

CONCEPT OF INFORMAL SECTOR: MACRO TRENDS AND POLICY. PERSPECTIVES

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Abstract: Theoretical research on the development dynamics in India as also in other developing countries has stipulated several characteristics of the informal sector in terms of technology, production relations, conditions of work and workers, among others. It also envisages certain types of relationship between the formal and informal sector. Unfortunately, empirical studies analysing the pattern of growth of the informal sector at the national or state level have generally used a single criterion such as the number of workers, capital employed, and use of electricity or registration with certain public agencies as the basis for identification of the informal sector (Mathur, 1993). This is mainly due to limited availability of data from secondary sources and problems of temporal comparability therein. Understandably, development economists have found this approach, based on limited indicators, inadequate and unsatisfactory for capturing the gamut of informal activities (Bromley, 1994; Breman, 1995; Nurul Amin, 1996; Nagamine 1996). They have argued that some of the crucial characteristics of the informal sector pertaining to labour relations, producer-trader nexus, linkage with the government and other formal agencies, considered important in the theoretical literature, have been ignored in macro level analyses using secondary data. Several scholars have gone in for a more rigorous identification of this sector using complex and multifarious indicators. This could only be done based on survey data. Understandably, they could conduct such detailed analysis only at the settlement level.

Keywords: Informal sector, unorganized sector, manufacturing, industry, informal employment, NCEUS, Small-scale industries.

Introduction:

The concept of informal sector is not easy to define specifically. Most often it is defined negatively by indicating the nonexistence of characteristics that belong to formal activities, of special emphasis being labour market characteristics, security or regularity of work, better earnings, existence of non wage and long term benefits, protective legislation and union protection[^] (Papola 1980, Banerjee 1985). Since number of activities within the formal sector are getting informalised and private, small scale manufacturing units employing predominantly women labour is growing - the borderline becomes blurred. While earnings may still be better in the emerging formal sector, its major advantages in terms of non-wage and long term benefits, security and protection of work likely to be getting diluted[^] (Eapen 2001: 2390). At the same time, within the informal sector itself, evidence discloses that a number of self-employment activities in the form of micro enterprises are undertaken with great ingenuity and entrepreneurial spirit and therefore have a growth potential (Rakowski 1994).

Informal Sector:

The term informal sector was first initiated by Keith Hart' (1970) in a study of urban Ghana. He describes the informal sector as that part of the urban labour force, which falls outside the organised labour market. The study identified a number of incomes and employment generating activities in the un-enumerated sector of urban settlements. The workers involved in the un-enumerated sector 10 mainly served as self-employed, as against the wagedworkers in the enumerated sector. The new entrants to the urban labour market particularly migrants

from rural areas were forced to work in the informal sector partly on account of lack of adequate opportunities in the formal sector and partly due to the workers' lack of skills and adequate experience required for the jobs in the formal sector. The concept has been further refined by a mission of International Labour Organisation (ILO) (1972), which studied the employment situation in Kenya within the framework of the World Employment Programme. The ILO employment mission to Kenya adopted the term 'informal sector' for analysing the employment situation and for working out a strategy for employment generation in Kenya. The study reveals that informal sector has the characteristics like easy entry for the new enterprises, reliance on indigenous resources, family ownership, small scale operations, unregulated and competitive markets, labour intensive technology and informally acquired skills of workers'. Mazumdar, in a World Bank paper (1975), describes informal sector as an easy entry, residual sector providing mainly services and crowded with secondary workers with low productivity and wages. Sethuraman (1976) has defined the informal sector as consisting of small scale units engaged in the production and distribution of goods and services with the primary objectives of generating employment and income to their participants notwithstanding the constraints on capital, both physical and human". They form part of the household sector as unincorporated enterprises owned by households. They are distinguished from corporations and quasi corporations on the basis of their legal status and the type of accounts they hold these household enterprises do not have a legal status independently of the households or household members owning them'. The fifteenth International Conference of Labour of ILO (1993a) adopted an operational definition of the informal sector that is irrespective of the kind of workplace, the extent of fixed assets, the duration of the activity of the enterprises and its operation as a main or secondary activity. Within the household sector, the informal sector comprises of informal own-account enterprises that are single member or partnership household units that do not hire workers on a continuous basis, enterprises of informal employers are household units owned and operated by employers, singly or in partnership, which employ one or more employees on a more or less continuous basis. For operational purposes the latter may be defined in terms of either, the size of unit below a specified level of employment or non-registration of the enterprises of its employees*. 12 Gibson and Kelly (1994) have defined informal sector as a sector that uses inferior technology. According to them, initially multiple production processes exist in informal sector but competition among informal sector units ensures survival of only the most profitable process**. The labour market in developing and transition countries is strikingly different from that in the developed countries. The most arresting feature of labour markets in the developing countries is its non-homogeneous character. Almost all the employment in developed economies is created within the recognised institutional framework as the economic agents, which create these jobs, operate within the existing laws and regulation" (Sethuraman 1998). These economic agents are the government, and private enterprises, including non-corporate entities, and the employment thus created is governed by the prevailing labour laws and regulations. In contrast, in the developing countries the vast majority of the population is left to fend for itself and create employment out of its own ingenuity, skills and capital. This leads to vast differences in the nature of employment and the creation of a dualistic 13 structure of formal and informal components of the labour market. The productivity differences between the various sectors of the labour market in the developing countries are of major importance for both labour market outcomes and policies. The World Development Report (1995) argued implicitly that the reasons for the growth of the informal sector in developing countries was labour market distortions, such as trade unions and government policies leading to inflexible labour markets. However, sector existed before the growth of trade unions and market distortions. Since capital labour ratios are generally higher in the formal sector, labour productivity of

causation runs from differential capital intensity to productivity differences to wage differences*. The reasons for the growth of the informal sector are important from the point of view of developing policies. The growth of ancillarisation and industrial employment through sub-contracting appears to be gaining importance. Stagnating and falling incomes of households due to poor performance of the economy also leads to increased entry of women into the labour market. The process of globalisation, export-oriented industrialisation and relocation of industries from the developed to the developing countries also lead to the increase in the employment in the formal sector. Women's employment is often favoured in many of these industries. These factors lead to the increasing in formalisation of the labour force. This in formalisation takes place broadly in two ways. Secondly, the workers who remain in the factories or in formal work situations are governed by looser contracts and obtain fewer social security benefits. That is, there is an attempt on the part of the employer to reduce his liabilities. The definition of the informal sector cited by ILO was descriptive. It specified a set of characteristics to distinguish informal enterprises such as small scale of operation, family ownership, reliance on indigenous resources, labour intensive and adaptive technology, skills acquired outside the formal system and operation in unregulated and competitive markets. The problem with applying such multiple criteria is that all of them could be found in units pursuing different objectives. It is also difficult to apply. In practice, most of the early ILO studies ended up using the complexity and looseness of the concept, the labour statisticians decided to distinguish one single statistical definition for the purpose of data collection from the several definitions that may vary according to the needs of the users and could be differentiated at the tabulation stage. The SNA (1993) characterises the informal sector as consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. Within the household sector, the informal sector comprises of informal own-account enterprises that are single member or partnership household units that do not hire workers on a continuous basis; enterprises of informal employers are household units over 15 and operated by employers, singly or in partnership, which employ one or more employees on a more or less continuous basis. For operational purposes the latter may be defined in terms of either, the size of unit below a specified level of employment or, non-registration of the enterprises or its employees. The SNA definition of the informal sector is based on the legal status of the enterprise. To distinguish employment in the informal sector one will have to assume that all persons working in such units are workers in this sector namely, informal employers and employees in the enterprises of informal employers, own account workers and unpaid family helps in informal enterprises. This definition of the informal sector, focusing on the enterprise, does not give us any clue about the status and working conditions of the workers in them. It will not be correct to assume that all workers in the formal sector are better off than all workers in the informal sector, or that all workers in the informal sector are equally badly off. In recent years many writings have expressed the view that such a dichotomized classification of the formal and informal sector is unrealistic and tends to hide more than it reveals. It also fails to capture three things, which are important from the point of view of social protection for workers, particularly women - the continuing process of in formalisation of the formal economy; and the linkages between the formal and informal parts of the economy The dichotomous definition of the formal and informal sector actually distinguishes the status of the enterprise. This is useful for national accounts and in estimating the gross value added accruing from the two sectors. The concept of 16 the informal economy in fact tries to characterise the workers depending on the degree of informality of their work status. This is more useful to persons concerned with wages, working conditions and access to social protection to workers. A second problem with the enterprise based definition is when it is used in an establishment survey to distinguish the unit. This definition tends to leave out

more invisible groups of own-account enterprises such as those operating on the streets or in their homes. A labour force survey with clear questions on the place of work and nature of contract may be better able to net in all such workers. It is argued that the enterprise-based dichotomous definition is important from the point of view of estimating the contribution of this sector in the gross national product. For example, Geertz's study of two Indonesian towns (1963) was concerned with the transformation of a 'bazaar economy'. The informal system originally referred to the parallel system of labour organization and wage bargaining that existed side by side the formal employer-labour relationship in industrialized countries. In less developed countries (LDCs) it was not just the presence of a parallel system but the juxtaposition between two distinct modes or ways of living and the imposition of Western ideas on the Orient which received wide attention in sociology and social anthropology. In economics also, prior developments (i.e., those before the publication of Hart's paper or ILO-Kenya Mission Report, 1972) were already leading towards IS as a urban migration (1970), looked upon the urban labour market as consisting of two sectors viz. Protected (modern) and unprotected (informal) sectors. The model viewed migration as an equilibrating force that cleared the labour market given the difference between rural wage based upon cost of living differential and the facility of job search in urban areas. Simultaneous existence of open unemployment and migration in the labour market indicated the possibility of market failure. Harris-Todaro model sought to explain this anomaly by introducing a new variable in the picture, viz., the probability of obtaining a modern sector job in the urban economy. Harberger (1971) argued that unprotected sector wages were the best approximation to the supply price of labour in urban areas. Otherwise opportunity cost of urban labour was equated with agricultural wage. At one time (Nurkse, 1953) the marginal product of labour in agriculture was thought to be zero and so urban labour's opportunity cost was also zero. Harberger did not accept this view. He argued that had urban labour's opportunity cost indeed been zero, rural-urban migration would have been far greater than what was observed. He drew attention to the contribution of IS in providing subsistence to those who would otherwise have been openly unemployed. Past savings or institutional support in the form of income-sharing within family or state unemployment benefits enable a person to fulfil the above two conditions. Their absence leads to a suppression of open unemployment and vice versa. (The concerned literature has also explored the role of generous unemployment benefits in reducing the motivation to seek work). IS can play a dual role in this connection in the sense that it might enable its participants to engage in both income-earning activities and job search simultaneously. Berger and Piore (1980) start with the observation that duality is not peculiar to only LDCs but can be seen in developed countries also. Thus the traditional sector in Italy, France, Japan and even U.S.A. performs an important economic role. In their conceptualization, the basic reasons why this dualism exists are two-fold. Firstly, it is a reflection of the dualism in modern economics between capital and labour. Capital - particularly plant and equipment - is a fixed factor which cannot be forced to bear the cost of its own unemployment whereas labour, the residual factor, can be. So employers are very careful in planning the utilization of their capital. The concept of IS attracted a lot of attention since it provided a vital missing link in particularly development economics. The nature and role of smallscale development in classical political economy. Petty commodity production was extensively studied in Marxist literature. In neo-classical economic thought, however, small production units had been ignored. IS hence to fill an important gap. In Marxian economics, LDCs, petty producers and peasantry constituted weak • links of the capitalist system. (Petty producers or petty production constitutes the bulk of IS). Petty producers stand in between capitalist and the working class. They consider themselves to be capitalists but their interests are close to that of the working class for both are used by capitalists to externalize their costs. A few petty producers might be able to transform themselves into

capitalists but most of them are forced to eventually join the working class; some may even join the industrial reserve army. The periodic crises to which capitalism is subject are opportunities to challenge and overthrow it. In LDCs, the 20 underdeveloped working class has to win the support of both peasantry and petty producers in this task.

Conclusion: Petty commodity producers have been defined as those who are capable of reproducing themselves as private producers of commodities without employing wage-labour and without selling their labour-power. Another definition emphasizes the following features: a) Production for the market. b) Small scale of operations in terms of volume of output, size of workforce, size of capital and level of technology, c) Ownership of means of production by the direct producers. Petty commodity production (PCP) constitutes a distinct mode of production as compared to the main capitalist mode in LDCs. It can also be viewed as a transitional mode between the pre-capitalist and capitalist modes. The former represent a cyclical movement of productive forces which permits sustenance but not growth. In contrast, the capitalist mode represents continuous generation, reinvestment of surplus and a revolutionary movement of productive forces[^]. Tension exists between these modes and a gradual transformation of PCP into the capitalist mode is ruled out. The relationship between them is a complex mechanism of conservation and dissolution. Because of the following factors, conservation becomes the dominant tendency in LDCs: 1. PCP cheapens worker's consumption and helps to increase surplus. 2. It also subsidizes the rural subsistence economy. 3. It adopts a number of coping mechanism and does its utmost to survive. The coping strategies include use of family labour, reduction in 21 consumption, circulatory migration, engaging simultaneously in a number of income-earning activities, if possible, etc. 4. PCP prevents open unemployment from becoming very high and it enables the state to switch resources form providing social security. 5. To the extent PCP producer cheap, low quality goods with low income elasticity of demand, it occupies a non-competing domain from the capitalist mode and can co-exist with it. Petty commodity producers continue to exist but are unable to transform to themselves into capitalist entrepreneurs because: 1. Entry into their fields is easy and so they are subject to market-specific involution. 2. They are forced to go for mixed portfolios in order to minimize risk. So growth prospects become limited. 3. Technology is generally not neutral to scale; it has a bias against small producers. Once petty production becomes non-viable, it is attached to the capitalist mode in an explicitly subordinate manner. Putting out work, subcontracting, piecerate contracts are manifestations of this subordination. They help the capitalist mode to reduce risk, gain flexibility and reduce its costs. Petty producers form only one part of IS. The rest comes from the industrial reserve army which comprises the unemployed, under-employed and the marginalized elements. The reserve army exerts a downward pressure on wages and 'curbs the pretensions' of labour (Marx)".

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