People Power

Services Sector – Myths and Realities

Over the past few years, there has been a major debate in India on the relative importance of services sector vis-v-vis manufacturing and agriculture. Economists say services now account for nearly 50% of our GDP, and their growth at 8 to 10% per annum is outpacing both industry and agriculture. Some claim that the rise in service sector's GDP marks a structural shift in the Indian economy and takes it closer to the fundamentals of a developed economy.

Certainly all growth is welcome, and to the extent that growth in services pushes up the average rate of growth in spite of industry and agriculture showing signs of stagnation, it is good news for our economy. But we need to pause and critically analyse service sector's growth. All economic growth is about fulfilling the human needs for goods and services, eliminating want, preventing avoidable suffering and promoting happiness. Does growth in services always meet these criteria? Let us look at some facts reported by Reserve Bank of India.

In 1997 - 98, construction accounted for 4.7% of GDP at about Rs 49000 crore at 93-94 prices. But during the same year, real estate accounted for Rs 54000 crore, and 5.15% of GDP! The profits in real estate actually exceeded the new construction! Does this indicate the strength of our economy, or a glaring weakness? Short-sighted land policies, poor infrastructure, appalling urban planning and artificial scarcity of residential land have all led to skyrocketing of real estate prices. And we add the resultant profits as a net gain to the services sector and economy! Similarly high real interest rates have enhanced banks' profits. Many questionable investors get bank credit with consummate ease, but genuine small and medium manufacturing enterprises valiantly struggling in a hostile global and domestic environment, are starved of capital to expand or diversify, and working capital to maintain satisfactory levels of production. Insurance in 1997 - 98 was still a state monopoly, and high premiums, poor coverage and shoddy service are common complaints. And yet, banking and insurance accounted for 6.27% of the GDP in 1997 - 98!

It is now widely acknowledged that the single biggest failure of India is in the field of governance. Our bureaucracy is too big and unproductive, and is often a stumbling block to progress, let alone providing services and adding value to the nation's labours. And yet, high wages in government despite the propensity for rent-seeking and harassment ensure a share of 5.59% to public administration and defence. National defence is certainly vital, and its cost at under 3% of GDP is actually low by global standards. But public administration in other areas has been hardly conducive to our happiness, or fulfils our needs.

The saddest part is that other community and social services, including education and health care - account for only 6.26 percent of GDP. While both are critical, their share is hopelessly inadequate. And the nature of services is skewed, and quality is poor. In health and education India actually has great comparative advantage. We enjoy a somewhat privileged position among developing countries in both sectors, although our human development indicators are low. We have impressive technical capabilities and manpower availability compared to most poor countries. We have over half a million trained allopathic physicians. There are millions of trained technologists in various disciplines. In fact, the software boom of recent years has largely been a biproduct of our investment in education, and the society's enormous respect for higher learning.

The paradox is, in both these fields of education and health there is evidence of comparative decline and underperformance. Our universities are churning out millions of graduates most of whom have no problem-solving skills, and cannot contribute to production of goods and services or value addition. If only we take the trouble to improve the quality of education, we can produce real wealth creators. And we can attract hundreds of thousands of students from all over the world hungry for higher education, and earn valuable foreign exchange.

If only our health care systems improve, we can prevent much of morbidity and mortality, contain population growth, and make our people far more productive. Our hospital care is of high quality and low cost. Heart surgery in India costs only 5 - 10% of the charges in developed countries at current exchange value, and our safety and success record is comparable. But our management of medical emergencies, nursing and standards of hygiene are unacceptable. A little bit of additional effort and effective marketing will see millions of patients flocking to India for quality medical care.

What does all this mean? First, a significant part of our service economy is not a strength, but a glaring weakness. Second, there cannot be real economic growth or poverty reduction without growth in industry and agriculture. Third, real growth will not accelerate unless education, health care and infrastructure improve significantly. Finally, we have the resources and capabilities for such improvements. But our skewed priorities and poor governance have become millstones weighing us down.

India can achieve rates of growth comparable to China, and can become the next great success story. But it will not happen without clarity and emphasis on production of goods and services of real value and quality.

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