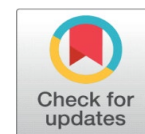


SERVICE SECTOR: AN OVERVIEW

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ABSTRACT

The service sector is now the most dynamic component of many modern economies in both developed and developing countries. This paper gives an overview of historical evolution, theoretical foundations, and global growth patterns of the service sector. It explains the shift from farming (agriculture) to factories (industry), and then to services. Contributions of thinkers like Quesnay, Adam Smith, Clark, and Fisher are discussed for their ideas on this topic. The paper also looks at global trends in service sector income and jobs, with special attention to the Indian context. India's path is different—it moved directly from agriculture to services, bypassing the industrial stage. The paper also explains how services grew rapidly in India after the 1990s economic reforms. It shows how the service sector changed the economy, but also raised concerns about jobless growth. The analysis underlines the sector's growing significance, its diversity, and the policy challenges in capturing accurate data due to its diverse and informal nature.

Keywords: Service Sector, Global Growth Patterns, Economic Reforms, Jobless Growth, Policy Challenges

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1. INTRODUCTION

1.1. EVOLUTION OF SERVICE SECTOR

In *Tableau economique*, Quesnay defined three classes: landowners, farmers, and others, called "sterile" classes. The 'productive class' are the farmers, the 'sterile class' are artisans and the like (manufacturing sector). For Quesnay and the Physiocrats all employment other than agricultural employment was unproductive.

Adam Smith placed emphasis on the accumulation of physical capital and accordingly categorised services as unproductive. Ricardo and the classical school in general consider unproductive employment was employment in the service of the Nobility, the Church, the Government and the Military. Marx considers many categories regarded by the classical school as productive are in the unproductive. The Engel's curve suggest that demand for primary would increase less than proportionately with rising incomes and composition of demand shifts from secondary products to tertiary products.

The first article on the importance of the tertiary sector appeared in 1933. It was written by A.G.B. Fisher and published in the *Economic Journal*. In more advanced countries the problems of production in manufacturing seem to have been solved and they were on the threshold of "tertiary" stage. As a community's income grows more and more

devoted to less essential desires of life. It then becomes possible to divert an increasing proportion of human time and effort and of capital equipment into the production of goods and services, which are not in the categories of primary and of secondary production, namely, facilities for travel, amusements of various kinds, personal and intangible services, flowers, music, art, literature, science, philosophy and the like. Adam Smith described these services as unproductive. But when certain standards of efficiency in primary and secondary production have been reached, it is desirable that Adam Smith's "unproductive" services should occupy a rapidly increasing proportion of the time of the community. It is the growing importance of these service which characterizes the tertiary stage (p.380 (Fisher, 1933). He asserted that the Depression of 1930s marked the beginning of a new stage and recovery would be possible only with tertiary sector. With or Without government assistance investment had to be directed towards this new sector. Fisher did not equate tertiary sector with services. He included the printing industry and other modern branches of industry in the tertiary sector.

Clark's classic work about National Income, *The Conditions of Economic progress* (1940) wrote, as technology advanced, the labour shifted from the agricultural to the Industrial sector and then to the service sector. In most countries of the world labour force was concentrated in the agricultural sector, i.e., they were still in the first stage of development. Countries which had a strong industrial sector with small proportion of labour force employed in the service sector were in the second stage. He did not wish to interpret succession of stages too rigidly. The Clark sought the explanation for this development by sectors in the differences in the productivity of labour in agriculture, industry and services. The core of Clark's theory is the productivity of labour. As the productivity of labour in agriculture rose as a result of mechanization, labour was released for Industry. And labour was released from Industrial sector by mechanization and put to work in the labour-intensive service sector. Clark points out that Productivity could also increase in the service sector. In Industry due to progressive mechanisation productivity increase could not be matched by demand resulting in the shedding of labour. While in the service sector demand for services rose faster than productivity creating more employment opportunities. (p.99 (Dijk, 1987). Clark places transport and communication in the tertiary sector, along with finance, professions, government and personal and domestic services.

Theories of Fisher and Clark incorporated by the French sociologist Fourastie in *Le grand espoir du XXe siècle* (1949). Fourastie charges that Clark's division of industries into sectors is simply "enumerative" - a listing rather than analysis.

2. WORLD SERVICE SECTOR

Service sector is the lifeline for the social and economic growth of a country. Globally, today the service sector is largest and fastest growing sector, contributing more to the global output and employing more people than any other sector. For almost all countries around the world, services are the largest part of their economy. The increase in urbanization, privatization and more demand for intermediate and final consumer services, contributed to the growth of service sector. Availability of quality services is vital for the well being of the economy. The growth in the primary and secondary sectors are directly dependent on the growth of services like banking, insurance, trade, commerce, entertainment, social and personal, etc. As Industrialised economies grow and develop, a broad pattern of change appears in terms of employment and output. There takes place relative decline of goods industries in terms of employment and relative growth of service industries. (Deakin, 1970) (Rath, Nayak, Lakshmanan, Mandal, Rajesh, & Fanai, 2007) Through empirical study using time series data for 1929-65, Dr. Fuchs, who is at National Bureau of Economic Research, detected the change in the U.S Economy. Tangibility was the best criterion for the classification of Industries into goods and service sectors. The work in services is more "personalised", more personal skills are needed and exercised and therefore compared to goods industries more satisfaction is achieved. (Deakin, 1970)(p. 403)

(Katouzian, 1970) divided the service sector into three categories which show a high degree of correlation in their behaviour. Category 1 covers The new services including education, consumption of modern clinical and medical services, entertainments in general (including holiday resorts, hotels, restaurants, cinemas, night clubs and such other services. (p.366). The Category II covers complementary services including banking, finance, transportation, wholesale and retail trade which have been complementary to the growth of manufacturing production. (p.367) Category III covers the old services consists of activities flourished before industrialisation and whose importance continuously declined since, eg. domestic services (p.367). Wolfe, 1955 confined those products which are dependent on human skill are considered as services.

The service sector produces "intangible" goods, some well known -government, health, education- and some quite new- modern communications, information and business services. Producing services tends to require relatively less natural capital and more human capital than producing agricultural or industrial goods. (page 52 Growth of service sector, www.worldbank.org)

(Kuznet,1971, points the important characteristics of modern economic growth is that the rate of structural transformation of economy is high, Major aspects of structural change include the shift away from agriculture to non-agricultural pursuits and, recently from industry and services;

All economies presently show the tendency for a growing proportion of population to be employed in the service sector than in secondary or industrial activities. (Frankman & Charle, 1973). Service activities do not result in direct production of tangible goods and hence they have been regarded as 'unproductive' or 'parasitic' and have been seen as contributing less to country's economic growth compared to other sectors (Frankman & Charle, 1973).

(Riddle, 1986) well documented the contributions of the service sector in the overall economic development process. Riddle summarises the importance of the service sector by stating that "services are the glue that holds any economy together, the industries that facilitate all economic transactions, and the driving force that stimulates production of "(p.28).

Service sector comprises non-homogenous activities, then there is a large body of literature where scholars have debated on the precise definition and identification of the service sector. Even in the most advanced countries where the service sector accounts for the largest proportion of all economic activities, it is defined as residual comprising all economic activities that do not belong either to primary and secondary sector (illeris,2007).

3. INTERNATIONAL COMPARISON- WORLD SERVICES GDP AND EMPLOYMENT

In the period 2001-13, the share of services in world GDP has declined from 68.8 per cent in 2001 to 66 per cent in 2013. The US ranks first in services GDP and in overall GDP, with China and Japan a distant second and third. In the year 2013 among the world's top 15 countries in terms of GDP, India ranked 10th in terms of overall GDP and 11th in terms of services GDP in 2013. In the period 2001-13 maximum increase in services share to GDP was recorded by Spain (8.6 pp) followed by India (5.7pp) and China (5. Annual 6pp). During this period India had the second fastest growing service sector, with a Compound Growth rate (CAGR) of 8.7 per cent first being China with CAGR 10.7 per cent. Among top fifteen countries China's service GDP is less than 50 percent.

4. WORLD SERVICES EMPLOYMENT

As per the International Labour Organization's (ILO), Global Employment Trend 2014, services accounted more than half of total employment growth of 1.4 percent in 2013 over 2012.

In the period of 2001-13, the share of services in world employment increased from 39.1 per cent to 45.1 per cent. The services GDP and services employment are high and close to each other for the top fifteen countries, except India and China. India's services sector has a relatively high share in Income and low share in employment. While in China share of services in income and employment are relatively low. All additional employment opportunities during the eighties were created in the service sector (Elfring, 1988). Between 1950 and 2000, service sector employment grew from 57 to 75 percent of total employment in USA. (Lee & Wolpin, 2006)

Performance in Services: International Comparison

Country	Rank in GDP		Services growth rate(per cent)			Share of Services			
	Over all	Services	2001	2013	CAGR 2001-13	2001 (in GDP)	2013(in GDP)	2001(in employment)	2013 employment (in)
US	1	1	2.1	1.7	1.8	77.6	78.6	75.0	81.2
China	2	2	10.3	8.3	10.7	40.5	46.1	27.7	35.7
Japan	3	3	1.3	0.8	0.7	69.0	72.4	63.9	69.7
Germany	4	4	3.1	0.1	0.9	68.8	68.4	64.6	70.2
France	5	5	2.0	0.6	1.4	74.7	78.5	69.9	74.9

U K	6	6	3.4	2.0	2.2	73.6	79.2	73.8	78.9
Brazil	7	8	1.8	2.1	3.5	67.1	69.4	59.4	62.7
Italy	8	7	2.3	-1.3	0.2	70.5	74.4	63.1	68.5
Russia	9	10	3.3	2.0	5.1	55.6	59.8	58.6	62.3
India	10	11	7.5	6.7	8.7	51.3	57.0	24.0	28.1
Canada	11	9	3.5	1.8	2.5	65.9	70.4	74.7	76.5
Australia	12	12	3.7	2.5	3.0	69.9	69.7	74.2	75.5
Spain	13	13	4.0	-1.1	2.3	65.3	73.9	62.0	74.9
S. Korea	14	15	5.0	2.9	3.7	59.0	59.1	62.6	76.4
Mexico	15	14	1.1	2.4	3.2	57.7	58.9	56.1	61.9
World			2.5	2.1	2.5	68.8	66.0	39.1	45.1

Source India budget.nic.in2014-15

5. SERVICE SECTOR IN INDIA

Services are vital for developed and developing economies. The conventional economics focus on agricultural and manufacturing sector. In the process of economic development services sector plays an important role. The share of services sector in the national income rises as the economy develops. (Stigler,1956, Gemmel (1986). Rapidly expanding service sector is contributing more to economic growth and job creation worldwide than any other sector. (Sharma, Hazra, & Chitkara, 2007)

Service experience an accelerated growth only after development in agriculture and industry, Indian experience is different. Even today India cannot be considered as an industrial developed economy. (Chakravathy, 2006). The unique growth path in the country which leaped from predominantly agricultural to a service-dominated economy by skipping the intermediate stage of rising share of rising industrial sector. Many doubts the sustainability of service sector growth without growth of commodity producing sectors of agriculture and industry.

India has a fast growing service sector. Traditionally, finance, insurance, transport and communication and tourism comes in service sector. Presently emerging areas like environmental, educational and counseling services are part of service sector (Mukhopadhyay, 2002)

A dominant aspect of growth performance of India has the high and steady contribution of the service sector. Most of the empirical studies on sectoral growth observe an excess growth and higher share of service output since early eighties compared to agricultural and manufacturing sectors (Dholakia, 1985, Rao,1987, Bhattacharya and Mithra, 1990, (Shetty, 2007). The rising share of the service sector in the gross domestic product shows a structural shift in the Indian economy and brings it closer to a developed economy (Sharma, Hazra, & Chitkara, 2007). It is also observed that among primary, secondary and tertiary sectors both in terms of income and employment throughout the four period from 1951 to 91 tertiary sector held the second position less important than that of primary sector but more important than the secondary sector. (Kumar and Mathur,1996). However, unlike the share of labourforce, output share of services dominates over other sectors since mid-eighties. It is argued that structural diversification has been much more progressive with respect to output than with respect to employment (Planning Commission,1990; Hari,2003). Growth in service sector has more positive implications for output than for employment. ((Eichergreen & Gupta, 2011), Bosworth and Maertens 2010,) Service-led growth has been lead to jobless growth (Banga, 2005)

The growth in the service sector in India has been linked to the reforms of the 1990s. Liberalization and economic reforms contributed much to the growth of service sector (Chandra 2002, Gordan and Gupta2003, Verma2006, Jain and Ninan 2010). 'Service sector led growth' witnessed in India during the 1990s and 2000s, though scholars frequently questioned the long term sustainability of economic growth dependent on services sector performance.

In India, the share of services sector was already notable in the 1950s and there has been steady growth of the sector. In recent years the nature and quality of growth of services GDP has changed. The role of IT and ICT led services, globalisation process and increased reliance on outsourcing are the three important factors changed service sector in recent period. (Pais, 2014)

(Eichergreen & Gupta, 2011) distinguish three groups of services. Group 1 is traditional services which includes retail and wholesale trade, transport and storage, public administration and defense. Group II is a hybrid of traditional and modern services mainly consumed by households-education, health, social work, hotels and restaurants and other

community, social and personal services. Group III is made up of modern services-financial services, computer services, business services, communications and legal and technical services. (p.5)

Services cover a very heterogeneous basket. In terms of nature service range from market-oriented (like business services) to non-market channels (government administration, religious and community services). Factor intensities vary widely from capital intensive to those which are capital light. Those for final consumption (hair cutting) and to those serving intermediate consumption (banking, trade). Mode of organising productive activity ranges from any tiny roadside own account enterprises to cooperatives to large corporations from public ownership to private ownership. Recent technological advances in information technology and audio-visual communication have added further dimensions (Tendulkar 2007, p3721). Compiling national accounts statistics poses difficult conceptual and database related problems.

The broadest definition of the service sector encompasses all industries except those in the good-producing sector-agriculture, mining, construction and manufacturing. Hence service sector include transportation, communication, public utilities, wholesale and retail trade, finance, insurance, real estate, other personal and business services, and government.

Another definition excludes government activities at all levels. A third narrow definition includes only private personal and business services and excluding transportation, communication, wholesale and retail trade, finance, insurance and real estate. (p.21 (Kutscher & Jerome, 1983)

Trade, transportation and public utilities, finance and insurance, professional services, personal services, government, education and independent hand trades these eight industries are defined as the service sector (Weiss, 1967, Frankman & Charle, 1973)

In India CSO took up the task of evolving an industrial classification as early as 1960 and evolved a Standard Industrial Classification (SIC) in 1962. To incorporate significant changes in the organisation and structure of Industries, the CSO revised SIC 1962 in 1970 and accordingly brought out the National Industrial Classification (NIC-70) and subsequently revised in 1987 (NIC-87), which was further revised in 1998(NIC-98). The Industrial classifications developed by CSO accepted major features of the International Standard Industrial Classifications (ISIC) with further extension of codes at the ultimate digit level.(7.2.1-3,mospi)

Service sector can be classified by using the country's own definition or by using the United Nations Central Product Classification(UNCPC). UNCPC is used as a basis for International negotiations like those of the World Trade Organisation (WTO). In India, National Industrial Classification provides classifications for services. At present National Industrial Classification 2008 is used. There is differences between NIC and UNCPC e.g., construction is not a part of the sector in India while it is in UNCPC.

In the national accounts, the service sector activities include:

- 1) Trade
- 2) Hotels and Restaurants
- 3) Transport including tourist assistance activities of travel agencies and tour operators
- 4) storage and Communication.
- 5) Banking and Insurance
- 6) Real estate and ownership of dwellings
- 7) Business services including accounting; software development; data processing services ; business and management architectural, engineering and other technical advertisement and other business services
- 8) Public administration and defense
- 9) Other services including education, medical and health, religious and other community services, legal services, recreation and entertainment services.
- 10) Personal services and activities of extra-territorial organisations and bodies

Source: mospi.nic.in service sector statistics

Many services are in the unorganised sector, so there is misreporting and underreporting. Government Departments such as Central Statistical Organisation and National Sample Survey Organisation under the Ministry of Statistics and Programme Implementation and Reserve Bank of India have been trying to collect and collate disaggregated data.

India has a quasi-federal governance structure; some services are under Union List, some are under State List and remaining are under the joint administration of central and state governments (concurrent List). Multiple Ministries and central government departments regulate services such as energy and transport. Services like telecommunication have independent regulator while others like electricity have state regulators. Professional bodies regulate professions such as doctors, architects, and accountants.

6. GROWTH AND STRUCTURE OF SERVICES SECTOR GDP IN INDIA

The service sector in India experienced sustained and secular growth in early years. Within service sector, there is a wide variation in the growth performance of different sub sectors. Some services grew faster than the average for all services and others grew slower. The growth of service sector accelerated in the late eighties. In the late nineties, service sector exceeded the growth of industries to become the fastest growing sector of the Indian Economy. Even during the global slowdown service sector overcome external shock.

The growth and structure of service sector GDP in India is analysed here. Our analysis starting from 1950-51 to 2013-14. For better understanding, divided the entire period as pre-liberalisation period and post liberalisation period. First period is from 1950-51 to 1990-91, post-liberalisation period begins from 1990-91 to 2013-14.

Major changes in the structure of services GDP happened since liberalisation. GDP originating in services sector has maintained an impressive growth rate, over 8 per cent during the period 1993-94 to 2004-05 as against 2 per cent annual growth rate in agriculture and around 7 per cent annual growth rate in industrial GDP. As a result share of services in aggregate GDP rise from 42.3 per cent in 1993-94 to around 52 per cent in 2004-05. Growth in service sector has more positive implications for output than for employment. (Eichengreen & Gupta, 2011, Bosworth and Maertens 2010) and there is opinion that Service-led growth has been jobless growth (Banga, 2005). The analysis of the sectoral composition of GDP and employment for the period 1950-2000 shows In India, as has been observed across various countries by Kuznets (1966), a growing 'terterisation' of the structure of production and employment has been taking place in India (Joshi, 2004).

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