
UNIT 18 **ROLE AND CONTRIBUTION OF THE PUBLIC SECTOR IN NATIONAL INCOME**

Structure

- 18.0 Objectives
- 18.1 Introduction
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18.0 OBJECTIVES

After going through this unit shall be able to:

- describe the various activities of the government in the national economy;
- state the meanings of ‘public sector’ and government administration;
- discuss the issues involved in treatment of the government sector in national income accounts; and
- analyse the role played, and the contribution made by the public sector, and government administration in the national income accounts, with illustrations from the Indian case.

18.1 INTRODUCTION

The presence of government is pervasive in modern economies, more so in developing nations such as India. The government is engaged in various activities like consumption, investment, saving and production. In addition, the government provides subsidies and transfer payments, and engages in taxation. Moreover, the government provides the legal framework, and administration. You have been, at several places in many of the earlier units, been acquainted with many of these activities of the government. You should by now be aware of the crucial role that the government plays, at the central, state as well as the local levels, in the economic lives of nations, both as producer, as well as facilitator for the private sector.

This unit takes up for discussion the various kinds of activities performed the government, and how these activities are treated in the national income

accounts. We will see that there are sometimes important conceptual issues that need to be sorted out. For example, there may be a problem about certain activities as to whether they should be treated as intermediate products or final products. Also, it is sometimes not immediately clear whether certain activities of the government should be treated as production or consumption. This unit discusses how national income accounting practices tackle these issues and others as well.

We shall analyse the treatment and presentation in the national income accounts of the different types of government activities, like production, investment, provision of subsidies, transfer payments etc. In developing nations, the state has taken upon itself the task of engaging in production of various economic goods and services. This has also been true of India where since the mid-1950s, the state has tried to occupy the 'commanding heights' of the economy and has taken upon itself the production of heavy industrial goods. Of course, in recent years, because of liberalisation, there has been an move towards the retreat of the state from much economic activity. Even so, the importance of the state remains important. Other than direct economic activities, the state has been engaged in providing administrative services as well as national Defence. These have to be reckoned with in the preparation of national income. How these activities of the government are treated in the national accounts is also dealt with in this unit, with illustrations from Indian national income accounts.

18.2 THE GOVERNMENT SECTOR IN NATIONAL INCOME ACCOUNTS

In modern economies, private and public sectors act as interdependent entities. Both the private and public sectors employ factors of production. The output that private firms produce is purchased by both the private as well as the public sectors. The government makes transfer payments. The government moreover taxes the private sector and also resorts to market borrowing to generate revenues. In many economies, the government acts as producer and there are several state owned enterprises that carry out production in various areas.

Purchases by the government (government expenditure) are, in many economies, a major component of the GNP. The goods and services on which government expenditure takes place are in several instances provided free of cost to the public, and are indirectly paid for through the government budget. Thus many of these goods and services are what are called public goods or social goods.

In the expenditure by governments on payments to factors of production, the wages and salaries to employees in the public sector is often taken as a reasonable proxy. Expenditure is made on consumption and on investment. While a distinction is made regarding expenditure for these two purposes in the case of the private sector, in the national income accounts, in many cases no such distinction is made in the case of the public sector.

When we discuss the provision of public goods and infrastructure and even private goods (say, cars or watches produced by public sector firms) sometimes it becomes difficult to distinguish between final products supplied to consumers and intermediate goods supplied to firms. When the government builds good

roads, highways and bridges, when it can supply efficient municipal services, and even education and police services, then these do sometimes take the form of grants that lower the cost of production for private firms rather than only as services that are provided to final consumers.

In national income accounting, one of the toughest problems has been the treatment of government activities. There are several issues with regard to government activities and their treatment in national income accounts. First and this has been alluded to above, should government services be considered as intermediate or final activities. Secondly, how should government transfers be treated? Thirdly, how about government subsidies and taxes? Finally, how should social sector services provided by the government be considered? The next unit specifically deals with the social sector. In this section we are specifically considered with issues regarding government services and not government enterprises.

Government services are represented in national income accounts in various ways depending on the phase of national income being analysed. When the production phase is considered, then government services are depicted by their net output or value added, which is obtained from figures relating to compensation paid to government employees, plus occasionally interest paid on public debt. Similar is the case with regard to the distribution phase. For the expenditure phase of government services, government services are treated either by the sum of compensation to government employees, government purchases from business and when relevant, the interest on public debt; alternatively it may be depicted by the sum total of expenditures made for various functions of government, like social welfare, education, defence etc.

In many countries, in national income accounts, government services are generally considered in terms of the expenditure made for them. Generally, government services are incompletely represented, usually by compensation paid to employees in the government sector. Government current and capital expenditures for goods and services consist of the aggregate value of current services and factors in the government sector at factor cost and the government purchases from the private sector at market prices.

Check Your Progress 1

- 1) How are government services treated in the national income accounts in the expenditure phase?

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- 2) What are main issues with regard to treatment of government services in the national income accounts?

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18.3 TREATMENT OF THE PUBLIC SECTOR IN THE NATIONAL INCOME ACCOUNTS: THE CASE OF INDIA

Accepting the suggestions that had been given in the SNA of the UN, and also looking at the organisational structure of the activities existing in India, the public sector is classified in the Indian national income accounts into the following categories:

- a) Producers of government services, namely, administrative departments of the government;
- b) Departmental enterprises namely, (a) Railways, (b) Communication and (c) other departmental enterprises;
- c) Non-departmental enterprises namely, (i) Financial enterprises and (ii) Non- financial enterprises.

We shall discuss the administrative services in the next section. Here we consider the last two.

Departmental enterprises, which are also known as Departmental Commercial Undertakings (DCUs), are unincorporated enterprises which are owned, controlled and run directly by public authorities. Unlike administrative departments, DCUs charge a price for the goods and services which they provide on commercial basis. The criteria followed to distinguish enterprise activity from administration activity are: firstly, use of commercial methods to determine profit and loss and secondly, control of productive capital in the form of equipment such as machines, plants and stocks.

Non-departmental enterprises are also known as non-departmental commercial undertakings (NDCUs). These comprise (a) government companies (in which not less than 51 per cent of the paid up capital is held by the central government or state government or partly by the central government and partly by one or more state governments) and subsidiaries of government companies; and (b) statutory corporations set up under special enactment of Parliament or State Legislatures. The NDCUs differ from the DCUs is that they hold and manage the financial assets and liabilities as well as the tangible assets involved in their business. These enterprises have separate Boards of Directors and present profit and loss accounts and balance sheets just like private corporate sector. These enterprises have been divided into two types: financial enterprises and non-financial enterprises. The financial enterprises comprise (a) the nationalised banks and the banking department of RBI, (b) financial corporations, (c) LIC, GIC and its subsidiaries and Employees State Insurance Corporation (ESIC). The non- financial enterprises consist of all other undertakings/enterprises of central, state, union territory governments and local authorities under the primary, secondary and tertiary sectors.

For the different transactions of the producers of government services and DCUs, the budget documents containing of financial statement and demands for grants of all the ministries/departments of the central, state governments as well as local authorities form the major source of data. However, the budget documents of all authorities in urban and rural areas are not always available. To prepare the estimates published data in respect of major urban local bodies and the data directly collected analysed by some of the DESs alongwith the data on current and capital grants to local bodies available in the central and state government budgets are utilised. For rest of the states and union territories data on both current and capital grants, to the local authorities by the respective state governments available from the budget documents of state governments are used. For non-departmental enterprises, the annual reports giving the profit and loss accounts and balance sheets obtained from the individual undertakings form the basis of the estimates.

Data available from the above mentioned sources are analysed for the preparation of a set of economic accounts to show different transactions of the public sector in India. These accounts are published every year in the NAS. The accounts are designed to obtain information about income and expenditure and for tracing their inter-relationship with other sectors of the economy. To prepare economic accounts of administrative departments, DCUs and NDCUs at current prices the data contained in the budget documents and the annual reports of the NDCUs are analysed. The data on various transactions, which is tabulated in the economic accounts of the respective institutional or industrial categories, form the basis of estimates of the components of domestic product, capital formation, saving and final consumption expenditures of the administrative departments at current prices.

The classification of government transactions follows the principles of social accounting and it groups together similar types of transactions of the government after removing all internal transfers. The revenue account in the budget, for example, shows certain transfers to and from the capital account, which are accounting transactions or transfers. The system of classification is based on a series of distinctions useful for analysing their economic impact on the rest of the economy. Current transactions are distinguished from capital transactions and under both of these, transactions in goods and services are distinguished from transfers. The current transactions of Government Administrative Departments are distinguished from the current operations of DCUs, since current expenditure of the Government Administration on wages and salaries and goods and services happen to be final outlays but those of the DCUs are intermediate expenditure, just like cost of raw materials, fuels, etc. Purely financial transactions are differentiated from transactions in goods and services and transfers.

The above-described economic classification, is done annually for all public authorities like Central Government, State & Union Territory Governments and the Local Authorities. These are then collated together and a set of accounts are prepared. These accounts are the production account of producers of government services; production, income & outlay and capital finance accounts of Railways and Communication; production account of other departmental enterprises and the income and outlay and capital finance accounts of administrative departments including other departmental enterprises.

The data obtained from the profit and loss accounts which provide details of income and expenditure incurred by the enterprises during the accounting year are appropriately classified under the two accounts, namely, production account and income and outlay account. The production account deals with items of income and expenditure about the production activity of the enterprises during the year. The other items of income and expenditure in the profit and loss account are elaborated in the income and outlay account. The capital finance account is prepared from the data given in the balance sheet, including the schedule of fixed assets. The transactions during the year are derived as the difference between the closing and the opening figures shown under different heads.

The activities of several big enterprises present in the beginning stages are shown in an account entitled 'expenditure during construction account.' This account gives details of expenditure on payment of salaries and wages, provident fund, purchase of materials etc., and allowances for depreciation during the time of setting up of the firm. The expenditures under this head are later transferred to balance sheet and successively written off in the profit and loss account over a number of years and as additions to fixed assets. It has been found that in many cases, the whole of the expenditure is added to fixed assets though there is a time lag between the incurring of such expenditure and its being charged as fixed assets in the accounts of the firms. Such expenditures are therefore assigned to fixed assets in the year in which they were incurred and this account is joined with production account of the enterprises. The various expenditures are included in inputs and the value of 'own account capital formation' is considered as the output.

If the output of banks, insurance and similar financial institutions were taken equivalent only to the actual service charges as in case of other industries which are not even enough to meet the current input expenses, their operating surplus, and perhaps even their value added would be negative. Imputed service charges are, therefore, taken into account in addition to the charges actually paid by the customers.

In intermediate consumption are included all contingent expenditures. The entire expenditure on current repairs and maintenance is included here. All payments for services rendered for other agencies/departments are included here. Rent paid is one of the factor payments and should be classified accordingly. But because of non-availability of data the same has not been done. Moreover, most of the government officers are houses in buildings owned by the government. As per the recommendations of the UN, rent in such cases may be imputed. But this has not yet been done.

Wages and salaries consist of the remuneration of general government employees such as pay of officers, pay of establishment and allowances and honorarium other than travelling and daily allowances. Contributions to provident fund by the government, if any, are included here. Besides cash payments, there are some items of expenditures which are clearly in the nature of payments in kind.

The UN SNA had recommended that large departmental enterprises be separated from the smaller ones, and hence the Railways and Communication enterprises have been considered quasi-corporate enterprises. The enterprises,

other than these two have been included under other departmental enterprises. In the case of Government Railways and Communication the budget documents are analysed, and the three sets of accounts, namely, the production account, the income and outlay account and the capital finance account are prepared separately for Railways and Communication.

The gross input side of the Production Account of Other Departmental Enterprises includes the current expenditure on purchase of commodities and services for intermediate consumption, wages and salaries, interest, rent, consumption of fixed capital and profits. The gross output side includes the value of sales of goods and services.

UN-SNA made changes (a) in the definition of capital formation to include all expenditures by the military on fixed assets that could be acquired by civilian users for purposes of production and the military use the same way (airfields, docks, roads, hospitals, and other buildings and structures), and (b) the estimation of depreciation for all fixed assets including government buildings, roads, dams, and so on.

However, the CSO has accepted the treatment of defence expenditure on only the dwellings for the military personnel as fixed assets formation. Since the 1980-81 series the CSO has been including capital consumption for government buildings. A change brought about in the 1993-94 series is that GFCF of the quasi-government bodies have been included for the first time.

The estimates of net value added at 1993-94 prices are worked out by deflating the current wages and salaries by the Consumer Price Index for industrial workers which is the basis for the granting of DA for government employees. By this process the annual increment also gets deflated. A major source of error can arise from classification of some of the expenditures into current consumption and capital formation and its effect on public sector saving. The UN-SNA has stipulated that the central bank of a country should be shown separately as a financial undertaking, whereas the CSO bifurcates the RBI. Also, there is the question whether consumption of fixed capital has to be provided for buildings and other structures maintained by public administration and defence.

The generally rising trend in the share of the public sector in the country's total GDP and general loss of saving momentum in the public sector. are also observed in unrevised series. As a result of the upward revision in the overall GDP due to better coverage of output outside the public sector, the GDP share of public sector has turned out to be lower as per the revised estimates. The GDP originating in public sector at current prices as proportion of total GDP was 19.6 per cent in 1980-81 and 25.7 per cent in 1999-2000, but public sector saving was 3.4 per cent of GDP in 1980-81 and it had fallen to (-)1.7 per cent by 2000-01.

There are interesting results. First, slow but gradual rising trend in compensation of employees and total consumption expenditures of the general government as percentages of GDP, observed until the second half of the 1980s, was arrested and the ratios showed, even if mild, falling trend between 1989-90 and 1996-97.

Thereafter there was a sudden jump. Interestingly, within these final expenditure

categories, the share of the central government in wages and salaries or in total consumption expenditure, which steadily declined until the middle of the 1980s and which suddenly rose thereafter in the second half of that decade when defence expenditures registered a quantum jump, has experienced a significant downward trend since 1996-97; thereafter this proportion shot up. Moreover, the size of GDP originating at the level of the state government administration has always been higher than that originating in central administration.

Between 1993-94 and 1998-99 the relative increase in domestic product in the local government sector (at 57.1 per cent) has been higher than that in the state government administration (32.7 per cent). Also, due to the requirement of a huge consumption of fixed capital for the public sector, the size of negative savings has trebled between the period 1993-94 and 1990-2000. The share of the public sector in nationwide gross capital formation which touched the peak in 1984-85 at 53 per cent, has been steadily declining since then.

Finally, the public sector share of GDP originating in registered manufacturing has generally been on the uptrend both at constant and current prices, though current price share has always been higher than the constant price share. On the other hand, the public sector investment in real terms has eroded in major sectors and this has been particularly so in agriculture and registered manufacturing. This has been so in real terms and at current prices, as also in gross and net capital formation.

Check Your Progress 2

- 1) Mention the constituent elements of the public sector.
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- 2) Distinguish between departmental and non-departmental commercial undertakings in the public sector.
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18.4 TREATMENT OF GOVERNMENT ADMINISTRATION AND DEFENCE IN NATIONAL INCOME ACCOUNTS: THE CASE OF INDIA

In Indian national income accounts, public administration and defence covers services provided by the administrative departments of central government, the state governments, and rural and urban local bodies like municipal corporations, cantonment boards and panchayati raj institutions. Many of these

services are related to the organs of state dealing with collection of taxes, other fiscal services; interest payments and servicing of debt; defence services, administrative services; social and community services (for example., social security, welfare and disaster relief; and economic services (e.g. agriculture, animal husbandry, industries and community development). The expenditure of various funds like central road fund, famine relief fund, labour welfare fund is also part of this industry. The activities of the Issue Department of the RBI are similar to administrative department, and, therefore, this activity is also included under administrative services. However, many economic services rendered by government such as irrigation services or construction activities do not come under the government sector for purposes of national income accounting but are rather shown under their respective accounts. For example, government construction is shown in the general construction sector.

The expenditure on services produced by the administrative departments is financed mainly by the governments, Central, State and Local themselves and hence, they are considered to be the final consumer of these services except for a small part that is sold to other sectors. Most buildings used by administrative departments and defence organisations are owned by the government. Data on amount of rent paid for hired premises are not available separately since these are included under the miscellaneous expenses in the budget documents, interest on capital borrowed by the government is included under interest on public debt, it does not form a part of factor payment. The cost of inputs, consisting of purchase of commodities and services, compensation of employees and consumption of fixed capital, and is also equal to the value of output produced for own use and a minor part sold to household sector thus does not include the element of operating surplus. GDP from the activities of public administration and defence therefore, only consists of compensation of employees and consumption of fixed capital.

The sources of data for looking at the contribution of public administration and defence are the budget documents of Central Government, State Governments, union territories and local authorities and the information obtained from the Finance Accounts, Appropriation Accounts and other reports of the Comptroller & Auditor General of India. For programmes like Integrated Rural Development Programmes, data are obtained from these implementing agencies. For government administrative activities of local bodies, their budget statements and documents form the main source of data.

Check Your Progress 3

- 1) In Indian national income accounts, what is covered under public administrative services?

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- 2) Describe the sources of data for public administrative services for the purposes of estimation of nation income in India.

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18.5 LET US SUM UP

In this unit, we took a close look at the treatment of public sector in the national income accounts. We first looked at the theoretical considerations about how and where the public sector output and value added is to be treated and considered in the national income accounts. We saw that the main issue revolves around the decision regarding whether to treat government output as intermediate and final output and how to consider these. We discussed the various views that have been put forward about this issue.

The unit finally went on to look in a detailed way at the treatment of public sector and administration in the Indian national income accounts. We saw the different types of government organisations, enterprises and activities. How government commodities as well as government services are treated in national income accounts was discussed. The unit finally provided an analysis of how Defence services and production activities are treated in Indian national accounts system.

18.6 KEY WORDS

- Government Administrative Departments** : All departments, offices, organisations and other bodies which are agencies or instruments of the central, State or local public authorities, whether accounted for, or financed in, ordinary or extra-ordinary budgets or extra budgetary funds.
- Producers of Government Services** : These services are not sold but provided to the community.
- Interest on Public Debt** : Interest on debt owned by the administrative departments of the Central government, State governments and local governments.
- Public Sector** : It comprises government administrative departments, departmental and non-departmental enterprises.

18.7 SOME USEFUL BOOKS

Stiglitz, Joseph (1990), *Economics of the Public Sector* (2nd edition) W.W. Norton and Co. New York.

Cullis, J. and Jones, J. (1998) *Public Finance and Public Choice* (2nd edition) Oxford University Press, Oxford.

Roy Choudhury, Uma Dutta (1995), *National Income Accounting* Macmillan India, Delhi.

18.8 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Role and Contribution of the
Public Sector in National Income

Check Your Progress 1

- 1) See section 18.2
- 2) See section 18.2

Check Your Progress 2

- 1) See section 18.3
- 2) See section 18.3

Check Your Progress 3

- 1) See section 18.4
- 2) See section 18.4



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UNIT 19 THE SOCIAL SECTOR AND NATIONAL INCOME ACCOUNTING

Structure

- 19.0 Objectives
- 19.1 Introduction
- 19.2 The Social Sector and the Economy
- 19.3 The Social Sector in the National Income Accounts in India
- 19.4 Let Us Sum Up
- 19.5 Key Words
- 19.6 Some Useful Books
- 19.7 Answers or Hints to Check Your Progress Exercises

19.0 OBJECTIVES

After going through this unit, you will be able to:

- define the social sector in the economy;
- list the various services provided under this sector;
- explain the relationship among the concepts of human development, social security and the social sector; and
- describe the method and process of estimating the value added generated and national income accruing to the social sector in India.

19.1 INTRODUCTION

In the previous unit, you were acquainted with the public sector and how its output and gross value added is estimated and compiled in national income accounts. In this unit, we deal with the social sector. We shall see that many a time some services of this sector is provided to a certain extent by the government in many nations, particularly developing nations. Hence there may be some overlapping with the government sector. In other words, output or services of some social sector activity may also be the output of the government sector. These will be suitably shown in the national income accounts. Hence you must keep in mind that it is not necessary that the social sector and the public sectors are two disjoint separate sectors.

In the present unit, we first look at the social sector conceptually. We try and see what is meant by the social sector, and what activities fall within this sector. We shall see that to understand social sector activities, we need to understand certain related concepts like social development, human development, social security, and so on. In the next section, we discuss these concepts. It helps us to present a theoretical description of the social sector. In

the following section, we see how the social sector and its gross value added is depicted in the national income accounts. The discussion is illustrated by describing the case of Indian national income accounting.

19.2 THE SOCIAL SECTOR AND THE ECONOMY

Traditionally, the social sector is considered to comprise education, health and nutrition. However, according to some writers, the social sector should also include poverty alleviation programmes and aspects of social security. These sectors provide basic social services that may not be purely economic activities or directly add to the production of commodities. Rather, they add to social or human development.

The social sector can be looked at either from a human resources viewpoint or from a human development viewpoint. The two approaches differ in the way they look at how the services of this sector. The human development approaches suggests that the social sector provides services that add directly to the utility of the people and raise the level of development by improving the quality of their lives. On the other hand the human resources viewpoint holds that the services of the social sector, like education, health care and nutrition improve the productivity of workers, makes them more efficient, and thus increases the human resource development. But let us first discuss the concept of development. In this unit, we discuss what is called human development. Unit 22 in the next block also gives some indicators of human development.

What is development? Can it be explained broadly as the expansion of the capabilities of humans to realise their opportunities and to have the freedom to make choices that lead them to achieve their capabilities? In what way is the notion of development related to human rights? Does development bring with it an increase in well being? Human progress encompasses the idea of expanding the choices of people. Ever since the advent of modernity and renaissance, the idea of progress has nestled in human minds. Along with the thought that ‘Man [human being] is the measure of all things, has gained ground, the idea that the coming times, the future, can be made better than the past. Due to the Industrial Revolution, first in England and then elsewhere in the West, there was huge increase in the incomes of nations and the standard of living of their people. The people enjoyed unprecedented increase in their purchasing power, and there were spectacular increases in productivity due to adoption of scientific power and new technology and techniques of production. It saw the beginning of the era of what has been called ‘Modern Economic Growth.’ It was accompanied by increased urbanisation, and a rise in the proportion of labour force engaged in manufacturing sector while at the same time a fall in the labour force engaged in agriculture. Over time, the share of agriculture in national product fell substantially, while that of manufacturing increased by leaps and bounds. Later, in the early 20th century, Russia was to transform itself through industrialisation-led spectacular economic growth. Although it had a completely different economic and political system, it too followed the use of technology to increase industrial productivity and transform its economy through rapid economic growth.

These sorts of experiences in different countries led to the belief that economic growth and rising of national income is the key to success in development and

progress. It was later realised that people will use benefits of growth and development. Human beings are the agent of progress, as well as its beneficiaries. They are also ultimately responsible for economic production and growth. We would be making a mistake if we focus only on production and growth as the ends. Expansion in production, rise in incomes and economic growth are the means, the instruments of successful development. Rise in incomes is only an intermediate goal. Economic prosperity is only one way to enrich people's lives. Also, there are areas of human lives where economic growth may be ineffective in bringing improvement, like environmental degradation and ill-health. Even when focusing narrowly on growth and keeping away a look at development—for growth is important, if not enough—we have the quality of growth, and composition of the basket of commodities whose production has increased in this growth process, to focus on. Thus even within the concept of growth there is not merely the issue of magnitude of growth but also its quality and composition.

In the course of evolution of the development theories, some economists came to argue that human resources were as important in the development process of a nation as material or natural resources. Related to this conception was the idea that a nation can and must invest in human resource in the hope of future returns on investment in much the same way as investment in any physical or financial asset. Initially education was considered the quintessential human capital. Later, as research in development proceeded, health also acquired tremendous importance as human capital. Education, and nutritional and health status are important indicators of human development and welfare in their own right.

People have been considered to be important in the study of development in several ways. First, people are considered to be resources or even the embodiment of human capital. Secondly it is the state of being, the standard of living or even the quality of life that is the true measure of development. Thus people are at the centre of any analysis of development. One aspect of people's lives is the liberty they enjoy and the rights they have to various dimensions of living.

The human development approach and the development of the human development index (HDI) was a major step forward in reorienting development for improvements in the lives of people and not merely economic growth. Human development is expansionist in nature and deals with increasing social services along with economic development to increase opportunities. However, this concept does not offer solution to deal with the “downside”. It does not effectively deal with measurement and analysis of situations where freedoms are curtailed and there is deterioration in the quality of lives of people.

Another important concept here is that of social security. Social security can be either promotional or preventive social security measures. We must have an idea of what exactly is meant by social security—what kind of services are provided, who are the beneficiaries, which are the institutions through which they are provided, and so on. Also—and this is very important—*why* social security measures need to be provided.

Traditionally in discussions of the subject, the term ‘social security’ has been limited to mean the set of protective measures for workers in the organised industries or the whole organised sector which do not let the earnings of the

workers to suffer or account of being away from work. These measures include maternity leave, provident fund and gratuity, and so on. But in recent times it has been felt that since a small proportion of workers in developing nations are in the organised sector, and since the poor and the marginalised face uncertain livelihood options and general vulnerability regarding income and consumption opportunities, it is pertinent to expand the scope of the concept of social security. For a large number of people in developing nations, particularly for those in the rural areas and those who are poor, deprivation and vulnerability are unpleasant facts of life. Many of the specific public actions to ameliorate deprivation and vulnerability can be considered part of the range of social security measures.

In defining or explaining what social security is, there is the problem that one can become too specific or too general. In developed countries, certain instruments have been found to be important, like unemployment insurance, old age pensions and invalidity benefits. This approach may not be altogether useful and appropriate when we study developing countries. The other danger in explaining the concept of social security is to be too general. Instead of approaching the definition in terms of means, we could define social security in terms of objectives of removing deprivation and reducing vulnerability. Taking this approach, we could end up including anything that contributes towards these objectives as social security measures, that is, part of the social security system. This approach would not take us very far because human well-being is affected by many social and economic factors and not all of them are or can be included in the definition of social security. Social security is a set of basic public action to reduce vulnerability of affected people.

Public action is not merely action by the state. It includes actions by the public for itself. During disasters, but also otherwise, the actions of NGOs, charitable and religious institutions must be mentioned here. In many traditional societies in India, the family, too, has acted as a provider of social security. Some times it can be taken to mean the checks and the pressures that, say, the print media keeps on the government. Involvement and activism by the public is necessary. The public must act as a watchdog.

Governments can adopt two broad approaches to social security measures. This first way is to promote general economic growth and use the general benefits accruing from growth to help vulnerable sections of the population. The other approach is to take public action measures directly in terms of social sectors such as education and health and also promote better income distribution patterns, and generate employment. It is possible to argue that checking inflation also helps in mitigating adverse effects of prices on the vulnerable sections of the population. The first approach seems to have worked very well for East Asian countries like Hong Kong, Singapore, Japan and South Korea, as also for countries like Kuwait and United Arab Emirates. Cuba is a classic example of the second approach as China. In fact, some observers argue that in China, when liberalisation led to very high growth rates in the eighties and nineties, social indicators like the infant mortality rate actually rose. Perhaps there has been a trade off between growth and social security.

Although we have contrasted between social security through growth and direct public action-based security measures, the relation between these approaches is somewhat more complex. First, in many cases the two go together. Second,

in some cases, there is not so much the question of choosing between the two as of getting the timing and sequence right. For instance, it is possible for a country to first undertake direct public action for social security and not stress all that much on growth, and only later emphasise growth. Second, it is not true that the former approach necessarily means relying on and encouraging the private sector while direct public action implies a big role for the government. India is a case in point. In the 1950s, India chose a path of development that emphasised economic growth but relied on the public sector as the engine of growth and let this sector occupy the 'commanding heights' of the economy. This measure assumed that growth would automatically trickle down. After a change of policy in the seventies when more weight was put behind the second kind of approach, India seems to have gone back to a growth-oriented strategy but this time relying much more on the private sector, and foreign capital and technology.

Related to the concepts of human development and social security are the ideas of human rights, and human security. Human security is a recent term, put forward to combine the ideas of national security and security of the people from wars or crimes, and social security. 'Freedom from fear' and 'freedom from want' have become the phrases in vogue under the human security approach. It was not fully realized how interrelated both truly are. Furthermore, ensuring human rights implies ensuring security. The Universal Declaration of Human Rights adopted by the UN in 1948 states that "everyone has the right to life, liberty and the security of person..." However, the concept of human security now encompasses economic, health, and environmental concerns as well. The specific phrase "human security" was first put forward by the 1994 United National Development Programme (UNDP) annual Human Development Report. While the term "human security" is of recent origin, the ideas that underlie the concept are not new. These ideas have been around ever since the International Red Cross was founded in the 1860s; it was there in the UN charter and it was echoed in the Universal Declaration of Human Rights.

According to Article 3 of the Universal Declaration of Human Rights, the right to security of persons is a fundamental human right, together with a right to life and liberty. Human security emphasises the need to strengthen empowerments of the citizens. Achievement of human security requires a global political culture that is founded on shared values of human dignity and human rights. Hence important issues in human security like children in war, landmine, and ethnic conflicts should be discussed from a broad human rights perspective. In essence, human security means freedom from pervasive threats to people's rights, their safety or even their lives.

Human security, as defined in the UNDP Report consisted of seven components and dimensions: economic, food, health, environmental, personal, community and political. The main contribution of the UNDP's conception of human security was focussing on people and highlighting of vulnerability to threats other than violence. It saw security as an "integrative" rather than "defensive concept". But it seemed to underplay threats from violence. It emphasised that human security has a geographical and even international dimension. Problems of international terrorism, drug trafficking, as well as problems of international migrants spill over outside the boundaries of the nation-state. Democracy and good governance are very important in promoting human

security. Human security does not supplant national security. A human security perspective asserts that the security of the state is not an end in itself. Rather, it is a means of ensuing security for its people. In this context, state security and human security are mutually supportive. Building an effective, democratic state that values its own people and protects minorities is a central strategy for promoting human security.

The term “human security” is attractive, because it acknowledges the linkages between environment and society, and acknowledges that our perceptions of the environment, and the way we use the environment are historically, socially and politically constructed. It also recognizes two other features of the link between environment and security. First, that feedback exists between environment and security; for example, environmental degradation may result in population movement which, in turn, poses a threat to the environment.

Human security provides an enabling environment for human development. Where violence or the threat of violence makes meaningful progress on the development agenda impossible enhancing safety for people is a prerequisite. Civil wars and riots depict such situations. Promoting human development can also be an important strategy for furthering human security. By addressing inequalities that are often root causes of violent conflict, by strengthening governance structures, complements political, legal and military initiatives in enhancing human security.

We have seen that human security comprises several aspects. Now we take up, for purposes of illustration, two basic components of human security, namely food and health security. The two concepts are interrelated in that nutritional status is a basic determinant of health status. However, we can discuss the two components separately. We begin with a discussion of health security.

Health security means having low exposure to disease and high and proper access to health services. Poor people are vulnerable to disease as they live in degraded areas and have poor access to health services or cannot afford medical care. For example, diarrhoea because of poor water and sanitation services is a major cause of death among children. Malaria and tuberculosis are other diseases that are widespread. In recent years, the threat of AIDS has gone up tremendously and is threatening and affecting large sections of the population. For health security, preventive strategies are very important and are closely related to provision of basic services of water supply, sanitation, and education. Of course, curative services and access to them as well as their utilisation are crucial too. Areas like intellectual property regarding health services are important too. Health is an area where public action acquires tremendous significance. We mentioned earlier that public action is not limited to action by the state and includes actions by non-government organisations and voluntary organisations. These organisations, other than government departments, are quite active in the health field in developing nations like India. Their efforts have been remarkable in combating and building awareness about deadly diseases like AIDS and in the on-going programme in India to administer oral drops to children below five years of age to prevent polio.

Now let us discuss food security. Food security is a flexible concept. Many definitions of this concept have been attempted. The continuing evolution of the concept of food security has reflected the wider recognition that the technical

and policy issues are highly complex. A careful definition was that negotiated in the process of international consultation leading to the World Food Summit(WFS) in November 1996. Food security as a concept originated in the mid-1970s, in the discussions of international food problems when the world faced a global food crisis. The initial focus of attention was primarily on problems of food *supply* - of ensuring the availability and the price stability of basic food items at the national and international level. A process of international negotiation followed, which led to the World Food Conference of 1974 and a set of arrangements for promoting food security. The issues of famine, hunger and food crisis were also being extensively examined, following the events of the mid 1970s. The outcome was a redefinition of food security. That the potential vulnerability of affected people was a critical aspect was explicitly recognised. Another factor which led to the modification of the views about food security was the emerging evidence that the technical successes of the Green Revolution did not automatically lead to rapid and dramatic reductions in poverty and malnutrition. These problems were recognised as the result of lack of effective demand by the poor.

Food security was defined in the 1974 World Food Summit as:

“availability at all times of adequate world food supplies of basic foodstuffs to sustain a steady expansion of food consumption and to offset fluctuations in production and prices”.

In 1983, Food and Agricultural Organisation(FAO) expanded its concept to include securing access by vulnerable people to available supplies, implying that attention should be given to both the demand and supply side of the food security equation:

“ensuring that all people at all times have both physical and economic *access* to the basic food that they need”.

In 1986, World Bank report “Poverty and Hunger” focused on the time dimensions food insecurity. It introduced the widely accepted distinction between chronic food insecurity, associated with problems of continuing or structural poverty and low incomes, and transitory or temporary food insecurity, which involved periods of intensified pressure caused by natural disaster, economic collapse or conflict. This concept of food security is further elaborated in terms of:

“access of all people at all times to *enough food* for an *active, healthy life*”.

All this time, attention was focussed on protein-calorie malnutrition. By the 1990 it was recognised that food preferences could be socially or culturally determined.

The 1996 World Food Summit adopted a still more complex definition:

“Food security, at the individual, household, national, regional and global levels [is achieved] when all people, at all times, have physical and economic access to sufficient, *safe and nutritious* food to meet their dietary needs and *food preferences* for an active and healthy life”.

The State of Food Insecurity 2001 refined this view and offered the following definition:

“Food security [is] a situation that exists when all people, at all times, have physical, *social* and economic access to sufficient, safe and nutritious food that meets their dietary needs and food preferences for an active and healthy life”.

Essentially, food security can be described as a phenomenon relating to individuals. It is the nutritional status of the individual household member that is the ultimate focus, and the risk of that adequate status not being achieved or becoming undermined. The latter risk describes the vulnerability of individuals in this context. As the definitions reviewed above imply, vulnerability may occur both as a chronic and transitory phenomenon.

Food security is a multi-dimensional phenomenon. National and international efforts are needed to meet and ensure food security, especially in the era of globalisation and liberalisation. Attention has to be given to long-run food security, and focus should not be limited to transitory food insecurity. Sources of dietary energy supply-taking account, for example, of different foods, trends in the acquisition of feed from subsistence to marketing;

Amartya Sen introduced the concept of ‘entitlements’ to denote broadly the access of the people to food. It is not just availability, but also looks at need, purchasing power, and if it falls short in a market economy, the public action by the State to ensure access to food. Entitlement as a construct injects an ethical and human rights dimension into the discussion of food security. There has been a tendency to give food security a too narrow conceptualisation, often little more than an indicator of chronic poverty. It is to be ensured that the concept is neither too broad, nor too narrow, for effective policy measures.

Check Your Progress 1

- 1) Distinguish between the human development and the human resources approaches to the social sector.

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- 2) Discuss the concept of social security.

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3) Explain the relationship between the terms social security and human security.

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19.3 THE SOCIAL SECTOR IN THE NATIONAL INCOME ACCOUNTS IN INDIA

Traditionally in India social sector, in terms of expenditure and activities is thought to encompass a variety of activities which improve the quality of lives of the people. This can be social services; minimum needs programme items like drinking water, nutrition, housing, sanitation etc. For simplicity, many experts have taken expenditure on social services and rural development. They have estimated the growth in social services by looking at expenditures on these services in the centre and state government budgets.

In the national income accounts in India, the social sector is not treated as a whole separately. The main social sector activities that we considered earlier in this unit, like health care, sanitation and education, are treated in the national income accounts as part of 'Other Services'. The main services and how they are treated in the national income accounts will be explained to you in the subsequent unit, which deals with the services sector and national income accounting.

To come back to the social sector, as we mentioned, in Indian national income accounts these are treated as part of 'other services'. These include: (i) educational services, (ii) research and scientific services, (iii) medical and health services including veterinary services, (iv) sanitary services, (v) religious and other community services, (vi) legal services, (vii) recreation and entertainment services including T.V. and Radio broadcasting, (viii) personal services (domestic, laundry, dyeing and dry cleaning, barbers and beauty shops and others), and (ix) international and extra territorial bodies. Schools, hospitals, research and scientific institutions, cultural and recreational services which are operated by the government or non-profit institutions are also included. Domestic services and other personal services rendered by one household to another are also included in this sector.

How is value added computed and calculated for the social sector? The method generally followed is to use the total number of persons engaged and value added or earnings per person. To account for incomes other than wages and salaries accruing to this sector, the profits and dividends of the corporate firms engaged in this sector is added to the salaries. For example, there are now corporate hospitals engaged in the health sector in India.

The major sources of data for computing national income originating from this sector are (a) the population census giving the estimates of working force, (b) the follow-up sample surveys of Economic Census concerned with services, the first economic census for services being conducted in 1979-80 (c) the government (Ministry of Human Resources Development) publication titled

'Education in India' and (d) budget documents for data relating to activities of these services covered under government.

The estimates of GVA are prepared separately for the various categories mentioned in the beginning of this section. For this purpose, the number of workers available from the various population censuses is used. The number of workers for years subsequent to the census years is estimated generally assuming that growth in the years between the various census results follows a geometric growth rate. We may briefly mention the method used to estimate the gross value added for educational institutions and the health sector in the Indian national income accounts. For recognised and unrecognised educational institutions, the estimates are prepared separately. For the recognised educational institutions, gross value added is taken to be the sum of total wages and salaries of teachers and other staff employed in educational institutions and the secondary income arising from educational services plus consumption of fixed capital. Wages and salaries of teachers and other staff working in recognised educational institutions are available from the document 'Education in India' published annually by the Ministry of HRD. For the recognised institutions, GVA is taken to be the sum of total wages and salaries of teachers and other staff employed in educational institutions and the secondary income arising from educational services plus consumption of fixed capital. Wages and salaries of teachers and other staff working in recognised educational institutions are available from the 'Education in India' published annually by the Ministry of HRD. Sometimes data is obtained directly from the ministry since occasionally there is a lag in the publication of this document. For the unrecognised educational institutions, it is estimated from the enterprise surveys periodically carried out. It has been estimated that contributions of the unrecognised educational institutions in value added formed a small proportion of the contribution to gross value added by formal educational institutions. For instance in the 1983-84 enterprise survey, it was estimated that this proportion was about 4.5 per cent. This proportion has more or less been uniformly used in subsequent years.

For the health sector, the computation is done separately for the public sector and private sector health care institutions. For the public sector, gross value added is taken to be the amount of the budget expenditure on salaries and wages of doctors and other medical staff, plus consumption of fixed capital. For the private sector, an estimate is made of the working force in that sector. From this a corresponding estimate is made of the gross value added in this sector. How is the number of work force estimated? The total number of workers in this sector is estimated, and from this the workers in the public sector is deducted. To calculate the total number of workers in the health care sector, total work force is estimated from census data. Along with this, the growth rate of workers in the health sector is estimated from data from the ministry of health. The annual figures for workers engaged in the public sector is made available by Directorate General of Employment and Training

Check Your Progress 2

- 1) How is value added estimated for services of the social sector in the Indian national income accounts?

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2) How is gross value added computed for recognised educational institutions?

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19.4 LET US SUM UP

In this unit, we considered the social sector and how the output and value added of this sector is shown in the national income accounts. We discussed in detail the components of this sector, and elaborated on some related concepts. We saw that there are two main approaches to thinking about the social sector, the human development approach and the human development approach. The unit then went on to discuss the ideas of human resources and social security. The concept of social security has to be broadened to include some other components, in the case of the developing nations. The unit elaborated in detail about the related and broader concept of human security. For the purposes of illustration, the ideas of health security and food security were discussed, and several definitions of food security were provided.

The unit then proceeded to discuss how all these relate to the national income accounts and how these are shown in the national income accounts. The unit explained these with an illustration from the Indian national income accounts. We saw that growth of the social sector can be seen either by looking at the expenditures on social development and rural development sectors of the central and state government budgets, or actually looking at their growth as share of the GDP. In the national income statistics, the social sector is taken to be part of the ‘other services’, which for the purposes of the national income accounts, are those services that are not shown in the usual tertiary sector activities like banking and insurance, or trade, hotels and restaurants, and other services like legal services and entertainment services. The unit took some basic examples of how the gross value added of educational institutions and health care institutions are estimated and compiled in Indian national income accounts.

19.5 KEY WORDS

Gross Value Added : Gross output at producers’ value less intermediate inputs at purchasers’ value.

- Human Development** : This depicts all-round development. It focusses on the improvement in well-being, quality of life and meeting of minimum needs.
- Social Security** : Services provided to guard against vulnerability of earnings that may arise due to disruption in the earning process. Traditionally it included measures for workers in the organised sector only like accident benefits, gratuity, etc., but is now used to denote a host of activities to guard against rural unemployment, poverty alleviation and so on, and hence focuses on the marginalised and poor.

19.6 SOME USEFUL BOOKS

Abraham, W.I (1969), *National income and Economic Accounting*, Prentice Hall New Jersey.

Agarwala, S.K. (1998), *National Income Accounting*, Bookland Publishers, Delhi

Beckerman, W., (1976), *An Introduction to National Income Analysis*, ELBS, London

Hicks, J.R., *The Social Framework* (1971), Oxford University press, Delhi.

Hicks. J.T, Mukerjee M. and Ghosh, Syamal K. (1984) *The Framework of the Indian Economy*. Oxford University Press, Delhi .:

19.7 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

- 1) See section 19.2
- 2) See section 19.2
- 3) See section 19.2

Check Your Progress 2

- 1) See section 19.3
- 2) See section 19.3

UNIT 20 SERVICES SECTOR AND NATIONAL INCOME ACCOUNTING

Structure

- 20.0 Objectives
- 20.1 Introduction
- 20.2 Services and Goods
 - 20.2.1 Goods Vs. Commodity
 - 20.2.2 Goods Vs. Service
 - 20.2.3 Role of Services
 - 20.2.4 Own Account Services not an Economic Activity
 - 20.2.5 Conclusion
- 20.3 Variety of Services
 - 20.3.1 Meaning of Service
 - 20.3.2 Non-market Services
 - 20.3.3 Market Services
 - 20.3.4 Services Included in National Income Accounting in India
- 20.4 Estimation of Contribution of Services to GDP
 - 20.4.1 Trade, Hotel and Restaurant
 - 20.4.2 Transport, Storage and Communications
 - 20.4.3 Banking and Insurance
 - 20.4.4 Real Estate, Ownership of Dwellings and Business Services
 - 20.4.5 Public Administration and Defence
 - 20.4.6 Other Services
- 20.5 Nature of Services
- 20.6 Importance of Services in Economic Development
- 20.7 Inter-industry Linkage
- 20.8 Share of Services in Net Domestic Product
- 20.9 Let Us Sum Up
- 20.10 Key Words
- 20.11 Some Useful Books
- 20.12 Answers or Hints to Check Your Progress Exercises

20.0 OBJECTIVES

After going through this unit, you will be able to :

- understand characteristics of services as distinguished from goods;
- have an idea of how the contribution of various services to the GDP is estimated;
- know the historical views on the nature of services;

- appreciate the relative importance of services as an economy develops and the factors responsible for such a change; and
- know the share of services output in the Indian economy.

20.1 INTRODUCTION

Services are being produced and consumed from time immemorial. Once people have adequate food and clothing, they may choose to consume some services. These may be a part of leisure activities of a person. He may need medical services to keep himself fit. He may enjoy music performed by other or may like watch a soap opera. One may afford some personal menial services.

It may be pointed out that the services performed by labour (or other factors) in producing goods is not take as services. There is no production without them. Service as an output of an activity is all that we are making a reference to . Three quarters of the GNP of the US is now contributed by services. A good variety falls in this broad category: medical services, educational services, entertainment, laundering and hairdressing, banking, insurance, stock marketing and other financial services, whole sale trading retailing, auctioneering and brokerage; transportation of goods and people and all variety of communication; and police, defence and administration. We shall discuss various aspects of this category of production in this unit.

20.2 SERVICES AND GOODS

20.2.1 Goods Vs. Commodity

We often come across two phrases: ‘goods and services’ and ‘commodities and services’, implying that goods and commodities are synonymous. However, we will make a distinction between goods and commodities. While a good is thing from whose use people derive satisfaction, a commodity is a thing which is produced with a view to sale.

20.2.2 Goods Vs. Service

Now in an economy there are two major kinds of output of economic activities: goods and services. Services are goods in the sense that people draw utility from them and that is precisely why they are demanded. They share many other characteristics of goods: for example their production also requires inputs like that of goods.

But services are different from goods in the sense they lack material form. They are not physical objects. As a result, it is important to note, the ownership rights cannot be established over services. It is easy to visualise that they are demanded and supplied simultaneously. Their production and consumption is simultaneous. If not simultaneous they are provided to their consumers by the time production is complete. There is therefore no scope for storage and sale afterwards. There trade is, in short, not separate from production.

20.2.3 Role of Services

The latest United Nations System of National Accounts describes a service as one which brings changes in the conditions of goods and persons. Repairing,

polishing, whitewashing, cleaning or otherwise transforming the items in possession of the consumers by directly working on it, bring about changes in the conditions of gadgets. Transporting a person, providing him with accommodation, giving his medical or surgical treatment, improving his appearance, change physical conditions of the consumer. Activities of education, advice, informing, entertainment change his mental conditions. Activities of insurance, finance, protection, and guarantee/warranty change the general economic state of the institutional unit itself. These changes could of course be temporary (travel) or permanent (education, medical aid).

20.2.4 Own Account Services not an Economic Activity

However, own account production of services within the households is not treated as an economic activity. Such services include services rendered by family members to each other like cooking, looking after children and older etc. This is not included in the computation of national income. Though there are problems because of non-inclusion as there are problems in inclusion.

20.2.5 Conclusion

Yet, one can not escape noticing that service industries are growing as the markets for services are developing. It also denote the fact that services are largely produced by one unit for the benefit of another. (Service rendered unto oneself is normally not regarded as an economic activity). While goods may not be commodities while services are all commodities if one aspects that definition of commodity whereby a commodity is a thing produced for sale.

Check Your Progress 1

- 1) What are the characteristics of services that are common with goods?
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- 2) What are the characteristics of services that distinguish them from goods.?
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- 3) Establish that a service is always a commodity whereas a good may not be ?
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20.3 VARIETY OF SERVICES

20.3.1 Meaning of a Service

Normally the word services cannot to proper services of a personal nature, say hairdressing or nursing. People also extend this word to denote the performance of a person or a group for another person or group, say entertainment. We have now started talking of business services-banking and insurance, though they are not of very recent origins.

20.3.2 Non-market Services

We also refer to non-market services such as policing, defence, administration and justice. The state owes its existence to these very services. These services are not sold but supplied free to the people. In a modern state such activities are large in number. We can classify them as:

- 1) general administrative services comprising of police, jails, external affairs, defence services, law and justice;
- 2) social and community services comprising of education, medical and housing;
- 3v Economic services comprising of services related to agriculture, industry, transport and construction.
- 4) Fiscal services dealing with collection of taxes and servicing of debts.

20.3.3 Market Services

We also talk of market services such as trade, transport and communication. Trade, wholesale and retail, distributes the goods from primary producers to its consumers who may be households or industries. Since consumers and producers are physically separated and traders choose to locate near consumers, the product has to be transported. The mean of transportation these days are in all forms: railways, roadways, waterways and airways. These modes also transport passengers in addition to goods. You travel for transacting business, meeting relatives or having fun. For your stay there are hotels and for your eating there are restaurants. Their activities provide a variety of services.

Sometimes things have to be stored in godowns and cold storages. There are specialists in this business.

Similarly communication is an important service sector. Telecommunication is assuming increasingly important place within this sector. Yesterday, it was postage, telegraph, and telephone. Today, we have facilities of telexing, faxing, paging and e-mail. In all big cities you see boards and hoardings inviting you to buy land, bungalows, houses and flats. Most of them are not sellers themselves. They help you meet the sellers. They charge you a fee for the services they render. This is called business of real estate.

Finally, goods recognised as consumer durables also provide service to their users over time. Often we ignore contribution of such gadgets. But the services of your house are not ignored. The ownership of the house allows you to enjoy its service without any explicit payment which you have to do in case you are renting it.

20.3.4 Services Included in National Income Accounting in India

The services sector from the view point of national income accounting in India includes the activities of trade, hotel, restaurant; transport, storage and communication; banking, insurance and other financial services; services of personal nature such as education and medical services or domestic help; and of community nature such public administration of justice, police and defence; and business of real estate.

Check Your Progress 2

- 1) Give examples of business services.

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- 2) Discuss services that are normally provided by market.

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- 3) List non-market services.

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- 4) Illustrate examples of services that are not rendered by individual human beings.

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20.4 ESTIMATION OF CONTRIBUTION OF SERVICES TO GDP

There are two major approaches employed to estimate GDP: production approach and income approach. In our country income approach is chiefly adopted to estimate the contribution of services sectors which are classified in the following broad sectors:

- 1) Trade, Hotel and Restaurant;
- 2) Transport, Storage and Communication;
- 3) Banking and Insurance;
- 4) Real Estate and Ownership of Dwellings and Business Services;
- 5) Public Administration and Defence; and
- 6) Other Services.

20.4.1 Trade, Hotel and Restaurant

Trade sector deals wholesale and retail trade distributing goods produced or imported. These goods are produced in other sectors like agriculture, mining & quarrying, forestry & logging, and manufacturing. The activities of purchase and selling agents, brokers and auctioneers are also part of this sector. The gross output is measured as gross trade margins of the trading establishments (excluding the delivery cost of goods to the Unit) which primarily sell the goods in the same condition in which they were purchased. Intermediate cost incurred in transactions deduced to arrive at gross value added. Activities of hotels, lodging places, restaurants, cafes and other eating and drinking places are similarly treated.

Estimates are prepared by using income method separately for organised segment comprising of public sector, private corporate sector and cooperatives and unorganised segment constituting the rest. In the case of former annual reports provide the data for the current year while in the case of the latter base year estimates of :

- i) number of workers; and
- ii) average gross value added are carried forward for each sub-category.

20.4.2 Transport, Storage and Communications

Transport services by rail, road, Water, air and any other means and services incidental to transportation of storage as well as services rendered by post and telecommunication departments and overseas communication services are covered in the sector of Transport, storage and communication. The output of these services is measured in terms of the value of services involved in delivering goods and providing services to domestic producers and households

and the rest of the world. The nature of these services suggests the measurement of their contribution through income approach. Again the approaches adopted for the organised segment and unorganised sectors are the same as the case of Trade, Hotels and Restaurants.

20.4.3 Banking and Insurance

The services covered under the sector of Banking and Insurance extend to the services of organised banking and non-banking financial institutions (corporations and companies) engaged in trading in shares, investment holdings, loan finance etc., activities of cooperative credit societies, activities of life and non-life insurance as well as unorganised non-banking financial undertakings of professional moneylenders and pawnbrokers.

Income approach making use of annual reports and profit and loss accounts is employed to estimate gross value added in organised segment which is significantly large, independent indicators or trends in the organised sector are used for estimation of contribution of the unorganised segment as no direct data is a viable.

In the case of banking the charges collected from the customers are much lower than the expenses incurred on services of maintaining accounts and giving advice while some income is earned by charging from customers higher interest than that is paid to depositors.

RBI publishes data in respect of commercial banks, non-banking financial institutions, and banking department of RBI, LIC, SFC and other corporations publish relevant data in their annual reports. The budget documents of postal department give data pertaining to post office savings and postal life insurance. Gross value added comprises of compensation of employees and rent only in the case of banking and insurance.

20.4.4 Real Estate, Ownership of Dwelling and Business Services

Now let us come to the sector of real estate, Ownership of Dwellings and Business Services. The gross value added of ownership of dwellings is obtained by deducting the cost of repairs and maintenance from the gross rental of residential buildings (including owner-occupied houses) obtained as the sum of products of average gross rental per dwelling and number of dwellings in each category.

For real estate services again income method is followed for analysing the annual reports of real estate enterprise.

For business services to be provided by people engaged in:

- i) accounting, auditing and book keeping;
- ii) engineering, architectural, and technical services; and
- iii) renting and leasing of machinery.

The methodology of number of persons and valued added per person is employed.

20.4.5 Public Administration and Defence

The sector of Public Administration and Defence covers the services rendered by the administrative departments of general government, extending over union, state and union territories, and municipal bodies. They also include collection of taxes, other fiscal and administrative services, servicing of debt, defence, and social, economic and community services. The management of various relief and welfare funds as well as the issue department of RBI are also included.

The gross value added in this case comprises of compensation of employees plus consumption of fixed capital assets owned by authorities of public administration. The sources of data for current price estimates are budget documents of the government and finance and appropriation account, report of the comptroller and auditor general of India.

20.4.6 Other Services

The sector of other services includes personal and community services in the areas of education, health, sanitation, law, recreation and entertainment, personal services such as laundry as well as all other services not listed elsewhere. Income approach is adopted for measurement of its gross value added in each category. Usual procedure is to make use of total number of persons engaged and value added/earnings per person.

Check Your Progress 3

1) What do you mean by trading margin ?

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2) How are the estimates of output of hotels and restaurants made?

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3) What is the approach adopted in the measurement of the contribution of transport?

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- 4) Discuss the procedure whereby contribution of banking and insurance sector is estimated.

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- 5) How is the contribution of real estate business measured?

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- 6) Why should the house rental value of the houses not rented be calculated?

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- 7) Write down the data source for Public Administration services.

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- 8) What are the Services included in the Other Services Sector.

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20.5 NATURE OF SERVICES

Adam Smith, the founder of economic science, did think that services do not leave behind any trace or value. He gave examples of services rendered by menial servants, lawyers and sovereign and considered the labour of such people as unproductive. Said Smith, “the sovereign with all the officers of both justice and of war who serve under him, the whole army and navy (there was no air force then!), are unproductive labourers.....In the same class must be ranked some of the gravest and most important: churchmen, lawyers, musicians, opera-singers and opera-dancers. For Smith, wealth with which he was most concerned, was stock of goods. Therefore, durability or perishability of things was of crucial importance to him. Yet he agreed that unproductive labour has its value and deserved its rewards.

However, Smith in a view did not persist for long. Education and medical services were given as counter-examples to prove that they have long term influence on economic activities. In certain other contexts, the services of trade and transport can be classified as the activities related to the production of goods. While both trade and transport were considered productive by Adam Smith, it may not be noted, Dadabhai Naroji did not include the activity of transport in the computation of national income of India.

The reason for such a blurring owes to the fact that general meaning of words often differ from special meaning which we attach to them. Economists think that an activity qualifies to be called production if it creates some utility for human beings though they often distinguish exchange from production. For ordinary people, production suggests the making of something material which one can touch, handle, cart about and bring home in paper bag. Yet economists did not ignore the services making goods available when they are wanted and/or where they are wanted (e.g., trade, storage, and transport) and called them productive.

Neoclassical approach holds that the activities that are undertaken with pecuniary considerations are productive irrespective of the fact whether they are material or not. So the services of all hues are productive. They may include services of doctors, teachers, civil servants, administrators, passenger transport workers, entertainers, domestic help do useful work and are paid for it.

Some people suggest that product be taken as an act that is directed to the satisfaction of other people’s wants through exchange. Then there will be problem in the case of Robinson Crusoe who would not be producing anything as he has nobody to exchange with. But he could not consume as he could not produce. Then he could not survive too!

We may note in short that all production whether of goods or services should be treated as productive which meet the following criteria:

- 1) Capable of satisfying human wants;
- 2) Exchanged in the market; and
- 3) Require use of both capital and labour.

Therefore, materiality of things is really immaterial and they are all included in the computation of national income.

Further, many goods are purchased for their services. All consumer durables such as television, refrigerator, automobile and even house, factory and land are all bought for their services over time. Therefore, if one wishes, one can classify the services in two broad categories:

- 1) Those rendered by persons and
- 2) Those rendered by durable goods,
- 3) The former includes (a) personal; (b) community; and (c) business services.

Check Your Progress 4

- 1) What is according to Smith, the chief characteristic of unproductive labour?

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- 2) What is the difference between the view of Dadabhai Naroji and Adam Smith on the nature of trade and transport?

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- 3) How does the general conception of production differ from the economist's perception? How does it make a difference?

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- 4) Explain the services rendered by goods.

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20.6 IMPORTANCE OF SERVICES IN ECONOMIC DEVELOPMENT

Josiah Stamp had written that as civilisation advances, it may well do so by the very fact that merely material production in wealth tends to render a less and less proportion of total human enjoyment. From the days of sir William Petty to the present there has been continuing transfer of working population to secondary and tertiary production. In short, as an economy advances, it can be safely said, the importance of services increases.

G.B. Fisher (1939), colin Clark (1940) and Fourastie (1949) formulated theories of growth in terms of primary, secondary and tertiary sectors. The tertiary sector is a service sector. These theories hold:

- 1) productivity gains are higher in services sector than in industry.
- 2) Income elasticity of demand for services is greater than that of demand for goods.

It may be recalled that the second tendency emanates from Engel's law. Recent experience, however, suggests that in case of services even if growth slows down, growth of service sector does not.

However, it is also argued that, under planning, service sectors in the beginning grow more rapidly than goods sector in order to meet the accelerated demand of infrastructure.

Let us note that trade, transport, telecommunication, banking and insurance constitute logistic basis for internal organization of companies (Williamson). Leisure, education, housing and health may sometimes be demanded for final use.

Check Your Progress 5

- 1) Discuss the movement of service sector in relation to other sectors.
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- 2) What kind of services will grow on their own accord and what kind is given preferenece under planning?
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20.7 INTER-INDUSTRY LINKAGES

Services may be demanded for final use as well as for intermediate use. Intermediate use is a derived demand. It is often discussed with respect to linkages. Linkages are of two varieties; capital and current. Since services cannot be stored as they do not have material form, they do not have capital linkages with production except when the concept of human capital is invoked. So far as current linkages are concerned production of both goods and services require inputs of both goods and services. Both are put out for final use but investment component of services would draw as blank.

With a view to providing a labour of the strength of such a relationship. For illustration, we share some information based on the input-output table of India for 1983-84 (constructed by the CSO). Out of the total production of Rs.3,54,300 crore, roughly Rs.1,55,900 crore get consumed in the production system as inputs – Rs.1,25,800 crore in the form of material goods and Rs.30000 crore in the form of services. Thus only goods worth Rs.132100 crores and services worth Rs.66,300 crores were used as final products. It may be noted that while goods sector needed services worth Rs.25,900 crore, services sector needed goods worth 16,100 crore. Services also need input of services. This year they needed total inputs worth Rs.30,000 crore of which services formed a part equivalent to Rs.13,900 crore (See Table-1 below):

Table 20.1: Input Output Matrix of Transactions (1983-84)

(Billion Rs.)

	Goods	Services	Sub-total	Final Use	Total
Goods	100	161	1161	1321	2482
Services	259	139	398	663	1061
Subtotal	1259	300	1559	1984	3543
Value added	1223	761	1984	-	-
Total	2482	1061	3543	-	3543

From table 20.1 it is easy to infer that

- 1) of the total goods used as inputs 20 per cent go to the production of services;
- 2) of the total services used as inputs 54 per cent go to the production of goods; and
- 3) 62 per cent of the services are used for final use purposes.

If one had tables for many years one would find that services to services input is increasing over time.

Check Your Progress 6

- 1) Why is it not possible for services to provide capital inputs to the production of services?

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- 2) Try to reason which kind of services may be going as input to production of goods?

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- 3) Provide an example in which services show up as final use only.

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20.8 SHARE OF SERVICES IN NET DOMESTIC PRODUCT

We present below the share of services in the net domestic product at current and constant. (1980-81) prices.

Table 20.2: Net Domestic Product and Services at Current Prices

(Rs. thousand crore)

Year	NDP (at factor cost)	Services	Services as percentage of NDP
1950-51	86	24	27.8
1955-56	92	31	33.7
1960-61	143	47	32.8
1965-66	224	75	33.5
1970-71	368	119	32.5
1975-76	649	230	35.5
1980-81	1103	394	35.7
1985-86	2076	803	38.7
2004-05	4205	1688	40.1

Table 20.3: Net Domestic Product and Services at Constant (1980-81) Prices

(Rs. thousand crore)

Year	NDP (Rs. Crore)	Services (Rs. crore)	Share of percent
1950-51	407	108	26.6
1955-56	483	131	27.1
1960-61	590	164	27.9
1965-66	665	209	31.5
1970-71	832	258	31.1
1975-76	957	316	33.0
1980-81	1103	394	35.7
1985-86	1402	530	37.8
1990-91	1885	752	39.9

During the period 1950-51 to 1990-91 we find that the share of services sector has increased from around 27-28 per cent to around 40 per cent. The share in terms of constant prices is a bit lower in many years and substantially lower in many other years. This was the picture on the eve of economic liberalisation in 1991. Since then the share of the services sector has reached about 60 per cent.

20.9 LET US SUM UP

In this unit we have tried to bring out the distinction between goods and services. We also tried to describe the variety of ways in which services are produced. We also noted the way the value of their contribution to the GDP is estimated at current prices. Then we considered the view of Adam Smith on services. But we also thought it fit to know the historical views and arguments on the nature of certain services such as trade and transport.

There are certain laws whereby the increasing important of services in an economy as it progresses, are established. We also studied about the input linkages between goods and services as also between services and services.

Last we tried to know the relative importance of services in our NDP. The services goods ratio which stood 1:3 in 1950-51 has turned to 2:3 in 1990-91.

20.10 KEY WORDS

- Commodity** : A thing produced with a view to sell.
- Final Use** : That part of total output which is purchased for consumption and investment.
- Goods** : Material items useful to human beings.
- Intermediate Use** : That part of purchases by production units which is entirely used up in production during the year.

20.11 SOME USEFUL BOOKS

Paul Studentski (1958), *The Income of Nations*, Published by New York University Press, Indian Reprint Khosla & Co. in 1977.

Wilfred Beckerman (1976), *An Introduction to National Income*, Weidenfeld and Nicolson, ELBS edition, London.

Uma Datta Roy Choudhury (1955), *National Income Accounting*, Macmillan India, New Delhi.

D.P. Bhatia (1996), *National Accounting: Concepts and Estimates* Khanna Publishers, New Delhi

Those who are interested in further details of estimation in the Indian context may also look for National Accounts Statistics: Sources and Methods published by the CSO in 1989. To know the latest position, one may have to see the notes given in annual editions of National Accounts Statistics.

The voluminous books known as the System of National Accounts published in 1993 under the aegis of the UN is very useful for advanced learners.

20.12 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

- 1) See subsection 20.2.2
- 2) See subsection 20.2.2
- 3) See section 20.2

Check Your Progress 2

- 1) See subsection 20.3.1
- 2) See subsection 20.3.3
- 3) See subsection 20.3.2
- 4) See section 20.3

Check Your Progress 3

- 1) See subsection 20.4.1
- 2) See subsection 20.4.1
- 3) See subsection 20.4.2
- 4) See subsection 20.4.2
- 5) See subsection 20.4.4
- 6) See subsection 20.4.4
- 7) See subsection 20.4.5
- 8) See subsection 20.4.6

Check Your Progress 4

- 1) See section 20.5
- 2) See section 20.5
- 3) See section 20.5
- 4) See section 20.5

Check Your Progress 5

- 1) See section 20.6
- 2) See section 20.6

Check Your Progress 6

- 1) See section 20.7
- 2) See section 20.7
- 3) See section 20.7