrial sector. On the other hand, the service sector in India has not been able to generate the level of employment commensurate with its share in the gross value added (GVA) of the country. Added to this is the problem of non-availability of data regarding levels of employment in the informal sector of the services sector. However, the share of the informal sector among the services is lesser in proportion as compared to the industrial and agricultural sectors. As such, the growth in services sector portends well for the Indian economy. The industrial model of economic growth is no longer viable as witnessed by the slowdown in the performance of the Chinese economy. Whereas the market for manufactured goods has reached a saturation point among the developed economies and automation threatens to take away jobs in the industrial sector, the services sector has unlimited potential. Hence, developing the services sector where the Indian economy has a comparative advantage will not only be economically beneficial, but also environmentally sustainable.

Key words: economic growth, employment, service sector.

I. INTRODUCTION

The theory of economic growth for the last two hundred years has stated unequivocally that as a country progresses, first the agricultural sector develops, then the industrial sector, and finally the services sector. Accordingly, in developed countries of the world, the share in GVA of the services sector is the highest, followed by the industrial sector while the share of agriculture is the lowest. The share of employment of the labour force in such an economy also follows a similar pattern. In the case of India, the Indian economy has leapfrogged the industrial growth stage and directly developed the services sector. While the growth rate of industrial and services sector saw a convergence in the 1980s, after the liberalization of the economy in 1991 and various market reforms, the growth rate in the services sector gathered momentum and surged ahead of the industrial sector. While the industrial sector has witnessed volatile growth (its share in GVA has fluctuated wildly) and the agricultural sector's share in GVA has consistently fallen, the services sector has been extremely resilient and shown consistent increase in its growth rate, even during the global financial meltdown. However, the share of employment in the services sector is only around 25 per cent which raises questions about the sustainability of the service sector being an engine of growth.

II. RESEARCH METHODOLOGY

The author has undertaken extensive literature survey to understand the development process of various economies as against that of India. The secondary data pertaining to India's GVA growth rate, the contribution of various sectors to the GVA and the sectoral employment shares was collected from government reports as also other publications. The content analysis method of qualitative analysis was adopted to understand the dynamics of the growth of various sectors. Finally, policy suggestions have been made to deal with the issue of jobless growth in the Indian economy.

III. LIMITATIONS OF THE STUDY

Data with respect to employment levels are published by the National Sample Survey Organization every 5 years. The last such report was published in 2009-10. The latest report containing statistics on employment levels across sectors is not yet available. As such, the data used in this study is almost a decade old and since then several changes may have occurred in the occupational structure of the labour force in the economy. However, considering the fact that farmer unrests are spreading across the country and the agitation for job reservations is increasing even among upper castes, it seems that the job scenario in the country has not undergone drastic changes. Moreover, the existence of a large unorganized sector makes the collection of data extremely arduous. Increasing enrolment of employees under Employees' Provident Fund Organization (EPFO) or that of employers under Goods and Services Tax (GST) have not been found satisfactory in judging job growth rates.

IV. THE SERVICE SECTOR IN INDIA

According to the National Industrial Classification (2008), the services sector includes the following services: Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities; information and communication; financial and insurance activities; real estate activities; professional, technical and scientific activities; administrative and support service activities; public administration and defence; compulsory social security; education; human health and social work activities; arts, entertainment and recreation; other service activities; activities of households as employers; undifferentiated goods and services producing activities of households for own use; activities of extraterritorial organisations and bodies.

Among the fifteen largest economies in the world with respect to gross domestic product (GDP), India ranked 7th in 2016. The share of the services sector to the GVA growth rate in India was 7.8 per cent, which was the highest in the world while the service sector contributed 55.2 per cent to the GVA in India. The service sector is expected to contribute 72.5 per cent of GVA in 2017-18 and its projected growth rate is expected to be a high 8.3 per cent. In the first half of 2017-18, services exports grew at a healthy 16.2 per cent and net services were a robust 14.6 per cent.

The following table shows the sectoral growth rate in the services sector in recent times:

Table 1: Share and Growth of India's Services Sector (GVA at basic prices)

	Share percent (2015-16)	Growth (per cent)		
		2015-16	2016-17*	2017-18 [^]
Total services	52.9	9.7	7.7	8.3
Trade, repair, hotels and restaurants	11.4	11.2	7.8 [@]	8.7 [@]
<i>Trade and repair services</i>	10.4	10.9		
<i>Hotels and restaurants</i>	1.0	14.4		
Transport, storage, communication and services related to broadcasting	7.0	9.3		
<i>Railways</i>	0.8	7.0		
<i>Road transport</i>	3.2	6.7		
<i>Air transport</i>	0.2	16.8		
Financial Services	5.8	6.8	5.7 ^{\$}	7.3 ^{\$}
Real estate, ownership of dwelling and professional services	15.3	12.5		
Public Administration and defence & Others	13.4	6.9	11.3	9.4
Construction	8.1	5.0	1.7	3.6
Total Services (including construction)	61.0	9.1	6.9	7.7
Total GVA at basic prices	100.0	7.9	6.6	6.1

Source: Economic Survey Report 2017-18

Note: Shares are in current prices and growth in constant 2011-12 prices; * Provisional Estimates for 2016-17; [^] First Advance estimates, [@] Also includes transport, storage, communication & services related to broadcasting; ^{\$} Also includes Real estate, ownership of dwelling & professional services.

As can be seen from the above table, while the services sector grew at 7.7 per cent in 2016-17, it is expected to grow at 8.3 per cent in 2017-18. Trade, hotels, transport, communication and services related to broadcasting grew at 7.8 per cent in 2016-17 and is expected to grow at 8.7 per cent in 2017-18. Financial, real estate and professional services grew at 5.7 per cent in 2016-17 and is expected to grow at 7.3 per cent in 2017-18. The only exception is the category of public administration, defence and other services which experienced a one-time growth of 11.3 per cent in 2016-17 as against 6.9 per cent in 2015-16 (due to the implementation of the recommendations of Seventh Pay Commission) and is hence expected to decline to 9.3 per cent in 2017-18 (on a high base of 2016-17). Thus, from the above table, it can be seen that services sector is enjoying a high growth rate in general. On the other hand, growth in the manufacturing sector and agricultural sector has been extremely erratic and unsteady.

The International Labour Organisation estimated that in 2016, the service sector accounted for two-thirds of the total employment in most of the top 15 economies of the world. As against this, in India, only 30.6 per cent of the total labour force is employed in the service sector. Moreover, between 2006-16, the growth rate of employment in services was very low at 5.2 per cent. The following table shows the level of employment across sectors in 2009-10.

Table 2: Employment across sectors in India (2009-10)

Sector	Employment across various sectors (in millions)
Agriculture	244.85
Manufacturing	50.74
Mining and quarrying	2.95
Electricity, gas and water supply	1.25
Construction	44.08
Non-Manufacturing	48.28
Trade and repairs	43.53
Hotels and restaurants	6.13
Transport, storage and communication	19.97
Banking (& Insurance)	3.82
Real estate, Renting and Business activities	5.75
Public Administration and Defence	9.46
Education	11.85
Health	3.59
Other community, social and personal services	8.63
Other Services	3.62
Services	116.34
Total	460.22

Source: IAMR Occasional Paper No. 9/2012

As can be seen from the above table, nearly 50 per cent of the population was engaged in the agricultural sector. Around 25 per cent was occupied in the services sector and the remaining in manufacturing and non-manufacturing sectors. It should be noted that only 50 million were employed in the manufacturing sector, which was barely 10 per cent of the total labour force. Among the non-manufacturing sector jobs, construction had around 9.5 percent of the total labour force employed. If construction was also included in the services sector as per the UNCPC definition (44 million plus 116 million), then the share of service sector in the total employment level was around 35 per cent, which was still well below the global standard of 66 per cent.

V. INFORMAL SECTOR IN THE INDIAN ECONOMY

The National Commission for Enterprises in the Unorganized Sector (NCEUS, 2008) has defined organized sector as all enterprises under the domain of Government/Public sector; Public/Private Ltd Company; Co-operatives, trust etc. According to the definition, for an enterprise to be classified as an organized one, it should be either a proprietary/partnership/employers' households, and should employ more than 10 workers. All other enterprises are considered as unorganized. Apart from the unorganized sector, the Indian economy also features the existence of a substantial informal sector within the organized sector. Such informal employment is defined as that form of employment where the employee is not eligible for any kind of social security benefit like provident fund, gratuity, pension, health care, maternity benefit etc. The informal sector does not offer "decent jobs" as there is no job security in such jobs, coupled with long working hours, abysmal working conditions, etc.

Table 3: Formal and Informal Employment in the Organized Sector in India (2009-10)

Sector	Organized Employment	Organized Employment	
		Formal	Informal
Agriculture	2.74	2.00	0.74
Manufacturing	16.03	6.60	9.43
Mining & quarrying	1.86	1.02	0.84
Electricity, gas & water supply	1.13	0.90	0.23
Construction	13.0	1.72	11.28
Non-Manufacturing	17.90	3.64	14.26
Trade	2.98	1.24	1.74
Hotels and Restaurants	0.91	0.30	0.61
Transport, storage & communication	4.88	2.98	1.90
Banking & Insurance	2.93	2.33	0.60
Real estate, Renting and Business Activities	2.40	1.60	0.80
Public Administration and Defence	9.46	8.20	1.26
Education	9.17	6.31	2.86
Health	2.20	1.47	0.73
Other Services	1.24	0.50	0.74
Services	36.17	24.93	11.24
All Sectors	72.84	37.17	35.67

Source: IAMR Occasional Paper No. 9/2012

It can be seen from the above table that the agricultural sector has a relatively less proportion of the organized sector in informal employment (around 27 per cent). However, the proportion of total labour force working in the organized sector in agriculture is extremely miniscule, hardly 1 per cent (2.74 million out of 244 million). In the manufacturing and non-manufacturing sectors, 60 per cent and 80 per cent of the labour force in the organized sector is engaged in informal form of employment, respectively. On the other hand, nearly 70 per cent of the jobs in the organized sector of the services sector is engaged in formal employment. It can also be seen that 50 per cent of the jobs in the organized sector are in the services sector.

If we analyse the data of table 2 and table 3 together, it is seen that only 0.8 per cent of the jobs in the agricultural sector are in the formal sector (2.0m out of 244m). In the manufacturing sector, the corresponding figure is 13 per cent (6.6m out of 50m). In construction sector, which has the lion's share of employment in the non-manufacturing sector, the figure is a miniscule 4 per cent (1.72 out of 44m). It is only in the services sector that around 20 per cent of the total employment is in the formal sector (24.93 out of 116m).

Overall, almost 388 million people in India are working in the unorganized sector (460 million, the total labour force minus 72 million in the organized sector). If we add the number of people working in the informal sector of the organized sector, the number increases to around 423 million (388 million plus 35 million). Thus, 90 per cent of the total labour force (together in unorganized and informal sectors of organized sector) in India is not covered by any form of social security.

VI. CONCLUSIONS AND THE WAY FORWARD

The Indian economy is poised on the threshold on an unprecedented demographic dividend. Providing decent jobs to the youth of the country is however going to be no easy task. As the economy progresses and more and more people move out of the agrarian sector, new jobs will have to be created in the non-agricultural sector. The manufacturing sector in India has been stagnating due to low levels of investment. Employment rates as well as wage rates in the manufacturing sector have stagnated over the last two decades. Following China's export oriented development model is going to be extremely difficult since the markets in the west are already saturated. Increasing exports to other developing nations is one option, but the scope is limited due to lower income levels in such nations. Moreover, increasing automation is vastly reducing the scope of jobs being created in the manufacturing sector. A large chunk of the non-agricultural jobs is being created only in the construction sector. This poses the question whether the excess labour from rural/agricultural sector is capable of being absorbed in the service sector since it is generally perceived that jobs in the service sector are of a highly skilled nature vis a vis jobs in the manufacturing sector which are thought of as largely unskilled in nature. However, studies have indicated that the mix of skilled and unskilled labour in the manufacturing and service sectors is almost similar. Hence, service sector is capable of absorbing the excess labour from the agricultural sector and providing them with decent jobs. Manufacturing sector entails the use of natural resources like land, water, forests, etc. and has deleterious effects of pollution, global warming etc. Services sector on the other hand are majorly focused on invisibles like communication services, IT services, trade, financial services, personal services etc., which do not have any of the above effects of leaving large carbon footprints. Some sectors like transport and tourism may have environmental impact, but it will be much less as compared to those of the manufacturing sector. Moreover, the services like health, education etc. help in achieving social objectives as well, thus enabling the country to move up the Human Development Index. Given the potential of the service sector in generating employment,

the government should formulate a coherent policy for developing this sector rather than allowing it to grow in an ad hoc manner. The Make in India, Skill India programmes should be designed so as to enable job creation in the services sector wherein lies the economy's comparative advantage. The government should establish a ministry for services with the principal aim of developing this sector as a pathway to development. Unlimited employment opportunities are being created in the services sector due to increasing digitalization and globalization which facilitates greater mobility of invisible services. Foreign Direct Investment (FDI) in retail, labour law reforms, giving impetus to medical tourism, reforms in education sector, etc., are areas which need urgent focus.

The mystery of jobless growth continues to vex the economists in India. While agitations for increasing reservation in government jobs is seen as an indication of joblessness, the real problem could be the near absence of social security for 90 per cent of the work force in the country. Working towards 100 per cent social security will not only help in solving the reservation issue, it might also help in collecting reliable data on employment.

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