

The Informal Sector and Economic Transformation in India

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Development and transformation

- ❑ Lewis – ‘traditional versus modern’ dualism.
- ❑ Developed versus developing economy – different economic structures. Developing – *dual*.
- ❑ ‘Pre-capitalist’/‘traditional’ sector – marked by existence of large surplus labour force – manifestation of *underdevelopment*.
- ❑ *Development* – transformation into a *developed* or ‘advanced’ capitalist economy through the process of economic growth.

India as a dual economy

- ❑ Informal employment: 92.8% of total and 85.6 % of non agricultural employment (Mehrotra et al. 2012)
- ❑ Largely characterised by low productive, un-remunerative jobs without any social security (Chen et al, 2014), and the informal sector activities are mainly characterised by *traditional* petty commodity production (PCP) (Harris-White, 2012; 2014) – generally without any hired labor.
- ❑ Prevalence of the informal sector in India – ingrained dualism within the economy – in spite of the widespread celebration of economic growth over the past couple of decades.

Informal economy: dualist or micro-entrepreneurial?

❑ *Dualist* view – Need for transformation

- (Ranis and Stewart, 1999; Mandelman and Montes-Rojas, 2009; La Porta and Shleifer, 2014; ILO, 2015)

❑ Micro-entrepreneurial view – Not so dualist – we are already there!

- (De Soto, 1989; Maloney, 2004; Fajnzylber et al, 2006)

❑ Interesting point of departure: stalling of transformation process?

- Some of the recent development literature – concerns about a possible stalling of the transformation process across developing economies (Timmer & Akkus, 2008; DeVries et al, 2012).
- Specifically, argument in the Indian context: the contemporary growth process has been largely exclusionary, and ‘contradictory’ in nature – raising questions about the *possibility* of a full-fledged economic transformation in India with growth (Sanyal, 2007; Bhaduri, 2017; Bhattacharya, 2017; *Chakrabarti, 2016*).

Transitions: dualist or micro-entrepreneurial?

- Contestation between the micro-entrepreneurial and dualist views in understanding transitions.
- No segmentation – free flow of labour across sectors (Maloney 2004; 2009).
- If segmentation – labour flows are mainly from informal to formal sector, and reverse flows, if any, are mainly involuntary in nature.
- Informality a ‘voluntary’ choice.
- Informal self employment preferred over formal salaried (taxes and non monetary benefits).
- Informally employed may be poor – employment in formal sector for which they may be *qualified* would not make them any better off – optimally ‘choose’ a sector based on their characteristics.

Radical discourse and transition

❑ Weakness of Third World capitalism

- Prevents it from completing the process of primitive accumulation by destroying the remnants of pre-capitalist economic structures.

❑ Functional relations of the informal sector with the formal capitalist sector

- Satisfies the 'needs' of capital by maintaining an industrial reserve army and by providing cheap inputs and wage goods to the formal sector.
- (Rakowski (ed.), 1994; Wilson, 1998; Tabak and Crichlow (eds.), 2000).

❑ However, with a robust process of capitalist economic growth, the 'traditional' noncapitalist segment of the informal sector is expected to disappear over time.

Conundrum?

- ❑ The continued prevalence of the vast informal sector in India (largely characterised as ‘traditional’/ ‘non-capitalist’ and unproductive unremunerative jobs) – ingrained dualism within the economy – continues to persist in spite of the widespread celebration of capitalist growth.
- ❑ Raises questions about the nature of the capitalist development process in India, in particular, and other similar labor-surplus developing economies, in general.
- ❑ An analysis and an empirical investigation about the nature of evolution of the structure of economic dualism in India during the recent period of high growth – in terms of transition of households from informal to formal sector as their primary source of income.

Question to be explored

- ❑ No panel data for the Indian economy – unable to analyse whether this structure remaining intact also implies a lack of mobility and transition between sectors.

- ❑ Unable to answer:
 - whether these transitions signify a disintegration of the ‘traditional’/ ‘non-capitalist’ sector,
 - whether this is an interim movement out of the ‘traditional’ sector in expectation of being absorbed in the formal sector
 - thereby, what are the implications of these transitions for the broader process of structural transformation of the Indian economy along the expected lines.
 - No work in the Indian context that analyses the characteristics of the people who are able to graduate out of informality or those who transition (favourably/unfavourably) towards it.

Data and definitions

□ Data

- India Human Development Survey (IHDS) – 2005 and 2011-12
- Balanced panel of a sample of 40018 households – 33 states and union territories across 1,503 villages and 971 urban neighbourhoods.
- All monetary values in real terms at 2005 prices.

□ Why the household level?

- Transformation of the economic structure also entails a simultaneous transition of the workforce towards formal employment, with the formal sector emerging as the primary source of income generation and livelihood for individuals and households.
- Only available panel data available for the Indian economy that allows one to capture these transitions.

□ Household level analysis – what we gain and lose?

- Captures unpaid work.
- Biased against our results (underestimates informality) – making the analysis stronger.

Definitions

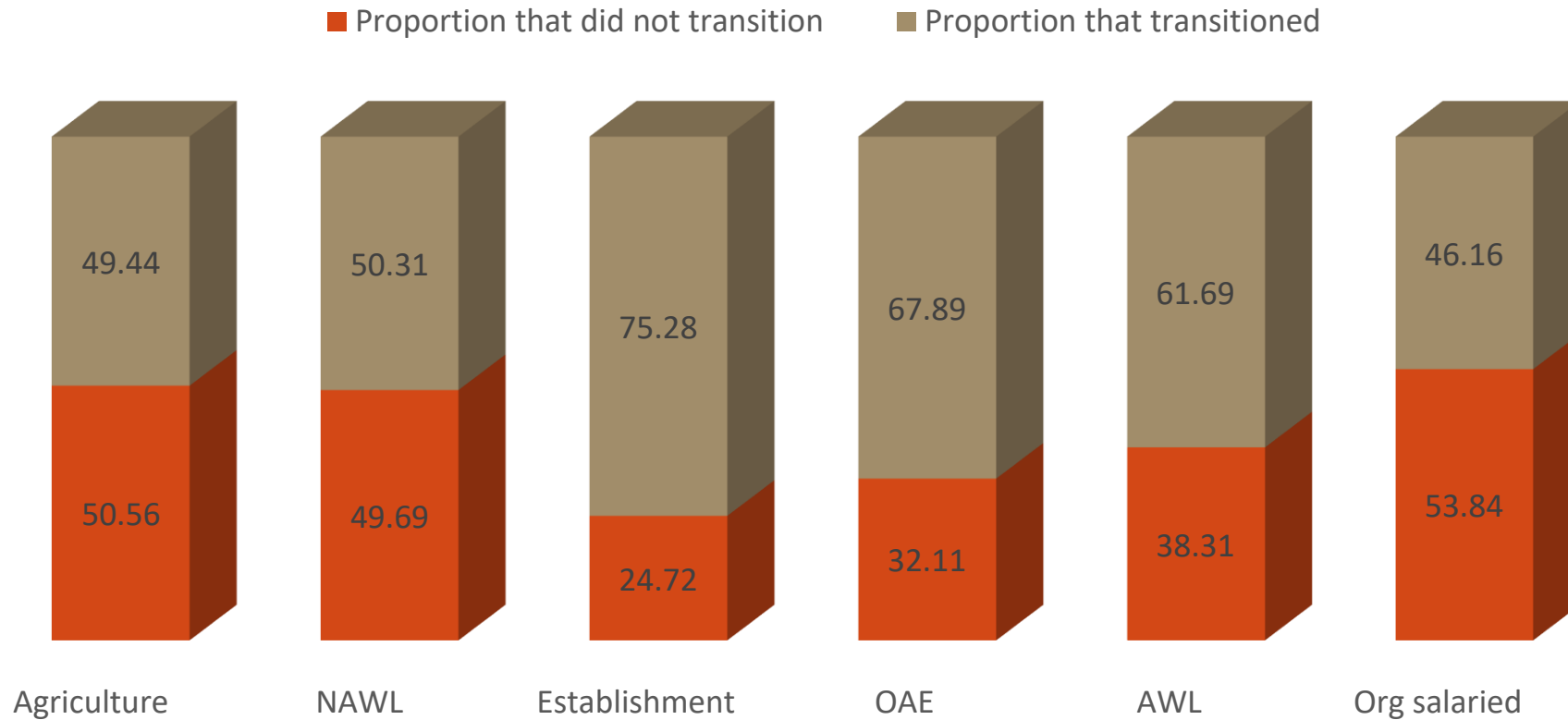
Variable of interest – primary income source of the household

- Agriculture
- Agricultural wage labour (AWL)
- Non agricultural wage labour (NAWL)
- Organised salaried worker
- Business (establishment)
- Business (OAEs)

Percentage of households receiving major income from the following sources



Mapping the transitions: Is there no mobility?



Question

- ❑ Even though no change in the structure – lot of mobility across sectors.
- ❑ What is the nature of this mobility such that the structure in itself remains intact?
- ❑ Maloney(1999) – mobility – unsegmented labour market (voluntarily moving even though structure intact) – segmented only if reverse flow involuntary – nature of transition?
- ❑ Which is characteristic of households that are able to transition – implication for segmentation?
- ❑ Implications of this transition for the process of structural transformation.

Structure of the analysis

Part I: Mapping the transition

Part II: Nature of transition

Part III: Correlates of transition

Mapping the transition: OAE

■ Households moving in to OAEs (as a percentage of OAEs in 2011-12)
■ Households moving out of OAEs (as a percentage of OAE in 2005)

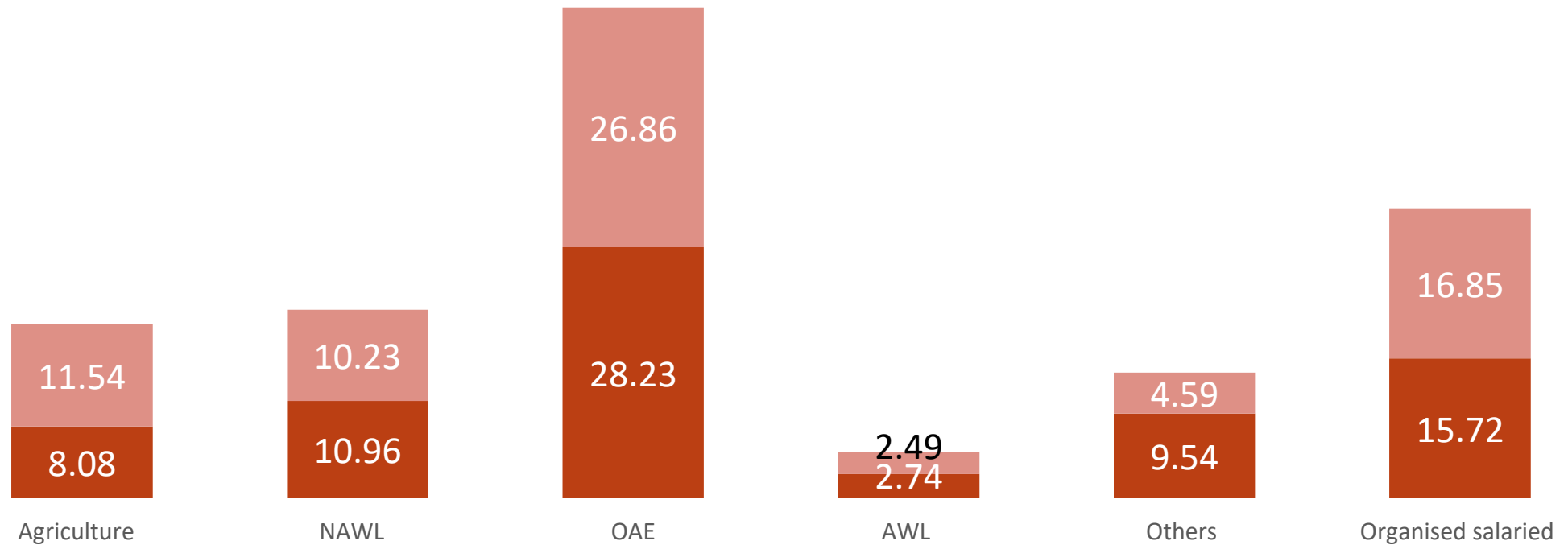


Mapping the transition: OAE

- ❑ Majority moved to NAWL, i.e., the informally employed wage labor (what's the nature of this transition?).
- ❑ Majority of those coming towards OAE were from NAWL.
- ❑ Followed by organised salaried employment (Favourable/ Unfavourable? – characteristics: Maloney, 2004, 2009; WB).
- ❑ Lower proportion moved towards establishments (9 percent) relative to the reverse transition (11.5 percent).
- ❑ Continuously disintegrating the space of non capital – move towards informalized workforce – while also accompanied by a reverse movement. Lack of capitalist transition of enterprises?

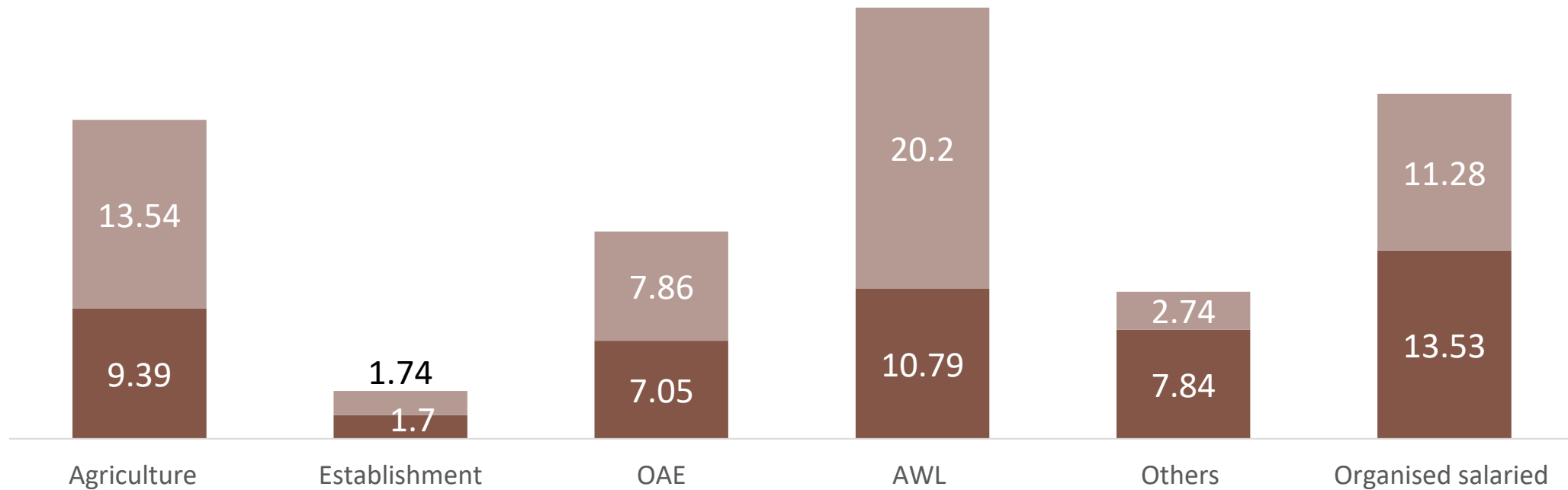
Mapping the transition: establishments

- Households moving in to establishments (as a percentage of establishments in 2011-12)
- Households moving out of establishments (as a percentage of establishments in 2005)



Mapping the transition: NAWL

- Households moving in to NAWL (as a percentage of NAWL in 2011-12)
- Households moving out of NAWL (as a percentage of NAWL in 2005)

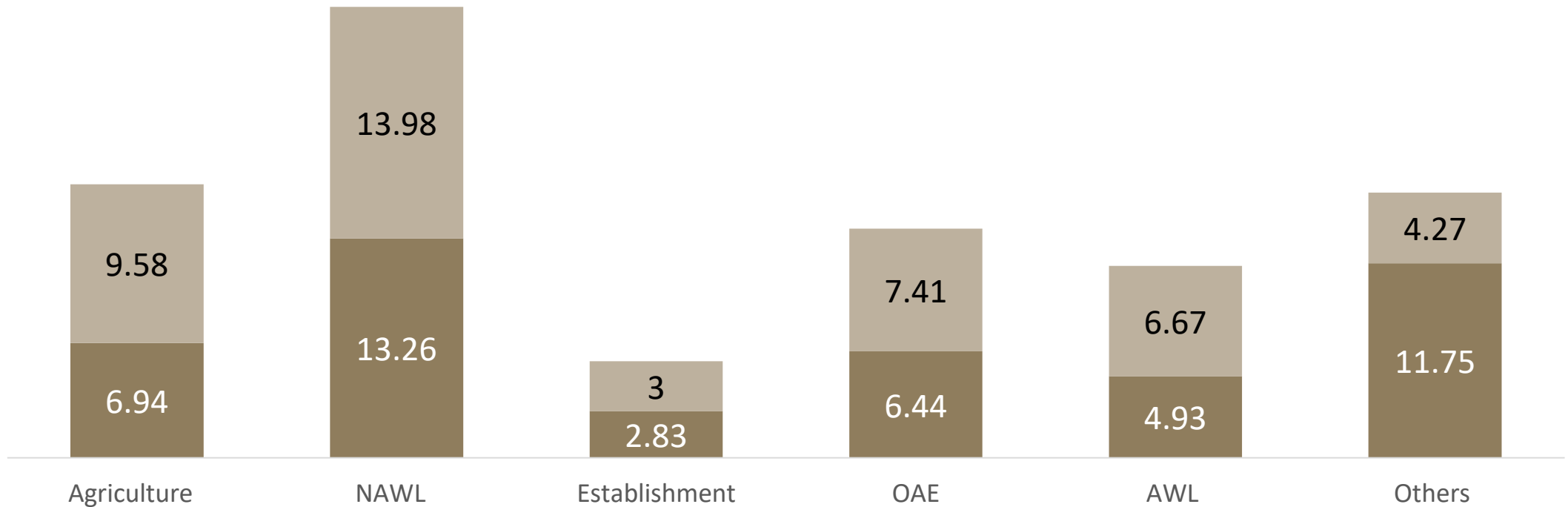


Mapping the transition: NAWL

- ❑ Moving towards all sectors except establishments – (substantial movements towards organized salaried, AWL, agriculture, and OAE) – what are the characteristics of those that make this transition?
- ❑ However, the space of NAWL is mainly reconstituted by those coming from AWL, but in urban areas it was from OAEs – nature and characteristics?
- ❑ A large proportion moved towards organised salaried employment, but a significant proportion of NAWL reconstituted by organised salaried sector households.

Mapping the transition: organised salaried

- Households moving in to organised salaried (as a percentage of organised salaried in 2011-12)
- Households moving out of organised salaried (as a percentage of organised salaried in 2005)

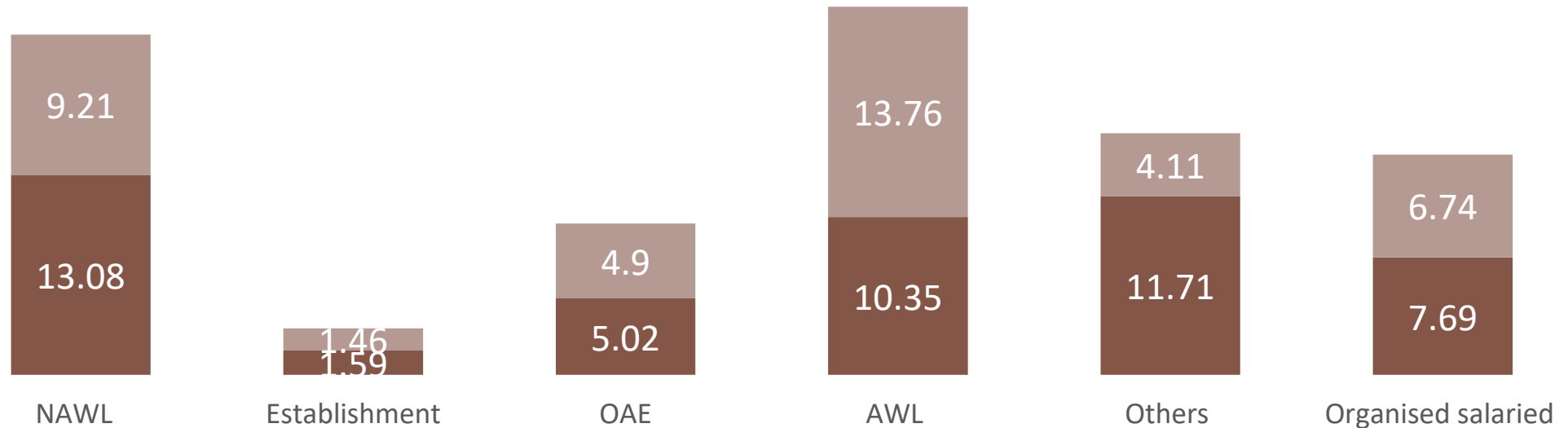


Mapping the transition: organised salaried

- ❑ Almost similar proportion from each sector, except AWL and agriculture, transitioned towards organised salaried employment (So, what characteristics does this depend on?).
- ❑ Majority moved to NAWL – informalization of formal sector workers (Are these retrenched workers? What are the characteristics of those transitioning downward?).
- ❑ Lower proportion of HHs moved towards organised salaried relative to those moving out: 33 % moved towards and 46 percent moved out (What are the nature of these transitions?).
- ❑ Mainstream dualist models – expectation of a formalization? Informality as the desired outcome?

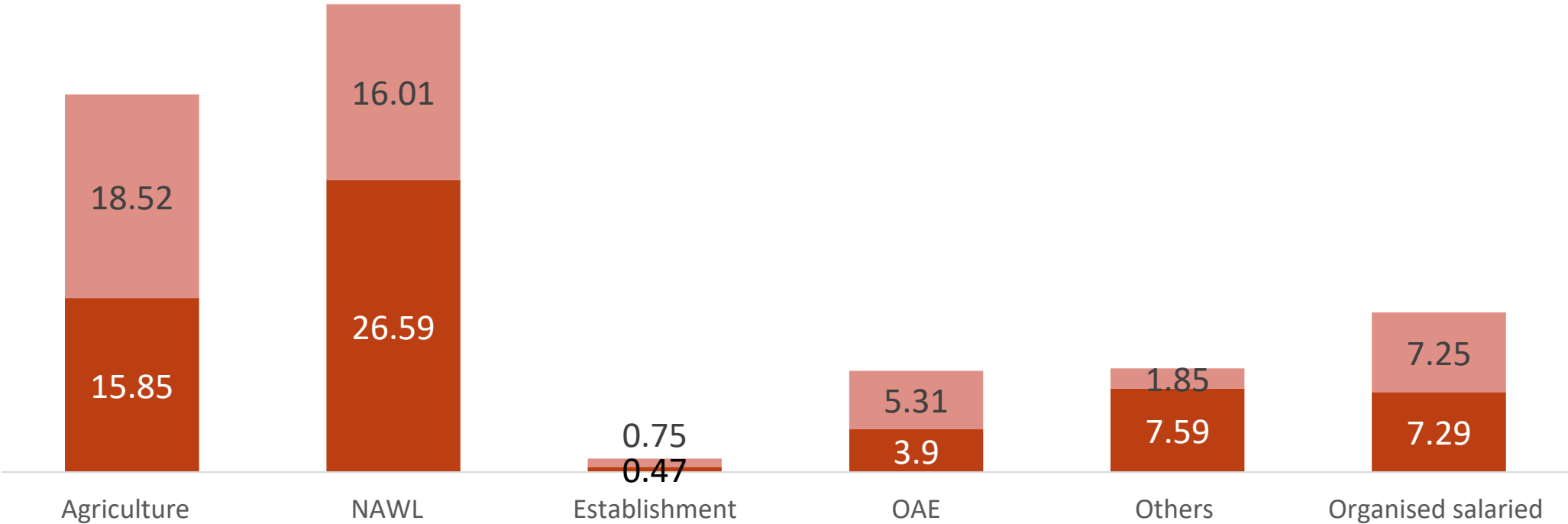
Mapping the transition: agriculture

- Households moving in to agriculture (as a percentage of agriculture in 2011-12)
- Households moving out of agriculture (as a percentage of agriculture in 2005)



Mapping the transition: AWL

■ Households moving in to AWL (as a percentage of AWL in 2011-12)
■ Households moving out of AWL (as a percentage of AWL in 2005)



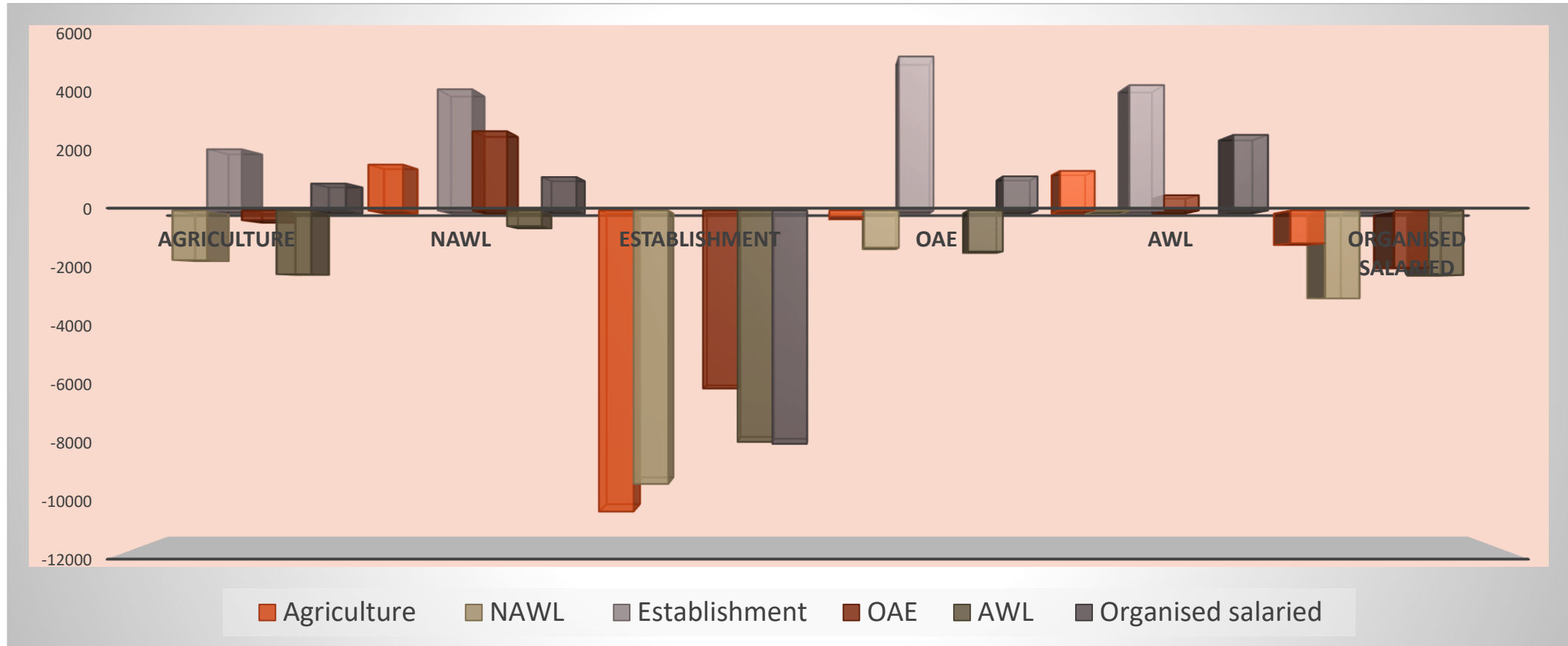
A muddled picture

- ❑ No unidirectional movement towards formality – for most, continuous movement across sectors – what's the nature of these flows?
- ❑ A transition towards informal wage labour – from AWL, OAEs, and organised salaried employment– what does this signify?
- ❑ Transition from OAEs to establishments lower than the reverse.
- ❑ Transition towards formality almost equally from NAWL, AWL, and OAEs – what characteristics does this depend on?
- ❑ While highest proportion of OAEs moved towards NAWL, the highest proportion of it came from NAWL too – a continuous reconstitution of these spaces in spite of transitions.

Part II: Nature of transitions

- ❑ What's the nature of these transitions?
- ❑ Is informal self employment desired over formal salaried sector jobs, conditional on characteristics (say, education, etc., that an individual can optimally choose)?
- ❑ Overall, how positive/favourable are these transitions?
- ❑ Counterfactual construction based on household characteristics – what would the consumption have been had the households not transitioned? – Actual – Counterfactual.
- ❑ Characteristics for counterfactual construction: education, caste, religions, proportion of adults, land owned, loan, location (rural/urban), state controls - (With and without lagged outcome).
- ❑ OLS regression with lagged outcome.

Nature of transition: consumption per capita (actual - counterfactual)



Nature of transitions

- ❑ While a lot of transitions – in spite of structure remaining intact – not quite favourable
- ❑ **OAEs:** Transition to establishments and organised salaried workforce is favourable, while transitions to others are unfavourable; but a majority moved to NAWL (worse transition).
- ❑ **Organised salaried:** Transitions towards organised salaried are preferred/favorable and those from organised salaried to OAEs, NAWL, as well agriculture and AWL worse – self employment not preferred over organised salaried jobs. A lot of movement both in an out of organised salaried workers – who are moving out and who are moving in?
- ❑ **NAWL:** Almost all transitions out of NAWL are better, but all transitions towards it are worse – overall a rise in proportion of NAWL households.
- ❑ **Establishments:** All transitions out of establishments are unfavourable and all transitions towards it are favourable – a very small proportion of establishment households in the economy – almost no transitions towards establishments – proportion fallen.

Nature of transitions

Actual- Counterfactual consumption per capita	Agriculture	NAWL	Establishment	OAE	AWL	Organised salaried
Agriculture	----	-1989	2613	-357	-2405	910
NAWL	1641	----	4338	2826	-593	1168
Establishment	-10404	-10080	----	-7245	-7701	-8597
OAE	-441	-1447	5901	----	-1699	1385
AWL	1485	53	4418	651	----	2661
Organised salaried	-1298	-3563	251	-2285	-2076	----

	Agriculture	NAWL	Establishment	OAEs	AWL	Org Salaried
Agriculture	----	2004.5*** (694.8)	-8642.5*** (2468.7)	19.53 (733.0)	1902.1*** (476.7)	-1484.0 (1049.8)
NAWL	-2572.5*** (607.7)	----	-11491.1*** (2114.8)	-1753.8*** (516.3)	147.8 (206.0)	-5523.3*** (929.4)
Establishment	2857.4*** (950.1)	4560.9*** (778.3)	----	5711.2*** (1183.8)	5802.3*** (1908.9)	1249.3 (1189.0)
OAEs	-1217.2 (768.5)	3137.1*** (1007.2)	-7381.2*** (1884.4)	----	739.3* (435.7)	-3152.4*** (627.9)
AWL	-2835.7** (802.5)	-402.9 (437.8)	-11339.1*** (2586.7)	-1592.7*** (557.4)	----	-4859.4*** (878.7)
others	162.1 (619.1)	2530.9** (1110.4)	-2137.8 (2997.0)	2110.9*** (674.7)	4176.6 (2486.1)	182.8 (914.7)
Organised Salaried	793.7 (800.6)	1238.7** (509.8)	-7875.4*** (2320.5)	1503.5** (600.4)	2739.1 (1648.7)	----
Controls	yes	yes	yes	yes	yes	yes
Constant	11443.9*** (1715.7)	8828.9*** (837.2)	17568.9*** (4557.4)	9067.6*** (1455.4)	8196.7*** (914.1)	11714.7*** (1993.8)
Observations	45341712	37594196	6947804	18598252	33269634	37235293

Part III

Household characteristics: correlates of transition

❑ What are the correlates of these transitions? Clear difference in consumption across sectors –Free flow?

❑ Multinomial logit analysis.

❑ Six sets of regressions

$$\Pr(X_{i,t+1} = j | X_{i,t} = k) = \frac{\exp(Z_i' \beta_j | k)}{\sum_{l=0}^k \exp(Z_i' \beta_l | k)}$$

❑ Dependent variable

❑ Average marginal effect: to what degree the increase in household characteristics X increases the probability of the household to transition from i to j, relative to staying in sector i.

❑ Household characteristics: Years of education, social caste, religion, value of loans, location (rural/urban), state controls, consumption level (everything in period 1).

Household characteristics: correlates of transition

□ OAEs:

- majority moved to NAWL – unfavourable transition – characteristics: Education and caste.
- Movement to establishment – favourable – education and caste dependent (loans).

□ Organised salaried workforce:

- Organised salaried mainly moved to NAWL – worse/unfavourable transition – (not the expectation from dualist models to transition) – retrenchment.
- Depends on caste, education and religion.

□ NAWL:

- NAWL to organised salaried employment – dependent on education and caste.
- NAWL to OAE – Education and religion.

□ Establishments:

- Establishments to OAEs – education, religion.

Household characteristics: correlates of transition

- ❑ In spite of a lot of mobility across sectors – structure is highly segmented – dualist view as against micro-entrepreneurial – understanding the Indian economy.
- ❑ High degree of segmentation across sectors, especially along the lines of education and caste categories.
- ❑ Social caste of the household – structural characteristic – cannot be altered or ‘optimally chosen’ – implying that simply increasing education might not lead to a transition towards formality.
- ❑ Higher ability of households with more ‘favourable’ characteristics to transition towards formal sector – a segmentation between formal and informal sector along lines of household characteristics.
- ❑ Segmentation is not limited to the formal – informal dichotomy; rather there is also a segmentation within the informal sector between those who are self employed as OAEs and the informal wage workers.

Household characteristics: correlates of transition

- ❑ Increased dependence on the informal economy:
 - Distressed movement of workers out of the agriculture sector.
 - Retrenchment of formal sector workers.
- ❑ OAEs – the informal self employed non-capitalist households
 - Continued reproduction of the informal self-employed households (OAEs), a significant proportion of such households have also transitioned towards informal wage labour (NAWL).
 - Transitions from OAE to establishments lower than the reverse transition.
- ❑ Transition towards formality:
 - Some households did transition from informality (informal self employed as well as informal wage labour) towards formality – dependent on education and caste characteristics.
 - Accompanied by simultaneous and rather magnified reverse transitions.
- ❑ Structure of the Indian economy:
 - No marked tendency towards a transformation along the expected lines.
 - Transformations, wherever they have taken place, have been mostly of a perverse nature.

Implications: expectations and reality

- ❑ Expectations in the discourse on capitalist development:
 - Economic growth will bring about a transformation of the structures and relations of production as well as that of the labour process along the lines of a capitalist transition.

- ❑ Muddled picture for the Indian economy – a reproduction of the space of non-capital
 - A higher proportion of transition of households from establishments to OAE relative to the reverse (along with the significant proportion of transition from NAWL and organised salaried workers) indicates a reproduction of the space of non-capital.
 - The expectation that with economic growth capitalist production processes and relations will pervade the entire economy does not seem to have actualised.

Implications: expectations and reality

- Muddled picture for the Indian economy – transition towards informal wage labour
 - Those unable to reproduce their conditions of livelihood as non-capitalist petty producers, as well as the workers retrenched from the formal sector, seem to transition (downwards) towards informal wage labour.
 - Any upward transition towards formality contingent on household characteristics – some of which are structurally given and reproduced and cannot be altered by individuals.

Implications: how to make sense?

- ❑ Supports the strand of interventions initiated by Sanyal (2007) to theorize the process of postcolonial capitalist development:
 - The process of primitive accumulation brought about by capitalist growth dissociates the direct producers from their means of production, but, given the exclusionary nature of the growth process, the dispossessed pre-capitalist producers do not find employment within the formal capitalist sector as wage workers.

- ❑ *Surplus population* – not directly functional to the ‘needs’ of capital:
 - While a part of this population constitutes the industrial reserve army that is functional to the process of capitalist accumulation, it can be argued that a vast majority of this population is not *necessary* for this process in any meaningful way.

- ❑ Noncapitalist segment of the informal economy:
 - ‘Sink’ for this surplus population – strenuously earn a basic livelihood as petty commodity producers working on a thin resource base.
 - Exonerating capital from the responsibility of providing employment to the majority of working population.

Implications: how to make sense?

- ❑ Process of capitalist growth *reproduces* the space of *non-capital*:
 - Originally expected to dissolve.
 - Much-anticipated 'full-fledged' capitalist transition, when capitalist production processes and relations pervade every site within the economy – not actualized.
- ❑ *However*, in addition to the reproduction of this space of non-capital – those unable to reproduce themselves in this space transition towards informal wage labour.
- ❑ Large floating population that is always in a flux :
 - Either as 'footloose' labour (Breman, 1996), moving between sectors and occupations in search of livelihood and cannot find a firm grounding anywhere.
 - Those reproducing their conditions of livelihood precariously – and sporadically – at the margins in the spaces of non-capital.
 - The economic spaces of the noncapitalist petty producers and the floating, footloose wage labor are often not quite distinct, segmented, or well-delineated.
- ❑ A reproduction and entrenchment of this structure over the past decade of high economic growth – calls into question the imaginary of transition through the process of capitalist development that animates much of the discourse on economic development.

Thank you
