

THE INFORMAL LABOUR MARKET IN INDIA: TRANSITORY OR PERMANENT EMPLOYMENT

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Abstract: In Marxian analysis, both PCP and reserve army are integral parts of the capitalist system. Both help in the accumulation process. PCP allows large capitalists to lower their costs and to lower the cost of workers' consumption. The reserve army acts as a check on wage-workers in large enterprises and their wage fund. Because of the contribution to the accumulation process, IS does not disappear. This paper studies the characteristics of the workers in the informal economy and whether internal migrants treat this sector as a temporary location before moving on to the organised or formal sector to improve their lifetime income and living conditions. We limit our study to the Indian urban (non-agricultural) sector and study the characteristics of the household heads that belong to the informal sector (self-employed and informal wage workers) and the formal sector. We find that household heads that are less educated, come from poorer households, and/or are in lower social groups (castes and religions) are more likely to be in the informal sector. In addition, our results show strong evidence that the longer a rural migrant household head has been working in the urban areas, *ceteris paribus*, the more likely that individual has moved out of the informal wage sector. These results support the hypothesis that, for internal migrants, the informal wage labour market is a stepping stone to a secured life in the formal sector.

Key words: Informal Economy, Indian Urban sector, Caste and religions, internal migrants, wage labour market, temporary location.

Introduction: The informal economy is a very important sector of the Indian economy. The National Council of Applied Economic Research estimates that the informal sector-“unorganized sector”-generates about 62% of GDP, 50% of national savings and 40% of national exports (ILO 2002), p. 30. In terms of employment, the informal economy provides for about 55% of total employment (International Labour Organisation 2002), p. 14². Urban areas (especially large cities) attract numerous migrants from both the rural areas and from smaller urban towns and cities in the hope of a better life. Later, it expands in LDCs. Demographic response of the poor-high fertility to have more helping hands in the family-ensure continual growth of surplus labour pool and so of IS. IS is, therefore, a functional part of capitalism. Similar arguments have been made about the relation of women's economic role to capitalism. Women are a part of reserve army; they move in and out of labour force depending upon; the needs of capital. Secondly, since family survival is the compulsion behind them, women are forced to carry out a number of economic activities, whether home-based or otherwise, under conditions of absolute surplus extraction. Many of these activities are unremunerated or under-reported. Thirdly, through their unremunerated services and ability to stretch wages, housewives enable capital to pay lower wages than would otherwise be needed for the reproduction of labour power. The housewife's unpaid labour is transferred to capital as surplus. Because of this functional similarity, the association between IS and women is close and a majority of working women may be found in IS. Dependency theory,

one strand within Marxian theory, views the problems of petty producers in IS as being those of LDCs in microcosm. It maintains that IS cannot develop its own logic of capital accumulation and growth as long as it coexists unequally with large scale capitalist enterprises. The same applies to LDCs as a whole which are a part of subordinate, peripheral capitalism, controlled by core capitalism. The core capitalist system retains the productivity gains accruing within it and also appropriates those that arise in the periphery. Profit maximization in the periphery requires wage minimization stating cheaper consumption of workers. In core capitalism, wage minimization turns out to be counter-productive. To check the tendency of over-production, it is necessary to place more purchasing power in workers' hands and hence increase their wages. The marginality school in Marxian tradition attaches importance to the backwash effects of the capitalist development process-manifest in IS-which simultaneously gives rise to under-development.

Comprehensive Treatment: This comprehensive treatment remained outside the purview of mainstream economics and therefore the concept of IS, advocated by ILO, was hailed as an important addition to the development literature. Since many heterogeneous activities were bracketed together in IS, the concept meant many things to many people. Mazumdar (1975) saw it as an easy-entry, residual sector crowded with secondary workers having low productivity. It was thought that self-employment would be the dominant form of organization in IS.

ILO: As a relic of pre-capitalist production relations, the underlying motive of IS activities was thought to be maximization of total income rather than profits. ILO saw IS in a more positive light. It looked at IS as a seedbed of native entrepreneurship. Self-sufficiency of this sector, following the low income elasticity for its products, was noted. It was accordingly seen as a viable sector producing heap wage-goods. IS was also described as the employer of last resort and its contribution as safety net for the urban poor was emphasized. The variety of views about IS and its heterogeneous content created plenty of confusion. In the words of Moser (1984), "The IS is still too broad to be meaningful; at one end is a pool of surplus labour, at the other a skilled high income earning entrepreneur; at one end a proliferation of residual enterprises evolutionary in nature, at the other end of the spectrum dynamic evolutionary enterprises". The lines of demarcation between IS and other sectors in the economy were not clear. Thus Meera Mehta (1984) constantly emphasizes that the organized sector consists of firms which have many casual, temporary and contract workers whose employment is unprotected and who therefore belong to IS. In other words, firms may belong to the organized sector but their workforce may partially be in IS". This would indicate that the formal sector (FS) and IS are not two independent categories. Rather, "they are in a continuously fluctuating state of interaction and parts of one sector may be dominated and created by parts of the other". (Bromley, 1970) Therefore, it is necessary to distinguish between the product market approach to IS (making it a cluster of micro-enterprises) and the labour market approach (IS a aggregate of unprotected labour). In other words, both enterprises (including family-enterprises or households as producing units) and individuals are included in IS. The former may belong unambiguously to IS while individuals may combine formal and informal activities. Alternately, the distinction between producing units and labour units in IS needs constantly to be kept in mind. This is a very important point. In the product market approach, FS firms enjoy privileged access to credit, foreign exchange

and tax concessions while the competitive advantage of IS firms lies in escaping taxation, social security levies and also such regulation as might exist about working conditions, wages and job security[^]". Critics of the concept of IS have pointed out that FS, IS classification is crude, over-simplistic and that reality in LDCs is too complicated to be explained by this new version of economic dualism. Till, date, ambiguity remains whether IS is an urban phenomenon or it also covers agriculture and the rural economy. One is therefore not clear as to what remains in the economy. One is therefore not clear as to what remains in the economy after counting FS and IS. Heather Joshi (1980) has mentioned the importance of dynamic relationships among three sectors, viz. FS, IS and the domestic sector. Unpaid labour, family labour and households as economic units would presumably be included in the domestic sector[^]. Martine Guerguil (1988) has, on the other hand, stressed the residual nature of IS but stated that domestic and criminal activities are not part of it. Latin American scholars have explored the association between informality and underground economy. Domestic work and home-based production are very much a part of IS according to many others. Upreti, H.C., (1992) has used a colour-code to distinguish among the following sectors: 1. White (formal) sector - private formal and state sector activities, 2. Mauve sector - small business and personal services operating on the fringe of the white sector, 3. Grey sector - 'self-provision household activities, moonlighting and the gift economy'. These activities, conducted on the fringe of legality. (The term 'grey segment' is being increasingly used today in industrial analysis. For example, one talks of the grey end of the computer hardware and electronics industries. The grey end is inhabited by small firms which smuggle raw materials, which have very low overheads and which excel in reverse engineering.) 4. Black sector - all illegal activities. IS would be the total of mauve and grey sectors in this classification. Because of the heterogeneity of activities included in IS, characteristics which are used to define informality do not apply to all the activities. For instance, ease of entry is a foremost feature of informality and yet many informal activities (e.g. shoe-shining and even rag-picking at the lowest level of informal activities) may defy this feature[^]. When diverse elements get clubbed together in one category, it becomes difficult to identify those parts which have some growth potential vis-a-vis those which face evolutionary prospects. Then there arises the danger of making wrong policy recommendations. Thus policies which are designed to help small enterprises will not necessarily help their wage workers. Policies which benefit wage workers in FS may harm the interests of casual/temporary workers, homebased workers, etc.. Independent manufacturing units in IS may not welcome the promotion of subcontracting links between formal and informal enterprises; 26 policies which help informal firms carrying on legal business may not help those carrying out illegal activities, etc. therefore a single policy prescription for IS is ruled out. IS is so large and diverse that a range of measures from direct assistance, incentives-rehabilitation and even persecution is called for. Castells and Portes (1989) have talked of an informal economy, giving up any attempt to define and distinguish IS within an economy. Their focus is on unprotected labour or labour that is denied protection of either the State or 36 unions.

Definition of Informal Sector: The above ambiguity is reflected in the various definitions of IS. Most of the definitions simultaneously emphasize a number of attributes of informality. Firm size, type of employment, technological competence, income level, capital employed and legal status are the oft-used criteria to delineate informal activities. Among the many

definitions that are around, the following stand out: The ILO-Kenya Mission stated the following features, making it clear that the degree of their application differed from activity to activity: a) No access or limited access to resources such as institutional credit, foreign technology, b) Small-scale operations, c) Ease of entry, d) Family ownership of enterprises, e) Competitive markets, f) Reliance of indigenous resources, g) Labour-intensive, adapted technology, h) Un-remunerated, invisible nature of activities²⁷ The features of FS were the obverse of IS activities. The definitions suggested at the 14th International Conference of Labour Statisticians, ILO (1987) distinguishes between registered and unregistered units and the difference between the two boils down to scale of wage-employment, provision of social-security for wage-labourers and source of energy for the manufacturing process. Joshi and Joshi (1976) have emphasized three variables, viz. Relationship with government, market structure (whether competitive or not) and nature of technology for distinguishing IS activities²⁸. Squire (1981) has given the most clear-cut definition of IS as a labour market phenomenon - IS is a sector in which return to labour is determined by the forces of demand and supply. Wages in FS are higher due to institutional factors such as a) Labour legislation stipulating minimum wage and working conditions, b) Trade unionism, c) Hire and wage policies of multinationals and public sector enterprises. It has been shown that the market also has a tendency to create clusters with more than the market-clearing wage. Efficiency wage concept, internal markets in large organization, human capital attributes, different supply prices of temporary and permanent migrants and the different proportions in which they can possibly be used in small and large enterprises are the factors which give rise to this effect (Mazumdar, 1983)²⁹. An interesting attempt to integrate the various strands of Marxian thinking on IS is made by Natrass (1987). Here IS becomes a set of petty production activities manned by persons in the industrial reserve army, the marginal pole and also those holding formal jobs. In other words, IS gets defined at the interface of FS, reserve army and marginal pole.

Diagrammatically Marginal Pole (MP): Industrial Reserve Army (IRA) $IS = b + c + d$ IRA = $a + b$ A = full-time job seekers; not productively engaged, hence not a part of IS, B = persons who have stopped their job-search and have entered IS temporarily. They are capable of obtaining work in FS. $FS = f + c$ F = persons working full-time in FS, C = persons working in FS who supplement their income with that from informal activities. MP is characterized by the lack of access to basic resources (e.g. land, capital, including human capital) and therefore it operates around residual resources, $MP = e + d$ E = the truly marginalized elements within MP which are not active in informal production, e.g. beggars. D = persons who are marginalized but are still working in IS e.g. rag-pickers. This approach leaves out enterprises employing wage-labour in IS and is hence inadequate. Natrass then clarifies that informality should be associated with any two of the following characteristics: - Labour - intensive operations, - Small - scale operations and - Existence outside official rules and regulations.²⁹

Implications: It is clear from the foregoing analysis that in the labour market approach IS comprises unprotected labour. This means that the following groups are included in it: a) Wage-workers in enterprises (even formal enterprises) whose employment is not protected by institutional and/ or market factors mentioned above. b) Own-account workers whose employment is not protected by the requirement of capital, skill and barriers to entry arising from organization, and c) Service-providers, e.g., domestic servants, cleaners, etc. The

emergence of IS, in this approach, is fundamentally due to labour surplus in the economy. In other words, IS can be looked upon as an alternative to the direct exploitation of labour by capital. 30 In the product market approach, IS becomes a sector of unregistered (or perhaps illegal) micro-enterprises which employ in inferior technique of production that earn less than the average rate of return (Gibson, Kelly, 1994). IS is forced to adopt an inferior technique because of scarcity of capital. Unregistered or illegal activities exist either because of the pressure to reduce labour costs and gain flexibility or because of the inability of LDC governments to enforce existing regulations. Lack of registration and invisibility in official records work in two directions. Non-compliance with statutory provisions regarding resource-use leads to lower costs but also lack of access to resources, particularly technology³¹. The net impact of these two and its implication for the growth dynamics of IS become important issues in this formulation. The crucial question is whether IS will be able to formalize itself and earn the average rate of return in the process of growth and whether it has the potential for autonomous growth. Marxian approach has raised the following policy issues in connection with IS: 1. Should working class struggle for industrialism and the collective benefits it provides to workers or should it support the individualism of tiny enterprises? 2. Should petty capitalism of the poor be seen as a form of creative energy or as exploitative individualism? 3. Can IS grow only in an evolutionary manner or is evolutionary growth possible? 4. Can IS expand its sphere or scale of operations? Dynamics: Dynamics and growth prospects of a product market phenomenon need to be considered. As regards IS, this enquiry can proceed along two separate paths (Tokman, 1978).

Conclusion: Uniformity in resource-use, following from compliance with statutory provisions is also absent. 3. The objective of carrying out these activities, given the application of a number of own resources of space, family labour, savings, etc., is probably sustenance or maximum total income rather than maximum profit. These features are particularly the combination of low technology, non-specialized resources and low income-elasticity of demand which appear to make IS self-sufficient. As a lower-order category, it can then co-exist with IS³². Given technological possibilities and the existence of surplus labour willing to work at less than the subsistence wage also, capitalists have plenty of opportunities to switch activities between FS and IS. So they make use of IS. IS contributes to the accumulation process. Mainstream economic thinking takes the position that IS will be used by capitalists since it exists but accumulation process will continue without also. Instead of complementarity between FS and IS, it is more appropriate to talk of the dependence of IS on FS, given the difference in technology and resource endowments³³.

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