

A CRITICAL REVIEW OF THE UNORGANIZED SECTOR

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ABSTRACT

In this paper, an attempt is being made to analyze the potentiality to generate income and employment of the informal sector and the inter-relationships among different sectors, specifically the formal-informal relationships. This comprehensive review of the informal sector, based on substantial literature, emerges some important propositions. This comprehensive critical review of the informal sector, based on substantial literature, emerges some important propositions. Firstly, it can be argued that the greater dynamism and potential for economic growth affect positively the informal labour market and the distribution so far as broad-based employment generation by this sector is concerned. Secondly, the degree of formal-urban informal complementarity (through backward and forward linkages) is high in comparison with the degree of formal-urban informal conflict (both demand-side and supply-side conflict). Thirdly, the expansion of formal sector based on capital accumulation through resource extraction (supply-side conflict), i.e. land acquisition and land conversion, could have a negative impact on the distribution of income and poverty for the small and micro segment of the rural informal enterprises as far as the complementarity between the rural informal sector and the rural-farm sector is concerned.

Keywords: Accumulation, ILO, Formal, Dichotomy, Informal, Unorganized, Complementary, Conflict, Aggregate, Disaggregate

Introduction: The fundamental propositions of the development economics, particularly Lewisian development strategy considered that socio-economic-structural transformation of the traditional sector as well the modern sector could be possible through capital centric, market centric, and growth centric mechanism.

However, this resource-driven path of development strategy hovers around the inclusion of surplus labour of the traditional sector in modern formal industries, on the one

hand, and the commercialization of agricultural sector through development of labour market and food market, on the other hand.

This dominant development strategy in LDCs, particularly for Asia has failed to generate expected results in spite of increase in accumulation and growth in the modern sector, typically known as formal sector. It could generate very little employment compared to the great pool of surplus labour.

The surplus-migrant labour was pushed out of agriculture to either rural non farm economy, particularly to the rural informal sector or to the urban informal sector (Hart, 1973). It is true that the creation of the urban informal sector was also due to some pull factor originating from the urban formal sector as proposed by Harris-Todaro (1970). It has been found that a vast majority of working population of the LDCs continue to be engaged in the informal sector in countries like India, Pakistan, and Bangladesh.

However, the significance of the informal sector from employment perspective could be drawn from the below tables (table: 1a and table: 1b) consisting of both formal and informal employment trend in India for the respective years; 1983, 1987-88, 1993-94, 1999-2000 and 2004-05.

Broad employment trends for both the formal/organised and the informal/unorganised¹ sector is shown in Table 1a and Table 1b. While employment in the formal sector has been more or less stagnant in the last two decades, particularly formal employment in the formal sector, informal employment creation in the informal segment of the economy has been fantastic for the respective years.

It is evident that throughout this period an overwhelmingly large portion of the workforce in India is found to be employed in the unorganised sector. Out of 376.2 million workers in 1993-94, it is estimated that 348.8 million workers (nearly 92 per cent) are employed in the unorganised segment of the economy whereas only 27.4 million workers (7 per cent) are engaged in the organised sector.

¹ 'All unincorporated proprietary and partnership enterprises are defined as informal enterprises. This definition differs from the concept of unorganised sector. In the unorganised sector, in addition to the unincorporated proprietary or partnership enterprises (i.e. informal enterprises), enterprises run by cooperative societies, trusts, private and public limited companies (Non ASI i.e. not registered under Factories Act 1948) are also covered' (NSSO, Report No. 459, p. 3). In general, the informal sector can be treated as a proper subset/sub-sector of the unorganized sector. However, I must add that there is very close correspondence between informal and unorganized. I use these two categories interchangeably.

It is quite clear that informal employment in the informal sector (table 1b) has increased from 341.3 to 393.5 (millions), on the one hand, and there is an increasing trend of the informal employment in formal sector from 20.5 to 29.5 (millions), on the other hand, during the period 1999-2000 and 2004-05.

The table (table 1b) also reveals that the formal employment in formal sector has decreased marginally from 33.7 to 33.4 in spite of high rate of accumulation and growth in modern sector/formal sector/organised sector. Thus the employment potentiality, particularly formal employment, through realization and re-investment of surplus in the formal sector/unorganised sector is likely to be ineffective so far as the vast majority of the population is concerned.

Table 1a: Informal Sector's and Formal Sector's Employment in India (in millions)

↓ Sector	→ Year	Employment in India (in millions)		
		1983	1987-88	1993-94
<i>Formal/Unorganized Sector</i>		24.0	25.4	27.4
<i>Informal//Organized Sector</i>		275.6	301.9	348.8
<i>Total</i>		299.6	327.3	376.2

Source: Sakthivel and Joddar, 2006, Table 1, p. 2108.

Table 1b: Informal Employment and formal employment in India (in millions)

↓ Sector	→ Year	1999–2000			2004–05		
		<i>Informal workers</i>	<i>Formal workers</i>	<i>Total workers</i>	<i>Informal workers</i>	<i>Formal workers</i>	<i>Total workers</i>
<i>Informal/Unorganized Sector</i>		341.3	1.4	342.7	393.5	1.4	394.9
<i>Formal/Organized Sector</i>		20.5	33.7	54.2	29.1	33.4	62.6
<i>Total</i>		361.7	35.1	396.9	422.6	34.8	457.5

Source: NCEUS, 2007, 3.

Review of Literature: Generally, informal sector/unorganized sector consists of largely unrecognized, unrecorded, and unregulated small scale, self employed (heterogeneous and/or

homogeneous, and legal and/or illegal) activities (Hart, 1973) with or without hired workers. It operates at a low level of organization and technology with primary objective of generating employment and Income (ILO, 1972; NSSO, 1999-2000, 55th round).

However, the conceptualization and characterization of the informal sector in terms of occupational structure, production pattern, organizational structure, employment pattern, etc are found in the following approaches, in comparison with the formal sector, on the one hand, as well as through incorporation of the formal-informal relationships, on the other hand.

The Anthropological Approach: According to this approach the informal sector, particularly urban informal sector, is characterized by formal and informal income opportunities on the basis of whether the activity entailed wage or self-employment of both legal and illegal activities (Hart, 1973), implying that wage-earning employment is a characteristic of the formal sector only.

The ILO Approach: The ILO view emphasized on a particular type of activities based on some characteristics rather than simply on individual engaged in self-employment. ILO (1972) considered the main aim of the informal sector to be the provision of subsistence to families. It related the growth of the informal sector to its positive effects on the labour market and the distribution of income. It recognized its dynamism and potential for economic growth and employment.

The characteristics of informal sector is defined by ILO (1972) are as follows.

- (a) Ease of entry
- (b) Reliance on indigenous resources
- (c) Family ownership of enterprises
- (d) Small scale of production
- (e) Labour intensive and adopted technology
- (f) Skills acquired outside the formal schooling system
- (g) Unregulated and competitive markets

The World Bank Approach: A different approach in the formal-informal dichotomous frame developed by many economists (Majumdar, 1976; and others at the World Bank) is based on the labour market rather than the structure of enterprises.

According to this approach the informal workers are unprotected in terms of working conditions, social security provisions, job security, and pension provisions in comparison

with the formal workers. This benefit could be the outcomes of trade unions, of government, or of both acting together.

According to Majumder (1976) this dichotomy based on state recognition and regulation to some extent. Although this dualistic approach is no longer effective as far as informal employment in formal sector is concerned (NCEUS, 2007, p 3).

The Marginalist Approach: The formal-informal dichotomy has been characterized informal sector is an essentially transitory phenomenon, being a consequence of the imperfect penetration of modern formal sector into less developed regions. However, the advance industrialization through high rate of capital accumulation in formal sector could comprise of the informal sector into the formal sector (Bardhan, 2009).

The independent Approach: Though an irregular part of the informal sector is integrated to the formal sector via processes of subcontracting and putting out, but a large part of this sector persists independently in non-capitalist production space (Sanyal and Bhattacharyya, 2009) due to discontinuities of this sector (Standing 1977, Papola, 1981). However this degree of independence might be relevant for informal services than for manufacturing (Mitra, 2011).

The complementary Approach: The formal-informal complementarity through demand and supply side linkages could be found in this approach.

There are two linkages (1) forward linkage of informal sector which implies the output produced by the informal sector is directly used by the formal sector and vice versa, (2) backward linkage of informal sector to formal sector which means the output produced by the informal sector through sub-contracting is used by the formal sector, such that the petty commodity producers provide inputs which the capitalist firms are unable to produce profitably (Moser, 1978; North, 1990).

The conflicting Approach: The formal-informal conflict is to be found due to exploitative/ and non-exploitative relationship.

The Non-Exploitative Approach: This approach concentrates on market where both the informal and formal firms have a common market access to sell their products (demand-side conflict) (Saith, 1992) and use labour and other factors, i.e. land conversion and land acquisition (supply-side-conflict) (Sanyal and Bhattacharyya, 2009; Chakrabarti, 2013).

The Exploitative Approach: It is argued that large part of informal sector is related to formal sector and there is a hierarchical relation where formal sector dominates. In fact, the

formal sector uses the informal sector for processing raw materials supplying cheap consumer goods and raw materials for production.

However, under this approach sub-contracting is not understood as a complementary relation rather an exploitative relation, where the formal sector is the hierarchical superior and the informal sector is normally subordinate and dependent (Mukherjee and Chakrabarti, 2010).

The Formal-Informal Dichotomy by Disaggregating Informal Sector into Rural Non-Farm and Urban Informal

The complementarity between formal and urban informal sector: The formal-urban informal complementary relationship through demand and supply side linkages is found, where the products of urban informal sector are either consumed or used for the production in formal sector through sub-contracting (Chakrabarti, 2013).

The conflict between formal and rural informal sector: There is a basic resource conflict between formal sector and rural informal sector as far as generic agricultural supply constraint. It is argued that formal sector drains resources (mostly natural resources and even the raw products from petty marginal agriculture) (Chakrabarti, 2013).

The Informal-Informal and Informal-Agriculture Dichotomy by Disaggregating Informal Sector into Rural Non-Farm and Urban informal

The complementarity between rural non-farm and rural farm: Substantial literature on rural non-farm sector (Johnston and Kilby, 1975; Krishna, 1976; Bhalla and Chadha, 1983; Hazell and Roell, 1983; Vaidyanathan, 1986; Haggblade et al, 1989; Hazell and Haggblade, 1990; Harriss, 1991; Saith, 1991 and 1992; Ranis and Stewart, 1993; Roy, 1994; Jashi et al, 2004; Sanyal, 2007; Chakrabarti and Kundu, 2009; Kundu and Chakrabarti, 2010; etc) proposed that both farm/agricultural sector and rural non-farm sector/rural unorganized sector are complementary to each other through demand (consumption) and supply side (forward and backward) linkages.

The complementarity between rural farm and urban informal sector: It is argued that urban informal sector and rural farm sector (producing chiefly basic crops) are positively associated due to primarily demand and supply side linkages. Petty agriculture supplies basic

food and basic raw materials to urban informal and demands informal products (Chakrabarti, 2013).

Fundamental Research Gaps: From this whole review of literature it follows that informal or unorganized sector units are primarily tiny enterprises having different types of activities and that of relationships with formal or organized sector. However, various categorizations have been discussed and in many cases the differences between the formal and informal sectors are identified. But, the relevant issues relating to inter-intra-sectoral socio-economic relationships among firms within the informal sector, such as, the objective for entering into the present occupation, different sources of skill, inter-intra-firm relationships, the inter-relationships (complementary/conflict) among different categories (small-medium-large)² of informal sector in rural and/or urban locations, etc remain almost absent in the literature. Now, I point out the following gaps in detail.

- It is true that in categorizing informal sector, ILO and NSSO have mentioned that this sector operates typically at a low level of organization and technology with primary objective of generating employment and income for fulfillment of needs, but the objective for entering into the present business is relatively less in the literature.
- The issues relating to the different sources of initial costs to opening up the business, particularly the initial fresh fixed cost, the initial variable cost on tools, machines, land, etc are relatively insufficient in the literature.
- The method of determination of quantity as well as price of output is almost absent in the literature.
- The literature proposes theoretically that the informal sector operates typically at a low level of organization through improvisation of skills from outside the formal schooling system, but no sufficient empirical supports have been provided.
- The inter-relationships (complementary/conflict) between the formal sector and informal have been proposed in the literature. But the issues relating to the inter-relationships (complementary/conflict) among different categories (small-medium-large) of informal sector in rural and/or urban locations are scanty.

² OAME: Own-account Manufacturing Enterprise (without hired labour), NDME: Non-Directory Manufacturing Establishment (employs less than 6 workers including household and hired workers). DME: Directory Manufacturing Establishment (employ 6 or more workers including household and hired workers) (NSSO, Report No. 433, 1994-1995 51th round)

- The impact on the distribution of income, and poverty for both rural and urban informal segments (small-medium-large) as a consequence of expansion of both rural and urban formal sector through resource extraction (supply-side conflict), such as land conversion and / or land acquisition is almost absent.

Fundamental Research Objectives: The different type of activities and behaviours of the informal sector should be explored as far as the income-employment share, on the one hand, and inter-intra-sectoral economic and/or social relationships, on the other hand, is concerned. However, I will try to focus on the following contemporary issues relating to aggregate or/and disaggregate; and market or/and non-market; economic activities of the informal firms.

- Objective for entering into the present occupation.
- Different sources of inputs: both initial and fresh fixed cost, both initial and fresh variable cost, tools, machines, etc.
- The institutional arrangements between the input supplier-firm, on the one hand, and the buyer-firm, on the other.
- The method of determination of quantity as well as price of output.
- Different sources of skill.
- The inter-relationships (complementary/conflict) among different categories (small-medium-large) of informal sector in rural and/or urban locations.
- The impact on the distribution of income, poverty for both rural and urban informal segments (small-medium-large) as a consequence of expansion of both rural and urban formal sector through resource extraction (supply-side conflict).

Conclusion/Proposition: Some important propositions that emerge from the preceding analyses based on the critical review on substantial literature about the occupational and organizational characteristics of the informal sector, on the one hand, and the inter-sectoral relationships among different types (small-medium-large) of informal enterprises³ for rural and/or urban location/s. This comprehensive critical review of the informal sector, based on substantial literature, emerges some important propositions.

³ **Enterprise:** An enterprise is an undertaking engaged in the production and / or distribution of some goods and/ or services meant mainly for the purpose of sale, whether fully or partly. An enterprise may be owned and operated by a single household or by several households jointly on a partnership basis, or by an institutional body (NSSO, Report No. 433, 1994-1995 51th round, p. 12).

Firstly, it can be argued that the greater dynamism and potential for economic growth affect positively the informal labour market and the distribution so far as broad-based employment generation by this sector is concerned.

Secondly, the degree of formal-urban informal complementarity (through backward and forward linkages) is high in comparison with the degree of formal-urban informal conflict (both demand-side and supply-side conflict).

Thirdly, the expansion of formal sector based on capital accumulation through resource extraction (supply-side conflict), i.e. land acquisition and land conversion, could have a negative impact on the distribution of income and poverty for the small and micro segment of the rural informal enterprises as far as the complementarity between the rural informal sector and the rural-farm sector is concerned.

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