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SERVICE SECTOR LED ECONOMIC GROWTH IN INDIA AND SOME MEASUREMENT AND DATABASE ISSUES♣

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ABSTRACT

In recent years there has been a rapid and sustained growth of the service sector in the Indian economy. But unfortunately, while the importance of the services is growing statistical data and other relevant information of the services are abysmally low. There are problems relating to the methodology employed on the contribution of the private sector, especially the unorganized part of the private sector. In this article an attempt has been made to find out the problems associated with the estimation of services sector GDP.

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♣ The paper is in the very initial stage. Therefore it is advisable to not to quote any part of the paper without prior information to the author.

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1. INTRODUCTION

Services are crucial for the economies of both the developed and developing countries. An efficient service infrastructure is a prerequisite for the economic performance of country. The Indian economy has turned around after 2002-03, clocking a growth rate of 8.7 percent per annum; making it the world's second largest growing economy after China. A dominant, but apparently intriguing aspect of India's recent growth performance has been the high and steady contribution of the services sector, which grows at a rate of 9.0 percent per annum during six years since 2001-02 (Nagaraj, 2008). The growth trend of the services sector shows the ratcheting up of trend from 6.7 percent in 1983-93 to 8.2 percent in 1993-2003. Since 2004-05, the growth rate of services sector is at 10.0 per cent, while the general growth rate of the economy has moved up to 9.0 percent in 2005-06 and 9.4 percent in 2006-07. Within the services sector, it is communications that has witnessed the largest increase in its growth rate, which jumped from 5.8 percent per year in the decade of the 1980s, to 20.4 percent per year between 1992-93 and 2006-07.

The share of the services in India's GDP has increased from 39.6 percent in 1993 to 54.1 percent in 2005-06 and 54.9 percent in 2006-07, whereas the share of the manufacturing sector has remained static around 24.5 percent from 1991-92 to 1999-2000 and that of the agricultural sector coming down to 21.7 percent in 2005-06 from 34.9 percent in 1990-91. Within the services sector, trade constitutes the largest segment with about 28.0 percent share in the total value added in the services sector followed by other services (14.5 percent).

2. MEASUREMENT AND DATABASE ISSUES

In the National Accounts the services sector includes: a) trade, hotels & restaurants; b) transport, storage & communication; c) banking & insurance; d) real estate, ownership of dwellings & business services; e) public administration & defense and f) other services- including education, medical & health, religious & other community services, legal services, recreational & entertainment etc. Under each of these categories there are very many sub-categories. Again, amongst each of these categories/ sub-categories there are units operating in all the three institutional sectors: public and private corporate sectors (together constituting the organized sector) and the private unorganized sector. But, recognizably, a large part of the economic activities in the services sector is carried out in the unorganized segments of the economy.

In almost all the cases the Gross Value Added (GVA) estimates are prepared separately for the public sector, private corporate sector and private unorganized sector. The estimates for the public sector are based on the budget documents and the annual accounts of the different enterprises. For the private corporate sector the estimates are based on the company finances studies conducted by the Reserve Bank of India on sample basis. For the unorganized part of the private sector the estimates are prepared

for the benchmark year by using the income approach, i.e. by multiplying the GVA per worker with the workforce. Making use of relevant physical and price indicators carry the benchmark estimates forward. The workforce estimates are prepared separately for rural and urban areas by making use of population census data and employment and unemployment surveys (EUSs) of the National Sample Survey Organization (NSSO). The estimates of workforce for the unorganized parts of various services are obtained as residual after subtracting the estimates of the workforce of the public and private corporate sector from the corresponding estimates of the entire sector (Saluja & Yadav, 2007).

One of the important issues of the services sector in India is the unavailability and reliability of database. Unfortunately, while the importance of the services is growing, statistical data and other relevant information of the services are abysmally low. Even where data are available, they are not qualitative and suffer from differences related to definition, method of collection, suitability for pricing and construction of indices. In this connection, Tendulkar (2007) remarks "valid concerns have been raised about the adequacy, reliability, accuracy and timely availability of the database for measuring the contribution of services. Services cover a very heterogeneous basket in terms of nature, character, and mode of organization and ownership structure….. To capture these various dimensions in measurement for regularly compiling national accounts statistics poses difficult conceptual and database related problems."

There are problems relating to the methodology employed on the contribution of the private sector, especially the unorganized part of the private sector. The quality of the database is thus admittedly weak in respect of: (a) the private corporate sector and (b) the unorganized part of each of the services sector activities. In respect of the second category, questions have been raised on two crucial components involved in the end results: workforce estimates and estimates of value added per worker (VAPW) based on enterprise surveys as follow-up of the quinquennial economic censuses, which are used to work out the benchmark estimates. Further, the most controversial components of the above estimation procedure are: (a) the estimates of the number of workers employed in each area of activity, and (b) results of the enterprise surveys providing estimation of average value added per worker for the corresponding areas of activity (Shetty, 2007).

In the National Accounts Statistics, constant prices for services are calculated and many-a-times proxies like gross domestic product (GDP) deflators are used. In the absence of necessary published data for pricing services, these estimates provide only a rough indication of the price movements of services. In the case of inflation also, services are not accounted. While the wholesale price index (WPI), by definition, does not include services, only medical care, education & recreation and transport &

communication with only 15.61 percent weight are included under miscellaneous group in the consumer price index for industrial workers (CPI-IW).

Shetty (2007) has raised two distinct questions with regard to the recent growth of the services sector in India. The first concern is the tenability of the sector's growth far beyond the growth of the real sectors (i.e. agriculture and industry) and the second relates to the misgivings entertained by many regarding the quality of estimation of services sector GDP as the database depended on for the purpose is apparently weak. As for example, as per the central statistical organisation (CSO) data for 2005, the share of the services sector in total Net Domestic Product (NDP) has increased from 43 percent in 1993-94 to 52.3 percent in 2002-03. But this may pose the question of over estimation. On the other hand, given the absorption of a large labour force (as a residual or push factor from the real sectors), there may be misgivings that the services sector incomes are underestimated. Similarly, the share of the unorganized sector in total NDP has fallen from 52.9 percent in 1993-94 to 46.9 percent in 2002-03, though the perception is that the vast expansion in labour force gets absorbed in the unorganized segment (Shetty, 2007).

Nagraj (2008) raised another issue related to the business services. As is widely known, this service mainly consists of exported information technology (IT) and IT enabled services, whose value is reported in foreign exchange, as they are almost entirely export-oriented activities. Value added in this sector is arrived at by subtracting the rupee value of intermediate inputs from the value of the exports. Since these services are mostly labour intensive, with limited imported intermediate inputs, value added per worker shows the dollar value of the labour services. This explains why the phenomenal growth in the value added in these services has not led to a corresponding rise in employment. In other words, if these services were to be values at domestic prices, then the growth rates would probably get reduced to one-fourth or one-fifth of the reported numbers.

There are problems with the use of physical indicators for estimation of workforce for future years. For some services the growth rates of employment between employment-unemployment survey (EUS) 1993-94 and EUS 1999-2000 are used to get the workforce estimates for different years. If the estimates are not reliable, the growth rates also cannot be reliable.

Another issue regarding the services sector is that the boundary between manufacturing and services by considering the services embodied in manufactured products or what they call manufacturing services production and suggests an empirical approximation based on the unit level data from the 56th round of the National Sample Survey on unorganised manufacturing enterprises (Tendulkar, 2007).

Lack of a single nodal department/division/institution is the biggest lacunae in the services sector. Since different services sectors have their own special characteristics (e.g. some are mainly in the public sector, some mainly in the private sector and some others in both) there is a need for a nodal department or division, preferably in the Department of Economic Affairs, Ministry of Finance which can look into all aspects related to services, while the individual departments dealing with some services or some aspects of services can continue their usual work as is being done by them at present.

As far as national accounts are concerned, the only sources of information relating to the unorganized segment of the services sector are the enterprise surveys. However, much of the information obtained from the surveys still needs improvement. The results of the different enterprise surveys conducted by the NSSO and CSO widely varied in many cases. There may thus be errors in the workforce estimates prepared for the year 1999-2000 based on the employment and unemployment survey for 1999-2000 and the population census 2001. In fact the estimates used by the CSO for estimating GVA from various sectors are different from those from the abovementioned source. There are problems in the estimates of GVA per worker, as the results vary over different surveys.

3. CONCLUSION

The foregoing discussion indicates the infirmities in the estimation of output of services sector precisely the unorganized private sector. The estimates of the Gross Value Added from the organized sector are based on up-to-date and reliable information. But, those of private organized and unorganized segments in respect of all economic activities are prepared through benchmark-indicator method. On these segments no current data on annual basis is available. Regular, timely and complete data in respect of these services, if available on the corporate sector, could improve considerably the quality of their GVA estimates. In view of all these, the entire methodology of estimating GDP originating in different segments of the services sector requires a close look.

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