

Unorganised Sector in India: Need for a Separate Government Policy

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Abstract

Almost all the metropolitan and large cities in India have two juxtaposed systems of production, one based on modern techniques and line of production and the other completely traditional in nature. Arthur Lewis and others saw the cities with their modern industries as dynamic centres through which rural poverty can gradually be overcome. It was assumed by Lewis that unorganized sector with surplus labour will gradually disappear as the surplus labour will get absorbed in organized sector. But this has not come true in countries like India.

According to a study made by Parthasathy, amongst the total employment of 188.70 million the share of unorganized sector was 92.26 per cent (174.10 million) in 1961. This share declined a bit and it was found that in 1991 amongst the total employment of 286.08 million the share of unorganized sector was 90.66 per cent (59.38 million) The share of unorganized sector in Net Domestic Product which was estimated to be 70 per cent during the year 1980-81 marginally declined to 63.85 per cent during 1990-91

Keywords: Informal Sectors, Casual Workers, Credit, Casualization, Social Security.

Introduction

Despite the large magnitude of informal sector activities and high proportion of workforce engaged in it, adequate and reliable data and information is not available on important aspects of it such as how this sector functions, what is its employment. Potential, contribution of this sector to the city economy, its requirement in terms of infrastructural facilities, etc.

Structural adjustment programmes are likely to have an adverse impact on employment both within organized as well as unorganized sector. The organized sector is likely to witness retrenchment and casualization of employment opportunities because industrial firms may shift to capital intensive technologies requiring higher skills and ultimately pushing relatively 'unskilled' to declining traditional industries with prospects of less income and eventual loss of employment.

In the light of not too optimistic position of traditional industries, massive public investment in energy, transport and communication, public civil, engineering products and social services will be found necessary. They will create massive number of new jobs while at the same time upgrading the technological capabilities of workers.

Objective of the Study

The relevance and size of the unorganized sector is increasing in the Indian economy. Looking at the large employment in this sector, the workers in this sector are totally unprotected and have nothing in name of social security. This is a time when we should realize that the massive proportion of workers employed in unorganized sector is bound to increase as a consequence of structural adjustment. Government shall have to create safety-nets for persons employed in this sector by launching new labour welfare and social security policies for them. A new approach to development in which these petty producers are made agents of social transformation through their own organizations which will bring them economies of scale of production, technology, credit and marketing will be found necessary.

Dualistic Economies of Indian Cities

The economic structure of the cities in industrially developed countries can be described as a distinct mode of production, with capital intensive high wage sector assisted with modern know-how and information and full integration with the world economy. But in developing countries like India dualistic nature of city economies still persist. Almost all the metropolitan and large cities in this country has two juxtaposed systems, one based on modern techniques and line of production and the other completely traditional in nature. The socio-economic duality theory of Arthur Lewis was popular in 1950s and 1960s. Lewis and others saw the cities with their modern industries as dynamic centers through which rural poverty can gradually be overcome. It was assumed by Lewis that unorganized sector with



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surplus labour will gradually disappear as the surplus labour will get absorbed in organized sector.

This Lewis model, which was drawn from the experience of capitalist countries in which the share of agriculture and unorganized sector showed a spectacular decline, was not found to be effective on many developed countries, including India. These late-comer countries faced an entirely new situation of development. The information and knowledge revolution generated from the western developed economies was generally labour intensive.

The situation we witness in India today is totally different. The share of unorganized sector in national income has been declining but the number employed in this sector continues to swell in seven decades of post-independence growth has not been able to absorb the labour force present in the unorganized sector. There is a need today for the government to extend direct support to unorganized sector accepting it as a channel for improving productivity and incomes of the poor.

Informal Sector: The Conceptual Framework

There is much controversy on the concept of informal or unorganized sector. It was been sometimes defined as the sector which is not registered under the total labour force. Since the small and village industry is not generally registered, they were generally referred as unorganized sector. But this was not the right conception. This method will not cover the unorganized part of the service sector. Further all the small industries will not lie in this category because some of these small industries do have their registration under Factories Act. Another is its way of production. While the unorganized sector is recognized with the pre-capitalist or traditional way of production. This sector comprises of unregistered workers who are not covered under any social security scheme. This unorganized sector is also sometimes referred to as informal sector.

The term informal sector was first used in socio-anthropological studies during 1950s. Since then the term was used by numerous sociologists and economists. The concept was refined by a mission of International Labour Organization (ILO), which studied employment situation in Kenya, Sri Lanka, Columbia and Philippines. The ILO reports laid down eight important characteristics of informal sector viz: (1) ease of entry, (2) reliance on indigenous resources, (3) family ownership of enterprise (4) small scale operation and low productivity, (5) labour intensive and adopted technology (6) skills acquired outside the formal school system, (7) unregulated and competitive market and the last but most important and (8) lack or support and recognition from the government.

These ILO reports stressed on enterprise rather than individuals as a basis for the formal-informal classification. In India earlier scholars emphasized on the type of employment as the criterion for drawing line between informal and formal sector. According to them the formal sector workers have the protected labour market, while those in informal sector are exposed to uncertainty and whims of the employer. Once an enterprise is registered under the Factories Act, the procedure or recruitment, work condition, hour of work, leave and payment of wages are formalized and therefore it becomes part of the formal sector.

The modern city dwellers increasingly depend on those engaged informal sector activities like domestic servants, dhobi and launders, gardener, hawkers dealing in variety of goods such as vegetables, bread and butter, eggs, repairing of two to four wheelers, shoes, electrical appliances, etc. Apart from these, there are persons engaged in some productive activities/crafts like potters, bidi-markets, etc mostly engaging family members or one or two hired workers. Besides, there are casual or unattached workers who are making a living in some way, who do not have a high degree of stability in income or economic security. Such way of making for others and self-employment, legal and illegal, productive and unproductive activities. An overwhelming majority of casual workers are engaged in small industries, artisan production, petty commerce, personal and domestic services; construction and transport activities; These are described as short-term wage workers, disguised wage workers, dependent workers and true-self-employed and they all come in the category of unorganized sector.

**Inadequate
Information of
Informal Sector**

In spite of the large magnitude of informal sector activities and high proportion of workforce engaged in it, adequate and reliable data and information is not available in important aspects of it such as how this sector functions, what is its employment potential, contribution of this sector to the city economy, its requirement in term of infrastructural facilities, etc. The studies done so far have not been comprehensive in their coverage of all aspects relevant to the functioning of this sector, especially planning and development of this sector particularly in the large metropolitan cities with a view to enable this sector to increase the employment opportunities for the urban unemployed and underemployed as also to offer scope for self -employment. Parthasarthy made an attempt to assess the current situation of employment in unorganized sector. According to him in the 1961 census, amongst the total employment of 188.70 million the share of unorganized sector was 92.26 per cent (174.10 million). This share declined a bit and it was found that during 1991 census, amongst the total employment of 286.089 million the share of unorganized sector has marginally come down to 90.66 per cent (59.38 million). It is to be noted that for this estimation Parthasarthy has calculated employment in the unorganized sector by subtracting employment in organized sector from total labour force.

As per a survey carried by NSSO in 2009-10, the total employment in the country was 46.5 crore comprising around 2.8 crore in the organized and remaining 43.7 crore workers in the unorganized sector. Out of the workers in the unorganized sector, there are 24.6 crore workers employed in agricultural sector, about 4.4 crore in construction work and remaining in manufacturing & services. According to Bhandari Pranjul the lack of high frequency real-time economic indicators make it hard to track Indian large informal sector, which employs more than 80 percent labour force and produce more than 50 percent of GDP. Proxying informal sector GDP by formal sector GDP works fine in normal days, but not when the two sectors are diverging. Recent shocks such as demonetization and the pandemic have delivered a big blow to informal sector firms. Of the total in formal sector employment nearly half work in agricultural sector rest in other sector. The second wave hit rural India hard. Rural sentiment fell sharply, but has begun to recover since to understand the economic health of agriculture works, we divide then up its marginalized workers among less than 1 hectare of land and the 'landed' heavy more than 1 hectare.

Parthasarthy has also analyzed the contribution of unorganized sector to Net Domestic Product at current prices on the basis of National Account Statistics, 1993. According to him during the year 1980-81 the share of unorganized sector in Net Domestic Product was 70.03 per cent which decreased down to only 63.00 per cent by 1987-88. This share has marginally increased and was assessed to be 63.85 per cent during 1990-91.

The analysis of the industry wise share of organized sector in the NDP also reveals its relative performance. In agriculture, fishing and forestry the share of unorganized sector was as high as 96.79 per cent in 1990-91. In the construction sector the share unorganized sector was found to be 54.04 per cent during 1990-91. Similarly the share of informal sector in trade, hotels, and restaurant was estimated to be 92.85 per cent. Whereas the per cent in hotels and restaurants was 85 percent only in the transport sector the share of unorganized sector was low at 48.85 percent only.

This National Account Statistics reveals the fact that the industries like electricity, gas and water, Railways Communication, Public Administration and Defense are exclusively under organized sector of production. Financial services, bank services are also within organized sector. The unorganized sector accounts for much of agricultural production, bulk of trade and construction, hotels and restaurants, major part of transport excluding railway and storage.

**Issue of the Informal
Sector**

As stated earlier, in view of the sizeable employment opportunities in the unorganized sector and its capacity to provide a wide variety of goods and services and also to generate employment and income for the urban poor, the unskilled and semi-skilled workers, this sector has to be studied in detail. Further, the most important factor to be reckoned in undertaking such study is that little authentic is known about this sector and its physical and economic infrastructural facilities. Data for such type of study can be had only from primary sources and field survey designed specially for the purpose. The result of such study can be used in formulating proper schemes for augmentation of infrastructural facilities in other urban centers

Structural adjustment programmers are likely to have an adverse impact on employment both within organized as well as unorganized sector. The organized sector is likely to witness retrenchment and casualization of employment opportunities. The unorganized sector will be forced to accept persons released by the organized sector and as a result in the process the wages and self-employment opportunities for the unskilled and semiskilled workers are likely to deteriorate further. Industrial firms may shift to capital intensive technologies requiring higher skills and ultimately pushing relatively 'unskilled' to declining traditional industries with prospects of less income and eventual loss of employment.

Since the eighties, there has been no additional employment in the private organized sector despite increase in investment. Given this trend the disinvestment or public sector and the shift to private sector are likely to close even the meager opportunities of entry even for blue collar workers. They will drift into unorganized sector and into self-employment. The need for imported access to institutional credit will be greater than in the past. The government will have to help promote marketing the products of the informal sector.

Small and petty producers in agriculture suffer from constraints of not only marketing but also production. Water management has to be a group activity even while each peasant cultivates his own plot because of externalities involved. Similarly externalities are involved in pesticide spraying. These small farmers can gain from globalization only through institution building based on group activity.

Given the huge and rising pressures on land, development programmes in agriculture alone shall not prove to be adequate. They are required to be supplemented by development of non-farm activity for the bulk of marginal farmers and agricultural labours. The unorganized sector might seek to overcome the constraints in production and marketing by arranging tie-ups with organized sector. But for this the government shall have to take policy initiative. The group-strength of the unorganized has to be promoted through adequate public support.

Conclusion

In the light of not too optimistic position of traditional industries, massive public investment in energy transport and communication, public civil engineering products and social services will be found necessary. This will create massive of new jobs while at the same time upgrading the technological capabilities of workers. This is a time when we should realize that the massive proportion of workers employed in unorganized sector is bound to increase as a consequence of structural adjustment. Government shall have to create safety-nets for persons employed in this sector by launching new labour welfare and social security policies for them. A new approach to development in which the petty producers are made agents of social transformation through their own organization which will bring them economies of scale of production, technology, credit and marketing will be found necessary.

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