



Three Sectors Of The Indian Economy (Handy Notes: 10th)

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Introduction:

You must have seen people working around you. Take for instance, the milkman, Mason, shopkeeper etc. They all are producing goods and services. Though, there are various other [economic activities](#) too. However, you might not know about the sectors they are engaged

in. So, in this chapter, we will understand about three different sectors of our Economy. Besides, we will learn about the gradual [shift in employment and production](#) from one sector to another sector. Let's begin understanding these sectors first.

Sectors Of Economic Activities:

Primary Sector: This sector forms the base for all sectors.

- The activity in which a person produces goods by directly using natural resources comes under the primary sector.
- For Example: Agriculture, dairy, fishing, forestry, mining etc.
- Another name for this sector is *Agriculture and related sectors*.

Secondary Sector: Backbone of Development.

- Activities in which *manufacturing of natural products* take place. Moreover, we associate it with industrial activities.
- For Example: *Cement industry, cotton mills, car factories* etc.
- Lastly, We also call this sector the *industrial sector*.

Tertiary Sector: Backbone of 21st Century Global Economy

- These activities *help in development of the first two sectors*.
- It *provides support* for the production process.
- For Example: *Transportation, communication, banking* etc.
- Also known as the *service sector*.

Comparing The Three Sectors:

These three sectors produce a large number of goods and Services. Now, let's discuss the total production and employment in each sector. But wait, before we study this, we need to know the answer to the question given below.

How do we figure out the total production in each sector?

Or

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

It's simple! We look at the value of final goods and services. This means we don't count the value of parts used to make them.

- **Final Goods:** These are goods we use directly, like a bicycle.
- **Intermediate Goods:** These are parts used to make final goods, like the wheels of a bicycle.

Why do we only count final goods? Because the final goods already include the value of all the parts. This way, we don't count the same thing twice.

But how do we count thousands of goods? It sounds hard, right? But it's not.

We use something called GDP to help us.

GDP stands for Gross Domestic Product. It is a measure of the total value of all finished goods and services produced in a country.

To calculate GDP, we use a formula: $GDP = C + I + G + (X - M)$ (Economic term)

- **GDP (Gross Domestic Product):** This shows us how much our country is producing and how the economy is growing.
- **Gross National Product:** It is the total monetary or market value of all the finished goods and services produced within a country during a particular year.
 - It helps to know the growth of Economy.
 - *Central government ministry* handles the work of GDP.
 - It collects information relating to the total volume of goods and services and their prices.

Difference between GDP and GNP:

Gross Domestic Product (GDP)

1. All the goods and services made within a country's borders.
2. If a smartphone is assembled in India, its value counts towards India's GDP.

Additional information for better understanding

Gross National Product (GNP)

1. All the goods and services produced by a country's citizens, regardless of where they are.
2. If an Indian company manufactures clothing in another country, the value of that clothing counts towards India's GNP.

Historical Changes in Sectors:

- The Gradual shift from one sector to another sector can be seen in terms of production and employment.
- In the initial stages of development, the primary sector was the most important sector of economic activities.
- However, with the beginning of industries, another shift took place.
- In modern times, further shift has been seen. Now, the service sector has become the most important sector in terms of total production.

Primary, Secondary And Tertiary Sectors In India

After comparing the data of different years, you would have observed that only the tertiary sector is becoming important in recent years. **Why is it so?**

Reason for rising importance of the Tertiary Sector in Production

- **The need of basic services:** The requirement of several services is obvious in every country. For Example: Hospitals, educational institutions, post and telegraph services, police services, courts, banks and many more.
- **Development of Agriculture and industry:** Demand for services like transport, trade, storage has been increased due to development in primary and secondary sectors.
- **Rise in the demand with increasing income level:** When income level rises, people try to raise their standard of living. As a result, Certain sections of people start demanding many more services like eating out, tourism, shopping, private hospitals etc.
- **Increasing importance of I.C.T. :** People in the service sector are increasingly using Information and communication technology. Therefore, it has become the reason for the expansion of the service sector.

Note: First, *not all of the service sector is growing equally well*. Limited number of people (highly skilled and educated) have the benefit of being in the service sector. Large number of workers (in the Service Sector) are not even able to make their ends meet. Secondly, there is *no similar shift in employment and production level* of each sector. For instance, the Primary sector is the largest employer till now whereas tertiary and secondary sectors contribute most in terms of production.

Where are most of the people employed and why?

As we discussed above, It is the *primary sector* where most of the people work (about 48.9%). In contrast, the tertiary sector employs 32.33% and the Industrial sector employs 26.18% people. It is because other sectors (tertiary and secondary) have failed to generate enough employment. Mainly, because of the level of skills required for high productive jobs.

Does the primary sector need this much work force?

Not really, Because most of the people are unnecessarily doing agricultural work. So, Even if we move a few people (unnecessary people) out, there will be no effect on the production. In fact, many of them are underemployed. Let's understand *what underemployment* is.

- **Underemployment:** A situation in which a person seems to be working, however, that person has no role as such to show his/her full potential. We can also name it as *disguised or hidden unemployment*. For instance, Laxmi's case.
- Underemployment is a problem everywhere:-
 - In urban areas, it is in the form of casual laborers.
 - For Example: painters, plumbers, Masons etc.
 - In rural areas, it is in the form of agricultural laborers.
- The only solution to it is *creation of more employment*. So that we can help our economy grow with the potential of all those who are not able to use it due to some or the other reason.

How to create more employment?

Well, it is obvious that only the government can help to overcome such problems. Since, It is the government who is responsible for the welfare of its citizens.

Long term goals for employment generation:

1. **Provision of irrigation facilities:** The government can spend some money or the bank can provide a loan for the construction of wells or canals. It will create less dependency on natural factors. Thus, more employment will be generated.
2. **Investment on transport and storage:** In order to create more employment, the government can construct roads and invest in transportation (to connect roads). It will pave the way to services like transport or trade.
3. **Promotion of Industries and services:** Locating industries in rural areas can help farmers in many ways.
 - For Example: Cold storage can help to store products like potatoes and onions. So that farmers can sell them when the price is good.
 - Honey collection centers can help sell honey.
 - And vegetable processing industries will encourage horticulture.
4. **Investment in institutions and health care:** To send all children to school and improve health, the government will require more buildings. It will further create the need of teachers, doctors and other staff. Thus, investment for such a cause will generate employment opportunities.
5. **Proper planning and support :** Every state has potential to create employment by setting up new areas of work. For Example: tourism, regional craft industry, IT etc. What all these regions need is proper planning and support from the government. (*Note: The Planning commission says that we can give additional employment to more than 35 lakh people with the improvement in the tourism sector.*)

Short term goals for creating employment:

- **Implementation of laws :** Government needs some quick measures like legalizing some rights. Take for instance, the central government in India. It made a law implementing the 'Right to Work'. In this, 200 districts were covered. And NREGA 2005 is a very well known example. It aims to guarantee the Right to Work.
 - **National Rural Employment Guarantee Act 2005:** It Guarantees 100 days employment in a year.
 - Those who do not get employment under this Act, get unemployment allowance.
 - Work type depends on the expected future production from land.

Division Of Sectors as Organized and Unorganized

This is another way of classifying activities in the economy. This looks at the way people are employed and their condition of work. Let's discuss them.

1. Organized Sector

- This sector is registered by the government.
- The terms of employment are regular.
- Follow the rules and regulations of the government.
- It has various laws such as Factories Act, Minimum Wages Act, Payment of Gratuity Act, Shops and establishments Act etc.
- It has some formal processes and procedures.
- People have security of work, paid leave and holidays, provident fund, gratuity, pension and medical benefits too.
- Workers get all the required facilities such as clean drinking water, safe working environment etc.
- For Example: Govt. employees, school, colleges, banks etc.

2. Unorganized Sector

- The sector is largely outside the control of the government.
- Jobs are low-paid and often not regular.
- There are rules and regulations but people hardly follow them.
- As the name suggests, it has no formal processes and procedures.
- People in this sector can not even enjoy medical benefits.
- People have no job security. They can be asked to leave without any reason. When there is less work.
- There is no provision for overtime, paid leave, holidays etc.
- For Example: Street Seller, repairman, laborers in rural areas, small scale workers, rag pickers, head load workers etcetera.

How to protect workers in the unorganized sector?

After reading about both sectors, you would have got clarity that unorganized sector workers become the victim of exploitation. It is mainly due to the strategy of some organized sector enterprises. In order to evade taxes, they refuse to follow the laws that protect laborers. As a result, unorganized sector workers face the problems mentioned above. Moreover, nearly 90% of people work in the unorganized sector. Thus, it becomes significant to protect workers in the unorganized sector.

1. Government can open small scale industries and provide some basic facilities at work.
2. Government can fix minimum wages.
3. It can make provision for payment of extra hours.
4. It can provide loans at low interest rates, to help self-employed people.
5. Government can provide basic facilities such as education, medical care and food.
6. Government can prevent workers from exploitation by enacting some effective laws.

Sectors In Terms Of Ownership: Public And Private Sectors:

There is another to classify sectors i.e. on the basis of ownership.

• Public Sector

1. The government owns most of the assets and provides all the services.
2. For Example: Railways or post office.
3. This sector works for both profit and welfare. For Example: Fair price for farmers and lower price for consumers (welfare).
4. It provides goods and services at a reasonable rate. For Example: Food, Health and educational facilities.
5. Govt. undertake heavy spending to ensure availability of facilities for all. For Example: construction of roads, bridges, railways, dams etc.
6. This sector encourages other sectors to invest in business.

• Private Sector

1. Ownership of assets and delivery of services is in the hands of private individuals or companies.
2. For Example: Tata Iron and Steel Company Limited (TISCO) or Reliance Industries Limited (RIL).
3. Its purpose is to earn profits.
4. It renders goods and services quite expensive.
5. Private sector has a great role in promoting economic growth. It is known as a key contributor to alleviating poverty.
6. It gets encouragement from the public sector to work towards innovative goals.

Important to know:

- **Infant Mortality Rate:** Madhya Pradesh (Highest) and Mizoram (Lowest).
- **Literacy Rate:** Kerala (Height) and Bihar (Lowest).
- Therefore, it is the government's responsibility to take care of ignored regions through increased spending.

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