

## **SERVICE SECTOR CONTRIBUTION IN EMPLOYMENT GENERATION- AN ANALYSIS OF PRE AND POST NEW ECONOMIC POLICY ERA**

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### **ABSTRACT**

*The creation of a new, free India after independence, brought about many changes in several industries, including the service sector. The main objective when examining a nation's economic development is employment. A fraction of the new economy's employment is generated by each sector in India. India introduced new economic policies in 1991 (Liberalization, Privatization and Globalization), aiming for managing the Indian economy fiscal imbalance also forecasting the development of the nation. The purpose of the study is to assess how much the services sector contributed to creation and expansion of job opportunities in the economy following the adoption of new economic policies in 1991.*

*In order to determine the effect of new economic policies in creation of job opportunities in service sector, linear regression analysis was done. Secondary sources of data were the foundation of data collecting. Major findings highlight that new economic policies have a significant impact on service sector's ability to create jobs. The future increase, of service sector's contribution to national income and employment generation is anticipated to be greater and the progress of the country will soon be evident.*

**KEYWORDS:** *New Economic Policies, Service Sector, Liberalizations, Globalization, Privatization, Economy, Employment*

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### **INTRODUCTION**

In economic terms and phrases, Indian economy is divided into two main phases i.e., India before, and after the new economic policy 1991 (LPG).

Introduction and in imposition of the new economic policy were essential and required by India as the economic crisis were on its peak, and to balance the economic it was important to establish these Policies.

While considering about any world's economy, Employment is a key factor that is always looked upon. An economy and a country can grow and rise When its country people are well employed and hence Contributing towards the GDP of the Country.

India's Services sector revolution has shown that industrialisation is not the only route to rapid economic development. During the last few decades, service sector has contributed more than the manufacturing sector to India's output Growth, production, employment generation and poverty suppression. Majority of FDI inflows into India has outperformed China on productivity growth rate in service sector. Growth in this sector is much faster in India as enumerated in US.

Powered by an increase in service sector exports, the number of IT Companies have more than doubled, and employment jumped up by nearly 50 times during the last two decades. Service led growth has groomed in other parts of India as well. When it comes to employment and its contribution to India's national income, service sector holds the larger portion of the economy. This area encircles a widespread of activities, from the most complex in information and communication technology to basic services provided by employees in informal sector, like, fruit vendors and car drivers., etc.

Back then, if the pages are turned to the past, before the new economic policy i.e., before the era of 1990, the growth and stability of service sector was not seen. From a low level of 27.52% of GDP in 1950-51, share of service increased to 47.88% in 1999-2000. Between 1965-66 the share of service sector in total employment was 18.10% which increases to 24.4% in year 1990-91.

Hence, the new economic policy overall had an impact on the economic growth of India as well as generation of employment opportunity in different sectors of economy.

A brief overview of the Economic Policies 1991

### **Liberalisation**

Liberalization refers to the elimination of restrictions in order to promote commercial transaction. It holds and promotes the growth and upliftment of private sector enterprises.

India's economic reforms were unstable during the year 1985. This economic downturn compelled the government to fulfil its debt obligation alongside base imports and services. The roll out of economic liberalization in India proved to be a tool to encourage business development and the growth of the economy. The entire economy could contribute to the Gross Domestic Product (GDP) of our country as less restrictions and minimal complicated transactions take place.

### **Privatisation**

Privatization is an act of transitioning the ownership and authority from public to private sector organisations. In order to improvise productivity, effectiveness, profitability, expansion, employment regeneration, price and cost reduction, and invention, India turned to privatization.

After the introduction of privatization, multiple financial institutions, industries, businesses, and other big establishments were privatized, which increased productivity, boosted job creation, and lessened losses by limiting the nation's budget deficit

### **Globalisation**

The idea of globalization signifies the connection or synthesis of a nation's economy with the economies of other nations. In order to expand business overseas, it connects the world. In addition to enabling, it to be simpler to conduct business

globally, globalisation also encourages the establishment of new Multinational Corporations (MNCs) located within the country, which in turn generates jobs, wealth, and other desirable impacts on the economy and society.

India got involved in the globalisation session in 1991 to advance its development and prepare for and accept competition. This not only helped India become a worldwide nation but also assists in economic growth. It enabled India in exploring market possibilities, boosting employment, and lowering minimizing risk of losses.

## **REVIEW OF LITERATURE**

Falguni Pattanaik, Narayan Chandra Nayak, 2011 examines the employment intensity of India's growing services industry and influence of fundamental macroeconomic determinants in shaping the same. The findings show that while the output growth rate in service sector has risen over time, the employment rate has decreased, which has resulted in a significant decrease in employment elasticity.

Tanya U Fan, Michael Peters, Fabrizio Zilibotti, 2021 estimated a spatial equilibrium model with non-homothetic preferences to determine whether rise in services sector was service led or service biased. Application in India revealed that between 1987 and 2011, the productivity development in consumer services like retail and hotel was significant contributor to growing living standards. However, these gains were very skewed and primarily went to high income households in urban areas.

Tahir Sufi, Selim Ahmed, 2021, research is going to explore how the Indian food service industry has been able to adapt to the crisis imposed on by the outbreak of Covid 19.

Gideon Ndubuisi, Chuka Otioma, Godsway Korku Tetteh, 2021, study addresses the influence of digital infrastructure on employment in services sector, filled the gap. In accordance with the analysis, the impact of digital connectivity on employment in services sector depends on factor such as institutional quality, education levels, and macroeconomics conditions as measured by inflation rate. Evidence suggests that countries having low levels of education tend to gain from the effects of digital infrastructure on employment in service sector.

Meghna Goel, JP Verma 2021, investigated how employees of various age groups in services perceived job stress and stress coping mechanisms they utilised. By supporting its findings with evidence from the literature, the study investigates the correlation amongst stress management strategies and employees' perception of their workplace's stress. The study refutes the experience theory, which has been frequently applied to explain the high resilience of older employees at work, by finding increased stress perception in older employees to the novel stressors at work.

Latga C.M., Dr V. Shannugam, 2014, investigated the expansion of the services industry in India. Activities in the Indian service sector accounts for more than 50% of country's GDP. The result demonstrated that each sector's sectorial contribution to India's GDP has changed substantially. The percentage share of other industries and service sector, together with GDP and service sector rate of expansion are indicates.

Ratan Kiriti, Seema Prasad, 2016 examines how the FDI in India affected the country's ability to create jobs and its GDP growth in relation to employment trends. Research will concentrate on FDI inflows into India by sector and analyse its potential to raise employment and productivity there.

L Suresh, 2019, investigation into India's contribution to GDP, employment, trade, and investment highlights the operational challenged, possibilities, and obstacles confronting the country's service sector. The study outlines the various

obstacles encountered and suggests policy changes that, if put into practice, may foster inclusive growth, raise productivity, create jobs, expand trade and investment, and improve India's competitiveness in the world marketplace for services.

Dr S.Palani and A.Sethilraja, 2019 study, the services industry is an industry of distinction and makes significant contribution to GDP, work, exchange, and venture. A substantial amount of workforce is non-corporate, resulting in limited employer stability. The FDI flows increasing total fares make it's a more potent engine of financial development. The current study assesses a closer look of the administrative sector of Indian economy. Prospects for contributing to economic growth, national income, employment and costs have all been rising.

Mitsuru Minzuni 2005, studies the evolution of service industry and analyse its affect on the employment creation and economic development of Japan. He emphasised on to development of more productive service industries and reducing the poor developed service industry. According to this study, the policy makers play an important role in strengthening the industries and impacting the overall growth of the company's economy.

Ronismita Mishra, Swapnamoyee Palit, 2020, The aim of the research was to determine the connection between FDI inflows and employment creation in India from, 1991 to 2028. The biggest number of job opportunities are created by FDI in India's services sector. The study's

findings indicate that India has created a lot of job over the past two decades, but they also suggest that FDI inflows may not have been a substantial contributor to this growth rate.

Arup Mitra, 2011 conducted the research to determine whether trade can lead to job creation in services sector. According to his findings, it was not discovered that foreign commerce is a significant factor in determining employment in services industry. Globally speaking, trade in services sector may boost up the GDP, but this development pattern is less likely to be inclusive.

Mohan Prakash, Kethan Manyam, 2018, studied the changing model of services sector employment in India. The relationship between income and job generation in service sector in the country is unequal. The rise in proportion of services in GDP and the stagnating employment produce could have serious consequences for the nation, where unemployment is still a target issue. The country's structure of services sector expansion is what accounts for uneven link in the employment creation and income generation.

Shafique Ahmed, Samiran Sur, 2021, examined the factors influencing rural micro, small, and medium sized firms use of digital banking service. One of the India's most active industries in MSME. Through exports, domestic supply, and creation of jobs, it contributes significantly to nation's economic growth.

## **OBJECTIVE**

The research is conducted to know the change and shift of employment generation and employment opportunity before and after the incorporation and imposition of new economic policy (Liberalisation, Privatization and Globalisation) 1991. The imposition of these policies was a major Change in India's economy. The G.D.P has a significant growth and employment has seen a boost and also some downfall. The study aims to know the employment generation after the LPG policy 1991, and its future growth prospects.

### Hypothesis

- H0: - New Economic Policies has no significant impact in employment generation. H1: - New Economic Policies has a significant Impact in employment generation.
- H0: - LPG policies have no significant impact in employment growth. H1: - LPG policies have a significant impact in employment growth Research Methodology

### Data Collection

The data collection for the study of this research is done by Secondary Data collection. Different Journals, Articles, books, Websites, links, and past research papers of scholars. Statistical data and interpretation of various reports and articles were taken into the study and analysis is done forward.

### Data Representation

The research analyses the Regression Analysis in order to interpret the results. Regression analysis is openly applied statistical tool to identify the relationship between one or more dependent and independent variables. Regression is a tool strongly which depicts the strength of the relationship between two or more than variables, and hence used for moulding and connecting relationship between those two variables in future.

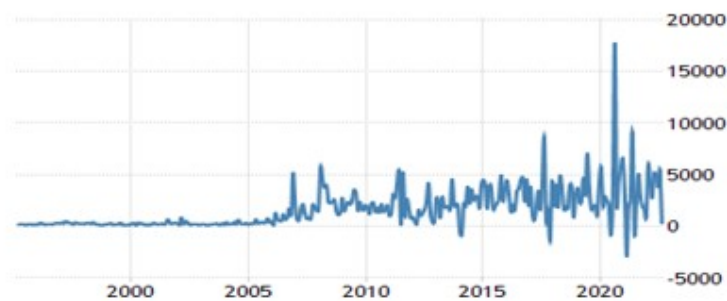
### Regression

- $Y=a+bx+E$
- Where,
- Y = dependent variable X= Independent variable a = intercept
- b = slope
- E = error or residual

**Table 1: Employment Generation Statistics by Service Sector**

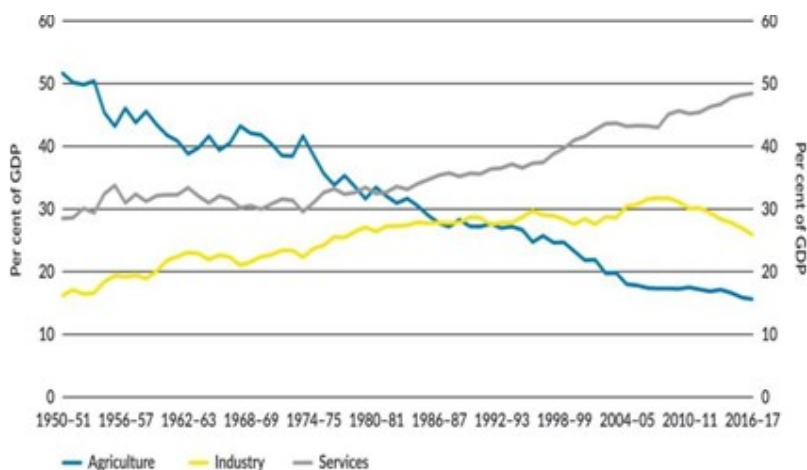
Time Duration (year)	Service Sector Employment(in crore)	Total Employment Of Service Sector (in crore)	Contribution of Service Sector in Employment (%)
1965-66	3.97	21.93	18.1
1970-71	4.82	24.09	20.0
1980-81	5.71	30.24	18,9
1990-91	8.70	35.68	24.4
1999-2000	10.29	43.81	23.5

**Source:** National Sample Survey Organization (various rounds) and Visaria, 1996.



**Figure 1: Indian Foreign Direct Investment Flow**

Source: Trading Economics.Com



**Figure 2: Sectors Contribution in India's GDP**

Source: International Monetary Fund. World Economic Outlook - April 2018. International Monetary Fund; 2018. 2) Treasury (AU); the Commonwealth of Australia; 2018

The employment data (Table 1) is collected from the National Sample Survey Organisation data collection where the output is given for the year before and after the new economic policies. In year 1965-66 only 3.97 crore were employed in service sector contributing to only 18.1% in employment generation. During the New economic policy, it has a rise and employment in service sector went to 8.70 crore and total share in employment in economy was 24.4%. Hence during the introduction year only, service sector has seen a growth in employment growth.

### Data Analysis

**Linear Regression is mostly used predictive analysis. It is set up on two parameters:**

- Is set of predictor variables is predicting an dependent variable
- The variables in particular are true predicting of dependent variables and in which way do they indicate by magnitude and sign of estimates, hence impact the dependent variable.

### Formula

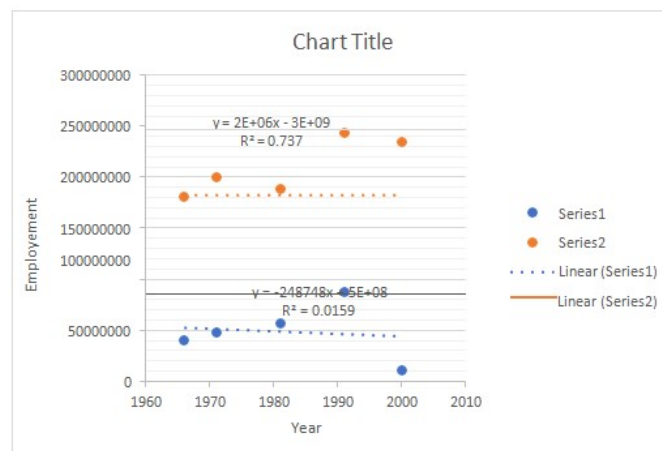
- $Y = a + bX + E$

### Where

- $a = \frac{(\text{sum of } Y) * (\text{sum of } X^2) - (\text{sum of } X) * (\text{sum of } xy)}{n (\text{sum of } X^2) - (\text{sum of } X)^2}$
- $b = \frac{n (\text{sum of } xy) - (\text{sum of } x) * (\text{sum of } y)}{n (\text{sum of } x^2) - (\text{sum of } x)^2}$

### Here

- # **Y** is dependent variable # **a** is y – intercept
- # **b** is slope of regression line # **X** is independent variable
- # **E** is error
- Linear regression analysis is done to know the dependency of new economic policies in employment generation. Here the two regression lines that depict the equation shows:
- Series 1:  $Y = 2E+06x - 3E+09$
- $R^2 = 0.737$
- Series 2:  $Y = -248748X + 5E +08$   $R^2 = 0.0159$



**Figure 3:**

## Data Presentation

**Table 2:**

SUMMARY OUTPUT	
Regression Statistics	
Multiple R	0.990205
R Square	0.980506
Adjusted R Square	0.961013
Standard Error	2.762218
Observations	5

**Table 3: Anova**

	df	SS	MS	F	Significance F
Regression	2	767.5403	383.7702	50.29854	0.019494
Residual	2	15.25969	7.629847		
Total	4	782.8			

**Table 4:**

	Coefficients	Standard	t Stat	P-value	Lower 95%	Upper	Lower	Upper
		Error				95%	95.0%	95.0%
Intercept	1966.495	18.12898	108.4725	8.5E-05	1888.493	2044.498	1888.493	2044.498
share of services in employment in service sector	6.38E-07	1.28E-07	4.998441	0.037772	8.88E-08	1.19E-06	8.88E-08	1.19E-06
	-1.3E-07	1.22E-07	-1.07244	0.395761	-6.6E-07	3.94E-07	-6.6E-07	3.94E-07

**Table 5: Residual Output**

Observation	Predicted year	Residuals	Standard Residuals	Percentile	year
1	1968.159	-2.15879	-1.10527	10	1966
2	1971.098	-0.09803	-0.05019	30	1971
3	1978.216	2.784428	1.425585	50	1981

**Table 6: Probability Output**

4	1990.102	0.897547	0.459531	70	1991
5	2001.425	-1.42516	-0.72966	90	2000

## Hypothesis testing

**Table 7**

Hypothesis	Hypothesis Statement	Significance Level	Acceptance or Rejection
H0	New Economic Policies has no significant impact in employment generation.	>0.05	Rejected
H1	New Economic Policies has a significant Impact in employment generation.		Accepted
H0	LPG policies has no significant impact in employment growth	>0.05	Rejected
H1	LPG policies has a significant impact in employment growth		Accepted



### **Data Analysis and Interpretation**

- The research analysed that the new economic policies of 1991 had a great influence on employment generation. The reason behind may be as follows:
- Liberalization created a pathway to open up the trade business which gradually promoted more business, more exports to go and hence more people got employed in the service sector business.
- Privatisation proved to be a strength as it was analysed that more profits would be earned when the control is in own hands of the people. This created an emphasis on employment growth as more and more industries got privatized leading to more manpower requirement.
- Globalisations not only connected the world with different economies but also now Indian employees are working in Multinational Companies and new venture set ups are made in foreign countries by opening employment paths.
- Foreign Direct Investments are increased from the time of new economic policies. This in turn made more reserves with country in order to further investment in business.
- Tourism, Restaurant, hospitality, medical, travel, Information and Technology simultaneously have grown by the commencement of new economic policies. More focus to these industries proved a greater contribution by them in GDP growth.

### **RESULTS AND DISCUSSION**

#### **The Research finds out that**

- In comparison with the Indian Economy in era of 1950-51, the contribution by service sector in GDP was 30.5 percent and after the year 1990-1991 it was 54 percent. In Fiscal Year 2021 the contribution turned out to be 53.4 percent, decline due to covid 19.
- Employment generation by the service sector in era 1965- 66 was 3.97 crore and share of total employment in economy was 18.1 percent. In year 1990-91 this set a boom and the employment in sector was 8.70 crore and total share in employment is 24.4 percent and now at present it accounts to 23 percent in employment generation.
- The flow of Foreign Direct Investment in India came into a mild force from year 1995 which accounts to \$2.14 billion and 0.60 percent of GDP and in year 2020 the FDI flow is \$ 64. 36 billion and 2.41 percent of GDP.
- The Multinational Companies that accounts in India at present are 2,90,000 and Microsoft being the topmost MNC in India.

#### **Future sights**

- India is ranking on number 15 in service sector industry. This industry comprises of varied range of activities such as financial, BPOS and KPOs, Tourism and travel, real estates, hospitality, medicinal, transport, hotel etc.
- Service Sector in India has the growing employment elasticity among all the sectors in India. Hence it has the prospect of upliftment and also capability in giving higher productive jobs which leads to higher revenue generation.

- The” Make in India “program while boosting up the manufacturing sector will also be giving an impact to service sector. The start-up India program is a way that will open the doors for both manufacturing sector as well for service sector.

## CONCLUSIONS

As we look into our economic turns and rolls, the situation of employment as well as the National Income of our country kept on changing in service sector.

At the time of Independence, Agriculture was the topmost contribution towards National Income and most population was employed with this sector only, but at present it’s the Services sector who is the ruler. Projected reports states that the growth and enhancement of service sector is soon going to be at the highest. The major development in service sector is Information and communication and Technology. The set-up of there industries is making a great way to raise service sector. No doubt the research is able to find that service sector is generating employment after the new economic policies, but also analysed, the reasons for it like more Foreign Direct Investments, exports, better licensing, integrating with different economies, etc.

After the 75 years of independence, Primary Sector, Secondary Sector and Tertiary or Service Sector have set up their own and distinct positions. The one sector which was ruling time of Independence is now overpowered by another sector and yet the future predicts Somewhat next. Hence, Service Sector in present era is ruling and expected a steady future ahead.

## Limitations:

As this research is based on secondary sources of data collection, the authenticity and transparency are quite subjective. Although proper research and in - depth search is done, still there is some set back in the authenticity of the data collected.

Some sites were subjected with some strict policy criteria hence, those were out of reach. The research also faced a difference of Opinions in many other past studies and regarding the thoughts that are presented.

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