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The Economic Role Of The Service Sector

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Abstract: The service sector provides the various services to the public. Banking, Education, Finance, Communication Health, Insurance, Transport, Real Estate and Hotel industry etc. comes under this sector. The growth of service sector is necessary in the modern global perspective.

Keywords: Economy, service, sector, staff, profit

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Introduction

What distinguishes the advanced economies of the world from the less developed ones? Why are we seeing economic growth in countries like the United States in the last decade increasingly driven by the so-called service sector? What are the potential implications of this increased role of the services compared to the more traditional roles of agriculture and manufacturing? These are just a few of the questions that have been raised by the increasing importance of services in both the academic and policy communities. Researchers for some time now have realized that the simplistic textbook story of economic growth being (in early stages) driven by factor accumulation and (in later stages) by technological progress on the productivity of capital, may not always be a useful framework for understanding the growth experiences of countries. These pages will argue that in the case of both the developing and developed economies, understanding the evolution of the service sector and its relationship with the other sectors of the economy provides a potentially powerful framework for understanding economic growth. The service sector has been consistently growing in its contribution to national income and employment since the sixties. Not only has its share in gross domestic product been increasing, but the product itself has become more diversified.

Complex services are now being provided in such areas as transportation and communications, business, education, and health. In addition to quantitative changes, the nature of the service product has undergone a qualitative change over time, moving from simple services to "servicetronics". These are services provided to business or consumers which combine software, often embodied in tangible products, with the application of new knowledge and sometimes a degree of human intervention, to solve problems and provide solutions for a wide range of economic and social activity. (Stephey, 1987) It is this movement into complex, knowledge-based services which characterizes the developing role of the service sector, both as a vehicle for economic growth and as the growth area within the developed world. Despite a slowing down in the rate of growth of the service sector in recent years, its growth rate is still higher than that of the primary and manufacturing sectors. Simulation analyses and various growth models have suggested that the reason for the differential in growth rates is due to the income elasticity of demand and the comparative nature of the industry.

Methodology

As the income elasticity for superior services is greater than unity, increases in real income cause proportionally larger increases in demand for superior services. These, in turn, under conditions of free or protected trade, switch resources from the other sectors into the service sector. Unable to compete with the productivity growth in manufactured goods, and with relative price changes in primary produce, resources move from the lower productivity growth sectors into the higher productivity growth service sector. (Stephens, 1970, simulations) Stephens (1970, simulations) demonstrates this effect for Canada, showing that the lower productivity growth in services can be attributed to migrating resources from other sectors. The differential in occupational and structural unemployment rates between sectors serves to exacerbate this effect. The service sector, being more labor-intensive than the other two, absorbs the unrequired resources. (Gibbons and Hummels, 1992) In the period from 1966 to 1976, the share of the labor force and employment growth in Europe and America exceeded those in primary and manufacturing by significant amounts. This net shift of labor resources into the service sector demonstrates employment generation as a growth factor in itself. The fact that the service industry creates a significant amount of jobs is one of its main advantages. Many sectors of the economy, including healthcare, education, and hospitality, employ a sizable percentage of the labor force. This improves individual and family financial well-being and lowers unemployment rates. In 2022, the service sector was the industry that was creating the most jobs in India. The market showed a 5-7% increase in hiring on the year, with hiring at approximately 16% the previous year. White-collar and blue-collar workers were aggressively hired in 2022 in flexi mode across all service sectors. These figures are a sign of a major shift of Indian economy. As according to Darpan Jain, Joint Secretary, Department of Commerce, Ministry of Commerce and Industry, the signs of a growing economy is directly linked to its earning from services sector. Employment generation of the industry also has a great impact on overall economic growth. A nation’s economic development is reflected in the rising living standards of its population. Economic growth is measured by the increase in the value of goods and services produced by an economy. In the table of the real gross domestic product (GDP) at market prices, which is segmented into agriculture, industry, and services. The agriculture sector is the largest employer for low-income, unskilled labor in many developing countries. Traditionally, "growth in agriculture has led to growth in the rest of the economy". This means that an increase in income coming from the agriculture sectors leads to a higher demand in secondary and tertiary sector goods and services and thus results in an increase in production and employment in these sectors. Economic development

in the form of a sector change, however, has occurred in developed countries. The United States of America, for example, has less than 3% of its population employed in agriculture, yet through productivity improvements and increased output from fewer workers, it is a net exporter of agricultural goods. High income and growth in incomes lead to increased demand for a variety of products. Often, import variables in the production of goods have not kept up with the increased demand and thus the relative price for importables has increased. This means that there is a cost in terms of what could be produced to satisfy one more unit of the importable good. The result is a transfer of resources from other industries into the importable goods industry. Another key reinforcement effect is the link between increased income and increased life expectancy. With more income, people do not only demand more healthcare, but better healthcare. The demand for more sophisticated healthcare leads to a further transfer of resources into the healthcare industry. The net effect of these reinforcement effects is a movement of resources out of declining industries and into the various service sectors. This transformation is the very essence of economic development and is always associated with an increase in the GDP share of the services industries. In the general case, the growth of service industries has been strong relative to other sectors and a fall in the real price of services has been less than the price of other goods and services. This has occurred even in countries where the GDP has been relatively low. As a result, stated proportionally, the growth in demand for services has been greater than proportionate to the increase in income. The income elasticity for many services has been greater than unity and has been particularly strong for superior services such as education and finance. Technological innovation is fast becoming a crucial factor in determining competitiveness in the world market, surpassing traditional factors such as low-cost labor, natural resources, and economies of scale. A primary driver of this trend has been the increasing integration of computing and communication technologies into the production and distribution of goods and services. As Mancin discusses, these so-called "information industries" are not confined to the information sector but represent the diffusion throughout the economy of information and communication technologies (Mancin, 2000). By this definition, virtually all modern businesses are faced with being part of an information industry and thus must consider the implications of this rapidly evolving technological environment on their industry and firm. For many, such as the primary industries and those in the traditional service sectors, the realization of the vast productivity increases offered by modern information technology has created both a challenge and an opportunity. The service industry is renowned for its creative practices and ability to quickly adopt new technologies. Technology is constantly being integrated to improve client experiences and service delivery by increasing process efficiency. Along with being advantageous to companies, this innovation also advances technology generally. This challenge requires attention for the service industry to become a dominant sector in the era of globalization. As a result of watching the latest trends in developed countries, they have started trying to eliminate the trade barriers that will affect service sectors such as outsourcing. In the WTO forum, developed countries have been providing pressure in the current Doha Agenda negotiations to enter the service sector into global trade and investment liberalization. This will have widespread implications for most domestic service industries both in developed and developing countries. Therefore, it is necessary to make an effort to protect the existence of local service industries by increasing efficiency and productivity, which will decrease the cost of service production. The quality, efficiency, and productivity of the service industry are largely determined by the skill of human resources who work in it. Therefore, skill development becomes an important thing to note. However, there is an opinion that the service industry is a haven for low-skilled workers, so skill improvement is not necessary.

It is not entirely wrong because data from BPS showed that the majority of workers engaged in the service sector are low-educated workers (elementary and junior high school) with a percentage reaching 44.88% of the total national workforce. However, the development of an increasingly complex service industry demands the improvement of knowledge and human resources skills. In various modern industries such as information technology, telecommunications, banking, and financial services, it requires human resources with specific skills and knowledge to master the technology and science. In addition, the opening of wide opportunities to work in developed countries for services such as nursing and care of others needs improvement of language skills and even certification to standardize HR quality.

Results and discussion

The challenge of worldwide competition is heavily felt in international trade in services. It's been argued that advances in technology and telecommunications have fostered a more integrated world economy, increasing competitive pressures. New global market entrants' ability to undertake previous services industries will be continuously stricken by the competitive landscape they encounter, whereas ancient comparative advantage in terms of lower cost access may be eroded in some developing countries. The impulsion of this is more competition and competitive necessities for continuous quality and productivity improvement. Industries which are accustomed to being protected, like public utilities and certain elements of the public sector, can face increasing pressure to liberalize. While a means of enhanced economic efficiency, this may typically facilitate to deliver what customers want and introduce an element of dynamism into previously moribund sectors. However, there are potential downside risks in some very sensitive industries. For instance, trade barriers are often used to defend cultural industries, which in turn can be argued to help promote national identity. A shift to more competitive imports of films and TV programs might cause higher consumer choice, but if it entails the loss of a valuable cultural heritage, there will be elements of society who feel they have been worse off. This does not, however, dispute that greater efficiency and productivity can free resources to tackle other issues, and that is the key challenge for service industries. The rapid change in the structure of service industries has implications for the skill level of the workforce. Changes in the composition of service output, and especially the increase in knowledge-intensive services, have led to increased demand for higher-level skills. Traditional content service industries such as restaurants, hotels, and personal services usually engage a high proportion of unskilled workers, representing a declining share of total services, while many knowledge-intensive service industries are among the fastest growing. For example, business services is one of the fastest-growing sectors and also has above-average growth in the average level of skill of its workforce. This is also true of health and education, which are key areas of public sector involvement in service delivery. It can be argued that the quality of services in these areas is closely tied to the skill level of the workforce and that cost constraints will limit the ability to improve quality if the funding level for education and health services remains low. The relative growth in high-skill service industries has implications for the nature of future employment growth and also skill formation and skill development policy. Banking and finance, and other computer and information-intensive industries, are areas where future employment growth is expected to be strong and have traditionally been areas with high rates of learning and skill acquisition. However, the changes in technology and work organization in these industries are also leading to skill-biased job displacement, as routine tasks can increasingly be performed by offshore outsourcing and computer software. This creates a need for higher-level skills for the remaining workforce in these industries. Future employment growth in high-skill service sectors will increase the existing demand for

workers with high-level education. However, the relative growth of these industries compared to the decline in traditional service industries is likely to limit employment opportunities for younger workers and school leavers. This will present a challenge for policymakers in promoting smooth school-to-work transitions for these groups of workers who are entering the labor market.

Conclusion

Digital technologies are present in all parts of our lives, in the content and communications that we access, and more and more, into the goods and services that we buy, and the experiences and job opportunities that they create. The impact of these technologies on the economy has been deep, and is expected to grow as the technologies themselves evolve. The enabling capabilities of the technologies, its effect on the cost and quality of service provision, and the interactions it enables between consumers and producers are all seen as means to improve productivity, and raise the rate and quality of economic growth and of service delivery. The capacity of ICTs and the Internet to improve service delivery in the private, the public and the not-for-profit sectors is now being extensively researched. The increasing power of databases linked to the internet and to mobile communications provides all consumers, business and public agencies with near perfect information on options and the assessment of the outcomes and relative costs. The web provides a global 'shop window' connecting the smallest and most local service firms to the global market. E-commerce is perhaps the most visible and also the most 'revolutionary' application, as it enables automated electronic buying and selling of goods and services on a global basis. But more important to productivity are the many ways in which e-commerce can re-engineer the transactions and administrative costs which are often a much larger part of the cost than the actual production and delivery of the service.

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