Analysis of Output and Employment of Trade and Finance in India: A Case of Disproportional Rise in Output than Employment for Service Sector

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Keywords
Trade, Finance, Output, Employment, Structural Change, Development.

Abstract

Purpose of the study: The study aims to analyse why the service sector in India has not generated employment in the proportion of output when the sector has geared up its share in national income since 1980.

Methodology: It’s based on a simple comparative empirical analysis of data on output and employment of trade and finance in India. Quantitative analysis of output is based on data collected from National Accounts Statistics (NAS). The analysis used data from the base year 2004-05 and back series. On the 2004-05 back series, data is available till the year 2011-12. Therefore, to explain long periods, 1950 to 2012, we used 2004-05 data. However, for the latest analysis of output along with employment, we prefer to use the 2011-12 series GDP data of KLEMS India (published by RBI).

Employment data is collected primarily from two sources- NSS and KLEMS India. Principal status and subsidiary status (PS+SS) are used for analysis.

Main Findings: Trade being labour-intensive sector has shown proportionate employment generation between 1980 to 2004. After 2004, the story changed. Despite the same pace of growth, employment generation is proportionately lower. The reason is the growing rise in the capital intensity of trade. In the case of finance, capital-intensive is just the opposite of trade- the rise in output is greater in the period, 1980 to 2004 than the concomitant rise in employment. 2004 onwards, rise in employment is greater. The reason is no significant rise in capital intensity in the sector.

Applications of the study: In macroeconomics, output and employment believed to go hand in hand. However, services defy the dictum- higher rise in GDP share but no corresponding rise in employment share. It helps understand ‘jobless growth’ of Indian economy after reforms of 1991.

Novelty/Originality of the study: Trade being labour-intensive has changed its nature after 2004, the sector’s capital intensity has grown faster than finance. Further, finance is capital-intensive sector but no significant rise in capital intensity.

INTRODUCTION

India has registered an emphatic growth in the post-1990 and it was attributed to a paradigm shift in policy, and the service sector’s exceptional growth (Bhattacharya & Mitra, 1990). It is exceptional that the economy has departed from the ‘Hindu’ rate of growth to a higher growth trajectory. The early eighties set the tone of growth for the economy. However, the eighties reforms drive was half-hearted and tinkering with the policy was insufficient. On the contrary, the 1991 economic reform was based on structural change and macroeconomic stabilisation.

India’s transition is sui generis, from primary to tertiary, and secondary is missing (Mukherjee, 2013), unlike the western economies. In other words, classical patterns of linear growth are not witnessed in the case of India. Such digress from the western classical growth path perplexed the economists. However, the robust growth of the service sector in India does not transform into concomitant higher employment generation in the sector (Bosworth & Maertens, 2010), and it was the major concern of the policy-makers. Therefore, output composition changed drastically, but the same was not demonstrated in occupational pattern. It was a second digression from classical pattern of growth. These digressions (idiosyncratic growth path and disproportionately lower employment generation in service sector) from historical pattern of growth need to be analysed. One speculative attribute may be technology. Continuous change in technology and its spill-over might have guided a unique growth pattern for India.

To further study the abovementioned digression, we zeroed in on two sub-sectors of the service sector—trade and finance. They may be categorized as traditional and modern respectively. Further, trade is dominated by the unorganized

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1I am very grateful to my PhD supervisor Prof. Surajit Mazumdar for his valuable suggestions. The article is an abstract from my PhD thesis.

2Clark-Fuchs-growth path; it emphasises on linear growth, begins with agriculture revolution. It induces industrial revolution, and service dominance is the pinnacle. Service revolution necessarily comes in the end.

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sector, whereas finance mainly comprises organized activities. Trade is one of the oldest, while finance is an emerging sector.

**LITERATURE REVIEW**

**Understanding Trade and Finance: as Services**

Initially, the services were not taken seriously. The distinction between manufacturing and service is highly exaggerated. Smith (1776) was of the view that services perish in the very instant of their performance and seldom leave any trace or value behind them. Services are indeed intangible. Unlike the primary or the secondary sector, they leave no visible material proof. As a result, this sector earned the name, ‘unproductive’ activity from classical economists. Services used to be categorized as ‘non-material production’ as against the productive ‘material production in the national account statistics. Bhagwati (1984) argues that services can be divided into two categories; first, those that necessarily require the physical proximity of the user and the provider; and second, those that do not essentially require it. Further, he argues that services for which physical proximity is not essential, their demand is rising fast. Technical progress is playing the role of enabler, and it helps enable non-tradable services as tradable. Tele-medicine is getting currency in the past few decades. It is IT, which made it possible. Hence, above categorization of services based on mobility are subject to change. Banking and insurance are growing by leaps and bounds since the adoption of information technology as the core technology to support the smooth functioning of the activities.

**National Accounts Statistics (NAS) - Sources and methods divide the services sector into four categories:**

1. Trade, Hotels & Restaurants
2. Transport, Storage & Communication
3. Financial, Insurance, Real estate & Business services
4. Community, Social & Personal services

Moreover, many classifications include ‘construction’ as the part of the service sector, not the part of the secondary sector. For example, Kuznets (1973) considers it part of the service sector, whereas Kaldor (1966) considers it part of the secondary sector along with mining, manufacturing and public utilities. Classification-related differences may have greater implications for data analysis. It may result in over/under-estimations of the sectors.

NAS classification is used in the analysis of this paper, which means it excludes construction from the service sector.

Since the service sector is variegated and heterogeneous, and is evolving sector, the sector broadly may be categorised into two types on the basis of evolution- primitive services and specialized services. By primitive services, we mean those services which came into being right from the beginning of civilization, and these services were very essential for the survival of humankind. For the production of these services, no specialized knowledge or skill is required. As the concept of production gained currency, these primitive services were not considered as production. The very concept of production was based on tangibility. One of the classic examples of such services is contribution of housewife at house chores. Even today, national accounting methodology does not incorporate it in GDP, but if the same work is done by a paid worker, it is part of GDP. The production of these services does not require any specialized knowledge, hence were ignored and even called unproductively.

Specialized services are those services, for their generation specialized stock of knowledge is required. These services are mostly supplied by professionals and hence their supply is highly inelastic and therefore costly too. The demand and supply of these services are determined by the level of economic growth and development of the economy. With the higher and more complex level of production, these services are demanded.

A priori services are intangible by nature and it was considered unproductive too. Fisher (1946) coined the term “tertiary” in 1935 to refer to the service sector. The term “tertiary” was well thought out construct keeping in mind the importance they play for the economy. It refers to third positions after “primary” and “secondary”. Hence, Fisher positioned services in people’s minds as economic activities of lesser importance (Riddle, 1986). Similarly, Clark (1940) downplayed the significance of the sector as “residual”. Bell (1976) popularised the term “post-industrial” in 1973 to refer to service sector which suggests service sector did not come in the fore until after “industrialisation”. Bell’s terminology implies that the service sector is not independent, but, its existence depends on the demand for services.

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3Kuznets (Modern Economic Growth: rate, structure, and spread;1966): The service sector comprises a variety of economic activities, ranging from professional pursuits demanding high skills and large investments in training to domestic service and other unskilled personal services; from activities with large capital investment, such as residential housing, to those requiring no material capital; from pursuits closely connected with private market, such as trade, banking, and related financial and business services, to government activities, including defense, in which market considerations are limited.

4Early services required for the survival of the human beings.

5Smith A (1776).

6Capital embodied services.
from the other two sectors of the economy, primary and secondary. These fallacious terminologies downgrade the importance of the sector in many respects.

The tertiary sector produces intermediate and final services. Intermediate services are those services which are demanded by the other two sectors. For instance, demand for trade is the largest intermediate service. Now, financial services are rising fast as intermediate services. Because finance is one of the primary requirements of the commodity sector. At a higher level of production, the demand for financial resources rises manyfold. On the opposite, final services are demanded by final consumers and producers. Education, health, security etc. are demanded by final consumers. It is not used as input, unlike intermediate services. The service output of these services are independent from the performance of the other two sectors. The variegated types of services cause many misconceptions. One of them is raised by (Rao, 1954) believing that the service sector can’t grow independently. His statement may be partially true, to the extent it represents the intermediate services. Final services can grow independently. The question of sustainability of service sector is also related to this fact.

Trade

CSO defines trade as “distribution services, comprising wholesale and retail trade, in the following manner- it deals in all commodities whether produced domestically, imported or exported. It covers activities of purchase and selling agents, brokers and auctioneers. Wholesale trade covers units, which resell without transformation, new and used goods generally to the retailer and industries, commercial establishments, institutional and professional users or other wholesalers. Retail trade covers units, which mainly resell without transformation of new and used goods for personal or household consumption. This sector also comprises of maintenance and repair of motor vehicles and repair of personal household goods” (NAS- sources and methods, 2012).

As the GVA estimates of trade clearly state that for trade, they account the ‘activities’ of agents engaged in the sale or purchase of goods (new or used).

As per NIC 2004 classification, this sector consists of the following five categories:

- “Maintenance and repair of motor vehicles
- Sale of motor vehicles
- Wholesale trade except of motor vehicles and auctioning activities
- Repair of personal household goods and
- Retail trade (except motor vehicles)”.

Finance

Financial markets sprang up historically as an intermediate between savers and investors or lenders and borrowers. The role of financial intermediaries is to bring them together. As per NAS, the Finance sector comprises banking and insurance which consists of mainly commercial banks, NBFIs, co-operative societies, post office banks, and Life and non-life insurance activities. The contribution of banking is dominant, insurance contributes minuscule. The gross output of banks and similar financial institutions are estimated through the income method. Two components viz., actual service charges and the imputed service charges are taken into consideration.

Services in the Indian Growth Process

It is well known that after 1980-81, the pace of growth of the Indian economy increased from what was the average rate in the previous three decades. It attributes to the faster growth of services, its acceleration outpaced the industry. The rising share of the service sector contributed to the stability of Indian growth, in contrast to the volatility exhibited by agricultural and industrial growth (Rakshit, 2007).

Error! Reference source not found. depicts the overall performance of various major sectors of the economy in select periods.

Table 1: Compound Annual Growth Rate (CAGR) for selected sectors of the Indian economy (constant price, 2004-05)

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>1.94</td>
<td>2.60</td>
<td>2.49</td>
</tr>
<tr>
<td>Industry</td>
<td>5.05</td>
<td>5.48</td>
<td>7.44</td>
</tr>
<tr>
<td>Service</td>
<td>4.24</td>
<td>6.75</td>
<td>8.27</td>
</tr>
<tr>
<td>GDP</td>
<td>3.32</td>
<td>5.22</td>
<td>7.04</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>5.09</td>
<td>5.68</td>
<td>7.43</td>
</tr>
</tbody>
</table>

Source: CAGR calculated based on data extracted from National Accounts Statistics (NAS).

The three broad period, 1950-51 to 1979-80, 1980-81 to 2002-03, and 2003-04 to 2012-13 of the table are broadly agreed upon as distinct in terms of growth trends (Mazumdar S., 2010). In the first period (spanning in thirty years) the growth rate was relatively, hovering around 3 to 3.5 per cent, popularly called ‘hindu growth’ rate. Second period
(spanning in twenty years) is a turning point for the economy as the overall growth of the economy has shot up from roughly 3 to 5.5-6 per cent, which was a remarkable jump. Rodrik & Subramanian (2004) called it a switch from ‘Hindu growth’ to ‘productivity surge.’ The thrust in growth was primarily guided by the tertiary sector. The role of the secondary sector was missing at large, though in this period, industrial recovery has taken place.

Economic reforms of the 1990s were a watershed in the history of the Indian economy, and a stride towards privatization, liberalization, and globalization was taken (Srinivasan & Tendulkar, 2003). Post-reform period further emboldened the service sector growth, which is also called the ‘tertiarization’ of the Indian economy. However, policy overhaul in the 90s has not directly and swiftly transformed into higher growth, rather it was more or less similar to 1980s growth. The period has exhibited, a transformation from public to private, and from unorganized to organized sector.

It is only in the third period, which starts from 2003-04, that the Indian economy experienced a real jump in growth rate. The period exhibited a high growth till 2008-09. It is also referred to as the ‘golden period of growth of the Indian economy and hence set new normal for the economy in terms of growth.

Table 1 clearly shows that while the industry may have been the leading sector before 1980. From 1980 onwards, services played the most important role in growth. Services made the transition from a sector showing moderate growth before 1980, lower than that of industry and manufacturing, to becoming the fastest growing sector.

Table 2: Share of services in GDP (Constant Price, 2004-05)

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</tr>
</thead>
<tbody>
<tr>
<td>Transport, storage &amp; communication</td>
<td>2.62</td>
<td>3.11</td>
<td>3.69</td>
<td>4.94</td>
<td>5.17</td>
<td>6.96</td>
<td>10.39</td>
</tr>
<tr>
<td>Financing, insurance, real estate &amp; business services</td>
<td>8.34</td>
<td>7.62</td>
<td>7.42</td>
<td>8.15</td>
<td>11.51</td>
<td>14.05</td>
<td>17.21</td>
</tr>
<tr>
<td>Community, social &amp; personal services</td>
<td>10.18</td>
<td>9.93</td>
<td>11.57</td>
<td>12.73</td>
<td>13.40</td>
<td>14.68</td>
<td>12.85</td>
</tr>
<tr>
<td>All Services</td>
<td>29.54</td>
<td>30.19</td>
<td>33.26</td>
<td>37.65</td>
<td>42.55</td>
<td>50.37</td>
<td>57.32</td>
</tr>
</tbody>
</table>

Source: National Accounts Statistics (NAS), CSO.

Table 2 gives an overview of how the share of the services and their sub-sectors have changed over six decades. In this long period (1950 to 2011), the service sector’s overall share in GDP increased from 29.54 per cent to 57.32 per cent - that means in six decades the share has doubled. The increase however was not of the same degree across the sub-sectors of services. The share of ‘trade, hotel and restaurant’ also doubled, most of it after 1980. On the other hand, community, social and personal services exhibited a comparatively poor rise in its share its output – and even more so after 1980. The greatest order of increase, however, was in Transport, storage and communication, whose share in GDP achieved a doubling even in the second half of the six-decade period. The share of financing, insurance, real estate & business services also increased, entirely after 1980. Thus, unlike between 1950-51 and 1980-81, when trade, hotels and restaurants and community, social and personal services accounted for most of the increase in the share of services in GDP, after 1980-81 it was the other two sub-sectors which were more prominent.

Output Trends of Trade and Finance

Trade is one of the oldest services and has always had a significant share in GDP. At current prices, this share was 5.95 percent in 1950-51 while at 2004-05 prices it stood at 7.81 per cent. Over the period, the share of trade in GDP has increased steadily (Figure 1), and this has been true both before and after 1980. The only difference is that for several years before 1980, the trade share in GDP at current prices lay below that of the 2004-05 constant prices, but this gap was eliminated in the 1970s.

Figure 1: Percentage Share of Trade in Indian GDP (at constant and current prices Source: Calculation based on NAS, CSO.)
Within the services sector GDP, trade accounted for 26.4 percent in 1950-51 at constant price and a slightly higher to 26.5 percent in 2011-12. In 1978-79, it achieved the highest share. What is remarkable to note here is that any increase in the trade share within services was limited to the share at current prices and happened in the period before 1980, and a slight recovery from a previous dip in the 2010s decade. Almost no change took place in the share during 1990s, despite economic reform. The constant price share has remained consistently below the average levels prevailing between the mid-1960s and the end of the 1980s.

Figure 2: Share of Trade in Service GDP in India

Source: Based on CSO data

Finance

Finance helps mobilise resources for furthering credits for all other sectors, thereby playing the role of an enabler in promoting output and employment. At independence, the share of finance in GDP was low, in 1950-51, barely 1%. However, its share has not only steadily grown thereafter (Figure 3), but by 2011-12, finance had also significantly closed the gap with a trade that it initially had. The upward trend in the finance share in GDP has been steeper after 1980 than before. At the beginning of the 1980s, the share was still less than 2.5 percent for finance. However, by 2011-12, it had risen to 8.77 percent. The picture becomes less unambiguous at constant prices because of the ceasing of the process of increase in the share in GDP of finance from 2003-04 onward, with the constant price share not exhibiting.

Within the services sector also, the relative importance of finance has increased relative to its position in 1950-51, when it accounted for just 2.6 per cent of services GDP at current prices and 3.31 per cent at 2004-05 prices (Figure 4). This is in contrast to the case of trade except that at constant prices, the share of finance in services too stagnated from the later 1990s onward. This is of course related to the fact that the divergence between the trends at current and constant prices from 2003-04 onwards is of course repeated here too.

Figure 3: Percentage Share of Finance in GDP (at current and constant price)

Source: Based on CSO data.
Trade and Finance: Growth and Relative Situation

Till the 1990s, the GDP of trade relative to that of finance exhibited a continuous trend of decline at both current and constant prices. This implies that though both the sectors have shown long-term growth at a rate higher than that of overall GDP, the financial sector was growing faster than trade. However, after liberalization, the trend changed towards relative stability in the relative GDPs of the two sectors at current prices, but at constant prices, the trend remained downwards, particularly sharply in the period after 2003-04.

Table 3: Ratio of Trade GDP to Finance GDP, 1950-51 to 2011-2

This is also reflected in the growth rates in the GDP of the two sectors relative to each other and for overall GDP and the entire services sector (Table 3). Both trade and finance, have been higher than overall GDP through different growth phases, and they have both contributed to the accelerations in growth. However, trade growth has been slower than that of finance throughout, and after the 1980s trade has consistently grown at a rate that is not faster than that of services as a whole. It has been different with finance.

Table 4: Annual Average Growth Rate of GDP at Constant Prices, 2004-05

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>3.58</td>
<td>5.60</td>
<td>8.44</td>
</tr>
<tr>
<td>Services</td>
<td>4.51</td>
<td>7.14</td>
<td>9.81</td>
</tr>
<tr>
<td>Trade</td>
<td>4.84</td>
<td>6.82</td>
<td>9.31</td>
</tr>
<tr>
<td>Finance</td>
<td>6.66</td>
<td>10.10</td>
<td>14.02</td>
</tr>
</tbody>
</table>

Source: based on CSO data
Generally, it has been witnessed among OECD countries, that the growth rate of modern services like finance, communication etc. exceeds that of the traditional services like trade, transport etc. In that sense, the Indian trend regarding trade and finance is no exception.

Within banking, commercial banks have clearly been the standout factor in the two-stage acceleration of the finance sector’s growth (Table 5). Within banking, only commercial banks have shown a similar pattern of acceleration. The first-period growth rate was quite low compared to the other two successive periods, 7 per cent per annum during 1950-51 to 1979-80, the same as in all other segments. In the second period, from 1980-81 to 2002-03, the banking sector registered higher growth of 10 per cent per annum, bettered only by the NBFI segment, the only other segment experiencing acceleration. Except for the EPFO, all other segments slowed down considerably in the period from 2003-04 and only banking growth saw a sharp upturn. If the last period was exceedingly good for the banking sector with a growth rate of 12 per cent, it was made possible owing to banks’ growth of 16 per cent.

The Insurance sector too also embarked on a higher growth trajectory (Table 6), from 7 percent per annum (1950-51 to 1979-80) to 8 percent per annum (1980-81 to 2002-03) and then to 14 per cent per annum (2003-04 to 2009-10). Within insurance, life insurance has matched the banks within the banking sector in terms of growth acceleration and levels. However, non-life insurance did not experience any acceleration till the last period.

Table 5: Annual Average Growth Rate of GDP at Constant Prices, Banking & Finance

<table>
<thead>
<tr>
<th>Sub-Sector</th>
<th>1950-51 to 1979-80</th>
<th>1980-81 to 2002-03</th>
<th>2003-04 to 2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking</td>
<td>7</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Banks</td>
<td>7</td>
<td>10</td>
<td>16</td>
</tr>
<tr>
<td>banking department of RBI</td>
<td>7</td>
<td>6</td>
<td>-2</td>
</tr>
<tr>
<td>post office saving bank</td>
<td>7</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>non-banking financial institutions</td>
<td>7</td>
<td>16</td>
<td>3</td>
</tr>
<tr>
<td>co-operative credit societies</td>
<td>7</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>employees provident fund org.</td>
<td>-</td>
<td>7</td>
<td>10</td>
</tr>
</tbody>
</table>

**Source:** RBI

Table 6: Annual Average Growth Rate of GDP at Constant Prices, Insurance

<table>
<thead>
<tr>
<th>Sub-Sector</th>
<th>1950-51 to 1979-80</th>
<th>1980-81 to 2002-03</th>
<th>2003-04 to 2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance</td>
<td>7</td>
<td>8</td>
<td>14</td>
</tr>
<tr>
<td>life (other than postal life)</td>
<td>7</td>
<td>11</td>
<td>16</td>
</tr>
<tr>
<td>postal life</td>
<td>--</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td>non-life</td>
<td>7</td>
<td>6</td>
<td>11</td>
</tr>
</tbody>
</table>

**Source:** NAS, CSO

Thus, it may be said that the rapid growth of commercial banking and insurance has been mainly responsible for the very rapid growth of finance witnesses from 2003-04 onward, unlike the picture before the 1980s when all segments grew at relatively similar rates.

Figure 5: Annual Growth Rates of Trade and Finance, 1950-51 to 2012-13

**Source:** NAS, CSO

Trade and finance also show somewhat different pictures with regard to the year-to-year fluctuations in the annual growth rates underlying the averages in Table 5. The fluctuations in growth for finance have tended to be of a higher order than in the case of trade, though both have gone up and down.

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7Eichengreen and Gupta (2010)

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Organized and Unorganized Segments in Trade and Finance

Like almost all sectors of the Indian economy, both trade and finance are divisible into organized and unorganized components. Data for this division is not available in the back-series with the 2004-05 series. Therefore, the 1999-00 base year series data on factor incomes for the period 1980-81 to 2010-11 has been used here to look at the relative shares of these two components in trade and finance and changes in them over time. This shows that the levels of the unorganized and organized sector shares in trade and finance have not only been vastly different, but the trends of change in the organized-unorganized distribution have in them have also been different.

As Figures 6 and 7 show, trade has always been dominated by the unorganized sector while it has been the exact opposite with finance. However, reversing a slow trend of decline in the 1980s, after liberalization there was a steady trend of increase in the organized sector’s share in Trade NDP that continued for a decade and a half. This carried the organized sector’s share from less than 5 percent at the beginning of the 1990s to nearly 33 percent by 2006-07, subsequent to which there was a dip in this. However, 2005-06 and 2006-07 were somewhat exceptional years when this share was much higher than the years immediately before or after. If we take them out of the frame, a steady process of trade becoming more organized is perceptible through the 1990s and till the beginning of the high growth phase from 2003-04, after which the distribution that had emerged, of about four-fifths of the NDP coming from the unorganized sector and one-fifth from the organized, stabilized.

In the case of finance, an opposite kind of structural shift took place between the mid-1980s and the end of the 1990s, with the unorganized sector increasing its share from a measly 3.5 percent to close to 10 percent. After that, there were years in which it was higher but there was no consistent trend upwards.

Figure 6: Distribution of NDP of Trade between Organized and Unorganized Sectors, 1980-81 to 2010-11

Source: Based on NAS data

Figure 7: Distribution of NDP of Finance between Organized and Unorganized Sectors, 1980-81 to 2010-11

Source: Based on NAS data

Retailing in India, even of products produced by the organized sector, has always been dominated by mom & pop stores (kirana shops), roadside grocery shops, paan-beedi shops, hawkers and vendors, most of which belong to the unorganized component. According to the study of ICRIER, the unorganised sector dominates in food and grocery...
business, and the proportion of organised sector is pittance. In India, the unorganised sector may have dominated the trade sector, in contrast to Europe where the share of organized retail is as high as 80 percent in the United Kingdom, Germany and France per cent and in the USA where it is 85 per cent. Even among the emerging economies, the share of organised retails is well above India (Hoda, 2008): Brazil (36); China (20); Indonesia (30); Korea (15) and Malaysia (55). The scope for expansion of organised retail was therefore immense.

With liberalization, trade did begin exhibiting an inclination towards formalisation- a rise in the share of the organised sector in output, with the rise of the middle class and corporate-backed retail sectors growing fast. With the opening of the economy, the inflow-outflow of goods and services has risen many folds. Trading GVA also includes both new and old products. The second-hand goods market has also grown in leaps and bounds in the past. The government has also been encouraging the recycling-reuse of products for environmental purposes. Gradually, the trading services, wholesale and retail, have grown more difficult and complex with rising competition. The involvement of specialised personnel was needed. The MBA, BBA and sundry professionals were engaged in these activities in the supermarket and other organised trading activities. Marketing has become a potent tool for promoting products. Foreign capital investment has risen in this sector, which brings sophisticated technology. The government has relaxed the norms for promoting investment in this sector, however, the role of the government in allowing FDI has gone with snail’s pace as fearing it may drive out the unorganised sector. By 2006, FDI was allowed in single-brand up to 51 per cent. The pace of construction of shopping malls also picked up in the 2000s. In 1999, India had just 3 shopping malls. By end of 2006, the number had gone up to whopping 137, and their number was estimated to be about 479 by end of 2008 (ICICI Property Services-Technopak, 2007). Subsequently, digital technologies also came into the picture. The unprecedented rise of ICT created the possibilities for trade services through online platforms i.e. e-commerce. For instance, in China the way Alibaba progressed in short span of time. India’s trade sector could also benefit from similar activities (Mehrotra, 2019), though, the penetration of technology is quite low in India.

All these impetuses produced a trend that may be termed as formalisation of the trade sector, in the post-reform period. However, this been a slow process of change and has not taken place on a sustained basis because of the several challenges the sector has faced. Retail trade is heavily dependent on logistic support, and the logistic cost was as high as 15% of our GDP in 2005-06. India’s rank has declined from 44th in 2016 to 35th in 2018 in the Logistics Performance Index rankings. Foreign investment is also not very increasing, though the government has approved as many as 51% foreign investment in multi-brand and 100% in single-brand retail. Though the government has started a slew of measures to boost credit facilities, the end result is not very encouraging. Organised retail is only 10% and e-commerce accounts for 3% only (Economic Times, 2018). The organized sector is also more affected by archaic laws and acts and red-tapism – thus it was determined that the retail trade industry has to secure a total of 45 licenses, clearances, registration certificates or notification requirements for each outlet (Report, 2008). One of the important State level Acts which regulates retail trade, the ‘Shops & Establishment Act, was originally enacted in the 1950s.

In the case of finance, organized sector dominance went along with poor financial inclusion. Liberalization here in part could have contributed to an initial increase in such exclusion as reforms oriented the credit institutions towards greater commercialization of operations. This could have led to some growth of unorganized finance as people turned to that alternative. However, the initial growth in the unorganized share in the finance sector need not have been entirely independent of what was happening in the organized sector. It coincided with the rising importance of FDIs and may have been the result of such NBFIs standing more and more as intermediaries between the ultimate borrowers and the banks.

A slightly longer and more continuous picture is presented in Figure 8 making use of the India KLEMS data with 2011-12 base year. This shows the trends in GDP (both at current as well as constant prices) and employment shares of trade and finance for the period. In addition to highlighting the tremendous gap between trade and finance shares in employment and between the finance share in GDP and employment, it shows that there have been some variations in how these different shares have moved relatively over time. Thus, in the case of trade, the decade of the 1980s saw its employment share increase faster than its share in GDP but the exact opposite situation marked the last decade of the period till 2018-19. In that last decade, though, the share of finance in employment increased but there was no real change in its share in GDP.

Thus, the movements in shares in output and employment of the two sectors have not exhibited one consistent pattern throughout the period after 1980. Table 7 bring out the important turning points. For the entire period from 1980-81 to 2018-19, the share of trade in both output as well as employment increased more than for finance which, however, grew faster from a lower base. Further, the increase of trade share in employment was greater than in output, while the opposite was the case for finance. However, the larger part of its increase in employment share took place up to 2003-04, though the increase in GDP share after was as much as till then. In the case of finance, however, the major part of its increase in output share was till 2003-04 and it completely outpaced the increase in its share in employment. However, after 2003-04, the increase in finance’s employment share was more than before, though its output share hardly increased. The further break-up of the periods before and after 2003-04 into two sub-periods each also shows how that process of change gathered strength.
Structure of Employment by Type

An examination of the structure of employment by type of the trade and finance sectors shows that this structure has always been very different in these two sectors, despite changes over time. Self-employment has always been the dominant category of employment in the case of trade while regular wage/salary employment has been predominant in finance. Casual employment on the other hand has been a relatively small portion of employment in both trade and finance. Trade and finance thus illustrate the heterogeneity in employment structures that make up the ‘average’ picture for services which is also shown in Table 8.

Table 8: Structure of Employment by Type (%)

<table>
<thead>
<tr>
<th>Survey Round</th>
<th>SE</th>
<th>RE</th>
<th>CE</th>
<th>SE</th>
<th>RE</th>
<th>CE</th>
<th>SE</th>
<th>RE</th>
<th>CE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade</td>
<td>84.19</td>
<td>11.47</td>
<td>4.34</td>
<td>9.93</td>
<td>88.16</td>
<td>1.91</td>
<td>46.39</td>
<td>44.13</td>
<td>9.48</td>
</tr>
<tr>
<td>Finance</td>
<td>84.62</td>
<td>11.25</td>
<td>4.13</td>
<td>9.91</td>
<td>88.39</td>
<td>1.23</td>
<td>48.61</td>
<td>42.3</td>
<td>9.46</td>
</tr>
<tr>
<td>Trade</td>
<td>83.71</td>
<td>12.22</td>
<td>4.07</td>
<td>14.26</td>
<td>84.55</td>
<td>1.24</td>
<td>49.82</td>
<td>40.86</td>
<td>9.34</td>
</tr>
<tr>
<td>Finance</td>
<td>75.73</td>
<td>16.55</td>
<td>7.72</td>
<td>15.92</td>
<td>83.24</td>
<td>0.88</td>
<td>48.12</td>
<td>40.97</td>
<td>10.58</td>
</tr>
<tr>
<td>Trade</td>
<td>78.16</td>
<td>16.57</td>
<td>5.27</td>
<td>25.29</td>
<td>73.39</td>
<td>1.32</td>
<td>52.04</td>
<td>39.89</td>
<td>8.07</td>
</tr>
<tr>
<td>Finance</td>
<td>78.31</td>
<td>16.64</td>
<td>5.05</td>
<td>25.03</td>
<td>73.16</td>
<td>1.81</td>
<td>49.6</td>
<td>42.11</td>
<td>8.29</td>
</tr>
<tr>
<td>Trade</td>
<td>75.49</td>
<td>19.06</td>
<td>5.44</td>
<td>27.34</td>
<td>71.92</td>
<td>0.74</td>
<td>49.52</td>
<td>43.57</td>
<td>6.9</td>
</tr>
<tr>
<td>Finance</td>
<td>70.64</td>
<td>24.93</td>
<td>4.34</td>
<td>17.32</td>
<td>81.48</td>
<td>1.2</td>
<td>45.84</td>
<td>48.66</td>
<td>5.5</td>
</tr>
<tr>
<td>Trade</td>
<td>70.15</td>
<td>25.53</td>
<td>4.32</td>
<td>18.62</td>
<td>81.05</td>
<td>0.33</td>
<td>44.96</td>
<td>49.6</td>
<td>4.44</td>
</tr>
<tr>
<td>Finance</td>
<td>70.15</td>
<td>25.53</td>
<td>4.32</td>
<td>18.62</td>
<td>81.05</td>
<td>0.33</td>
<td>44.96</td>
<td>49.6</td>
<td>4.44</td>
</tr>
</tbody>
</table>

Source: NSSO. Note- SE- Self-employed, CE- Casual employed, RE- Regular employed

Over the long term, a trend is seen in the shift from self-employment to regular employment in the case of trade. An exactly opposite shift, from regular to self-employment, characterized employment in finance till 2011-12, after which the rising trends of self-employed appear to have reversed. It is believed that regular employment is largely created in the organized sector, on the contrary, the unorganized sector generates self-employed and casual employment. Thus, the
dominance of self-employment in trade reflects the fact that trade is an unorganized sector dominated, while the trend of increase in regular employment is consistent with the rising importance nevertheless of organized trade. On the other hand, the initial increase in the share of its unorganized component correlates well with the rising share of self-employment, and the reversal thereafter indicates the ceasing of that process of the increasing importance of unorganized finance. However, structural changes in employment have been slower than that of output for trade, while finance reflects the opposite trend, the rise in share of unorganized output being less than the rise in SE+CE.

Employment and Output Growth: Employment Elasticity and Productivity Trends

In the first section of this chapter, we looked at the relative trends of the shares of trade and finance in output and employment. However, it is also important to keep in mind that work-participation rates have been falling in India in the 21st century, beginning precisely when the growth rates of GDP accelerated. Therefore, it is important to not only compare shares but also the rates of growth of employment vis-a-vis those of output. This we do in this section along with the two related concepts that are also relevant in this regard – namely, labour productivity and employment elasticity of growth.

Employment Elasticity

The employment elasticity is the ratio of percentage change in employment to the percentage change in income. In other words, employment elasticity is the responsiveness of employment to changes in output. Employment intensity of the service sector is determined by primarily, structural characteristics- technological change, policy intervention, productivity growth, international competition, labour market reforms, and economic structure (Pattanaik & Nayak, 2010). The significance of employment elasticity is it depicts the ability of the economy or sector to generate employment due to the growth of output. Employment elasticity is not free from deficiencies though. Calculation of employment elasticity is done with the assumption that the technology, government policies, wages are given. The relation between output production and employment generation is not linear or unidirectional (Misra & Suresh, 2014).

Table 9: Employment Elasticity of the Indian Economy (CAGR Approach)

<table>
<thead>
<tr>
<th>Year</th>
<th>Employment Growth</th>
<th>GDP Growth</th>
<th>Elasticity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972-73 to 1977-78</td>
<td>2.6</td>
<td>4.6</td>
<td>0.57</td>
</tr>
<tr>
<td>1977-78 to 1983</td>
<td>2.1</td>
<td>3.9</td>
<td>0.54</td>
</tr>
<tr>
<td>1983 to 1987-88</td>
<td>1.7</td>
<td>4</td>
<td>0.42</td>
</tr>
<tr>
<td>1993-94 to 1999-2000</td>
<td>1</td>
<td>6.8</td>
<td>0.15</td>
</tr>
<tr>
<td>1999-2000 to 2004-05</td>
<td>2.8</td>
<td>5.7</td>
<td>0.50</td>
</tr>
<tr>
<td>2004-05 to 2009-10</td>
<td>0.1</td>
<td>8.7</td>
<td>0.01</td>
</tr>
<tr>
<td>2009-10 to 2011-12</td>
<td>1.4</td>
<td>7.4</td>
<td>0.18</td>
</tr>
<tr>
<td>2019-00 to 2011-12</td>
<td>1.5</td>
<td>7.3</td>
<td>0.20</td>
</tr>
<tr>
<td>1993-94 to 2011-12</td>
<td>1.1</td>
<td>6</td>
<td>0.18</td>
</tr>
</tbody>
</table>


A general drift downwards of the employment elasticity of Indian growth is noticeable in Table 9. It declined from 0.57 in the period 1972-73 to 1977-78 to as low as 0.15 in 1993-94 to 1999-2000. However, CAGR of GDP is concerned, it was roughly 4 per cent during 1972-73 to 1987-88. During 1993-94 to 1999-2000, the CAGR of GDP was quite handsome, as high as 6.8 per cent. This is why the period is called ‘jobless growth’. In the very next period, 1999-2000 to 2004-05, the employment elasticity was very high. The reason was high employment growth. (Mehrotra, Parida, Sinha, & Gandhi, 2014) has termed this phenomenon as progressive structural change as large amount of job were, for the first time, created in non-agriculture sector. During 1999-2000 to 2004-05, non-farm employment has grown by 7.5 million per year on an average. However, on average 12 million per annum were joining labor force in the same intervening period.

The decline in elasticity of employment has been followed by a concomitant decline in unemployment rate between 1999-2000 and 2009-10. It may be attributed to a secular fall in the labour force participation rate (LFPR). The decline in LFPR is quite palpable in rural, especially in females. Part of this is possible because en masse persons are opting for education or skill enhancement programme. The argument is supported by recent trends in the rising Gross Enrolment Ratio (GER). It has risen from 20.5 per cent (1993-4) to 24.3 per cent (2004-5), and further to 26.6 per cent in 2009-10 (Himanshu, 2011). The rise was much faster in rural areas, especially among females (Gol, 2013). As a result, the unemployment rate went down. However, compared to these numbers, the number of available jobs into which such an educated workforce could be absorbed has not grown anywhere close to the requisite degree.

Table 10: Employment Elasticity of Trade

<table>
<thead>
<tr>
<th>Period</th>
<th>38th-43rd</th>
<th>43rd-50th</th>
<th>50th-55th</th>
<th>55th-61st</th>
<th>61st-66th</th>
<th>66th-68th</th>
<th>50th-65th</th>
<th>38th-68th</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade</td>
<td>0.13</td>
<td>0.31</td>
<td>0.26</td>
<td>-0.02</td>
<td>0.00</td>
<td>-3.78</td>
<td>2.72</td>
<td>1.55</td>
</tr>
<tr>
<td>Organized sector</td>
<td>-0.36</td>
<td>0.24</td>
<td>-0.71</td>
<td>0.04</td>
<td>0.01</td>
<td>-4.09</td>
<td>2.38</td>
<td>1.42</td>
</tr>
<tr>
<td>Unorganized sector</td>
<td>0.21</td>
<td>0.31</td>
<td>0.40</td>
<td>-0.02</td>
<td>0.00</td>
<td>-3.77</td>
<td>2.76</td>
<td>1.57</td>
</tr>
</tbody>
</table>

Source: Calculated based on NSSO and CSO data.

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Table 10 shows that the employment elasticity of trade has not been very encouraging since the 1980s. However, before economic reforms employability of the sector was much greater. In the post-90s, it declined consistently. During 2009-10 and 2011-12, it became negative even. Not just the Organized sector, even the Unorganized sector’s employment elasticity has been poor in the 21st century. The story of finance on the employment elasticity front is as gloomy as that for trade (Table 11). The post-reform worsening is seen here too with nothing to distinguish the employment elasticities of the organized and unorganized sectors. Over the long term, the employment elasticities of trade and finance have not been very different from each other. Between 1999-2000 and 2004-05, when a progressive structural change was taking place, and 2004-05 has registered highest ever non-farm employment, trade and finance still exhibited poor or negative employment elasticity.

**Table 11: Employment Elasticity of Finance**

<table>
<thead>
<tr>
<th>Period</th>
<th>38th-43rd</th>
<th>43rd-50th</th>
<th>50th-55th</th>
<th>55th-61st</th>
<th>61st-66th</th>
<th>66th-68th</th>
<th>50th-68th</th>
<th>38th-68th</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>0.21</td>
<td>0.33</td>
<td>-0.03</td>
<td>-0.05</td>
<td>0.01</td>
<td>-4.20</td>
<td>2.79</td>
<td>1.57</td>
</tr>
<tr>
<td>Organized sector</td>
<td>0.23</td>
<td>0.30</td>
<td>-0.75</td>
<td>-0.06</td>
<td>0.01</td>
<td>-4.05</td>
<td>2.69</td>
<td>1.53</td>
</tr>
<tr>
<td>Unorganized sector</td>
<td>0.08</td>
<td>0.39</td>
<td>1.02</td>
<td>-0.05</td>
<td>0.00</td>
<td>-4.31</td>
<td>2.93</td>
<td>1.60</td>
</tr>
</tbody>
</table>

**Source:** Calculated based on data, NSS & CSO

**Labor Productivity of Trade and Finance in India**

Labor productivity is the ratio of total production and total employment. The economic growth deepens either on employment increases or on intensified use of existing work force. Labor productivity therefore is a key measure of economic performance. The understanding of the driving forces behind it, in particular the accumulation of machinery and equipment, improvements in organization as well as physical and institutional infrastructure, improved health and skills of workers (“human capital”) and the generation and adoption of new technologies, is important for formulating policies to support economic growth. ILO claims that higher the labor productivity growth higher the rate of growth of reduction in poverty and hunger. This, however, assumes that productivity increases are not at the expense of increasing unemployment.

Labor productivity study in India is quite cumbersome as data availability is scanty. The wide existence of informal sector further makes the problem worse. Services sector in India is showing secular rise in productivity since 1980. Figure 9 based on the India KLEMS data shows how the labor productivity of trade, finance, services and the economy as a whole have moved from 1980-81 to 2018-19. It shows that the productivity in services has been always higher than that of the economy as a whole, so that a rising share of services in the economy itself would be a factor in raising the overall labour productivity, independent of the trend of rising productivity of services which is also observable. The productivities of the trade and finance sectors have also increased over time, but they have remained on opposite sides of the average for services. The labour productivity in finance has been several times greater than for all services as well as trade. The productivity of the trade sector, on the other hand, has always been below the average for services and close to the average for the economy as a whole.

As the services sector share in the economy increases, it would be natural to expect a trend of convergence between labour productivity in that sector and that in the economy as a whole. Such a trend is in fact visible in the form of a decline in the relative productivity of services w.r.t. the economy as a whole from 1.94 in 1980-81 to 1.55 by 2018-19 (Figure 9). However, for trade and finance, we get two very contrasting pictures in how their relative productivities have moved over time since 1980. In the case of finance, its relative productivity in fact increased after the economic reforms but then reversed its direction of movement quite sharply in the 21st century. While trade’s relative productivity never moved very far from 1, it tended to decline over the first two decades and started moving in the opposite direction thereafter, albeit slowly.

**The Transition in Trade and Finance**

All the preceding discussion in this chapter indicates that the relative situations of the trade sector and financial sectors experienced some kind of a transition in the early years of the 21st century, when Indian growth experienced a significant acceleration. In this section, we look more closely at that transition.

The essence of the transition is captured in Figures 10 and 11. Figure 10 shows that in the 21st century, the relative importance of the trade and finance sectors as far as value addition is concerned has not moved in the direction of reduced importance of the more labour-intensive and lower-productivity trade sector. However, there has been a consistent relative decline in trade as far as employment is concerned. This is just another way of saying that the growth of employment in the labour-intensive sector among the two has been lower but this is not explained by slower growth of trade output but instead by faster growth of productivity in that sector. That this faster growth of productivity in trade compared to finance reflected a change in the previous trend is then shown in Figure 11.

*Bosworth and Maertens (2010) construed that total factor productivity (TFP) was highest in the service sector in India.*

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The most obvious thing to look at in trying to understand this transition is to look at what has happened to capital intensities in the two sectors. Figure 11 does indeed show that in this regard the 21st century has been different from the early reform period. Through most of the 1990s, it was finance which experienced a significant increase in capital intensities.
intensity. This process, however, ceased in the 21st century as far as finance was concerned but came to grip the trade sector in a big way.

**Figure 12:** Capital Intensity (Capital Stock at 2011-12 Prices per Employed Person) of Trade and Finance, 1980-81 to 2018-19

**Source:** India KLEMS

In fact, as Figure 13 shows, the value added per unit of capital in finance has declined while that in trade has increased and consequently, the output per unit of capital in trade has gone past that in finance. Thus, the return to investment in trading activities became relatively far more attractive, a means of increasing both capital as well as labour productivity. That appears to be the reason why the capital stock in trade, which had tended to grow relatively slower than in finance for two decades since 1980 saw a huge spurt from 2003-04 onwards. From just about 55 percent of the capital stock in finance, the capital stock in trade became 3.75 times that in finance in the space of fewer than two decades (Figure 14).

**Figure 13:** Value Added/Capital Stock (2011-12 Prices) of Trade and Finance, 1980-81 to 2018-19

**Source:** India KLEMS
CONCLUSION

India has witnessed a service-dominated growth since the 1990s, though the foundation was laid way back in the 1980s, however, the high growth rate has not resulted in a concomitant rise in employment.

After scrutiny of these data issues, this study has come up with the following key conclusions about how the comparative stories of trade and finance reflect the nature of structural change in India:

1. Trade and finance are distinguishable from each other in terms a) their basic nature – trade being a traditional labour-intensive service whose growth is intimately connected with the growth of the goods producing sectors of the economy, while finance is a more modern and relatively capital-intensive sector whose growth is more closely connected to the process of financial development rather than goods production; and b) their structural features – trade being dominated by small enterprises in the unorganized sector with a high proportion of self-employment while large organizations in the organized sector with regular salaried employment playing the more prominent role in finance.

2. Due to the differences outlined above, at the beginning of the period under study, trade accounted for a much larger share of total as well as service GDP, and also employment, than did finance and had also a much lower relative productivity (share in GDP by share in employment).

3. The dependence of trade on goods production constrained its growth during the period after 1980. While it did grow rapidly compared to the past and contributed to the service dominated growth acceleration, it managed to outpace the growth of the industrial sector only on account of the relative increase in the importance of foreign trade that was a feature of this period. In contrast, finance on a whole tended to grow much more rapidly on the whole because of the increasing importance of financial activities – resulting from both the impact of financialization in the global economy, which to has been a feature of this period, as well as the increased significance of financial savings and growth of credit. In other words, increasing inequalities and global integration impacted the two sectors differently – by aggravating the demand constraints for manufacturing, in particular, they also checked the growth of trade. The growth of finance, however, had a complementary relationship with the same process, particularly in the period before the global crisis.

4. Particularly in the 21st century, the combined employment effects of the growth of trade and finance were further adversely impacted by a trend of the rapid increase in the capital intensity of trade which reflected a process of labour-substitution. This delinking of growth of trade GVA and trade employment reflected the onset of a new phase as such a delinking was not seen in the past. A remarkable feature of this was a faster growth of productivity in trade than in finance. Such growth in the trade may have been complementary to the growth of finance as the rapid growth of capital formation in trade implied in it could have been financed by the growth of credit to organized sector entities.

In the nutshell, the disproportionality of output and employment in the service sector is attributed to asymmetric growth of subsectors, which is buttressed by the analysis of output-employment trends in trade and finance. Moreover, the asymmetric growth of services is also linked to the pan-world phenomenon- financialization of the economy and rise in inequality etc. in an economy which has not succeeded in compensating for these by an export-led process of manufacturing growth. These developments have generated a skewed demand for elite services whose direct and indirect employment impact on employment has not only been poor but is also increasingly so. Based on the evidence presented in this study, it is impossible to visualize this asymmetry correcting itself on its own, without effective policy interventions which will address the underlying causes.
LIMITATIONS AND STUDY FORWARD

No study covers all aspects of the research problem. The study has zeroed in on two sectors only i.e- trade and finance. However, similar results may not be possible for other sectors.

CONFLICT OF INTEREST AND ETHICAL STANDARDS

There exists no conflict of interest with the current organisation and no unethical practices were followed during the study. (Like plagiarism, animal testing, human testing etc).

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