

Variations in the nature of informality in India- A view from the standpoint of accumulation and structural change

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Introduction

The informal economy is broadly characterized by ILO as ‘*all activities that are, in law or practice, not covered or insufficiently covered by formal arrangements*’ (ILO, 2013). The formal arrangements refer to well-organized labour market, regular wage employment, and protection of labour rights at work with respect to employment and they refer to registration of enterprises under certain regulatory frameworks with respect to economic units/ enterprises. Informality can be a characteristic of employment, enterprises/firms, or activities based on the notion of exclusion from the ‘formal’. ILO and NCEUS in India identify informal economy by its two analytically interlinked yet empirically distinguishable components: informal employment and informal sector (comprising of informal enterprises).

Informality is a widespread feature of the agrarian and non-agrarian sectors of Indian economy. 88.2% of the total employment is informal. Excluding agriculture, 78.1% of the total employment is informal, out of which 64.3% is in the informal sector, 12.2% is in the formal sector, and the rest 1.6% is in the household sector (ILO, 2018, p. 88). Agriculture and non-agrarian informal enterprises also contribute significantly to the economy’s output. As per NCEUS (2009a), in the year 2004-05, the informal sector contributed to approximately 50% of the total GVA in the non-agricultural activities. Bulk of non-agrarian enterprises are in the informal sector.

There are wide variations in the nature of informality across and within the Indian states. On the employment side, incomes or wages, regulatory protection, types of labour relations, and the nature of consolidation of informal labour vary. On the output side, levels of productivity, net surplus, and capital accumulation of informal enterprises, and the relation between formal and informal enterprises vary. The objectives of the paper are a) to explore approaches to informality within the existing literature; and b) to explore variations in informality among major states in India on the output side.

Section I: Locating informality within structural change and accumulation processes

The ILO- led mainstream discourse on informality characterizes the entire informal sector in a generalized and undifferentiated manner as low productive sector incapable of productivity growth and capital accumulation (ILO, 2014; Kanbur, 2017; La Porta & Shleifer, 2014). In literature, a range of non-agrarian informal enterprises are identified and segmented into survivalist class (unincorporated own account enterprises) or the bottom of entrepreneurial class (unincorporated enterprises) (Chen & Roever, 2016). All of them are uniformly characterized as: “...*units engaged*

in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. These units typically operate at a low level of organization, with little or no division between labour and capital as factors of production and on a small scale” (Paragraph 5 (1) of the 15th ICLS resolution). ILO framework points that the ability of informal enterprises to innovate or take risks in order to generate the required profits or to expand the scale is constrained (ILO, 2014).

On the contrary, the World Bank Latin American and Caribbean studies assume that all firms are profit-maximizing entities and they make a rational choice whether or not to operate in the informal sector based on a cost-benefit analysis. Small firms choose to avoid costs of regulatory compliance and operate in the informal sector in order to survive the competition from large formal firms and stay in business. As a result, they cannot access the formal benefits such as formal credit, infrastructure, government support services etc., which reinforce limited productivity and growth potential of these firms relative to formal firms (Perry et al., 2007).

However, Kanbur (2017) argues that informality is not a choice made by a firm. It is low productivity that causes informality citing the evidence¹ of Indian manufacturing. Most enterprises do not even fall under the purview of regulation. In case of own account enterprises like bidi-rolling enterprises, he argues low productivity is a result of low bargaining power vis-à-vis contractors and sub-contractors to whom they sell their output. He also argues that productivity and income in such enterprises can be improved by skill training, access to infrastructure, improving technology and access to credit for expanding operations etc. Chen (2007) argues that informal enterprises comprise of both survivalist enterprises as well as stable and dynamic businesses. Often, they are locked in unequal exchange relationships with the formal regulatory environment which results in low levels of productivity. A WEIGO study of women own-account enterprises (inclusive of home based production, street vendors, and waste pickers) in ten select cities across the world, show that low earnings, high risks and constraints in enhancing their productivity are a result of the challenges in their access to organizational support, links to markets and supply chains, basic infrastructure services etc., (Chen & Roever, 2016).

La Porta & Shleifer (2014) argue that informal firms are unproductive and inefficient because the value-added, wage levels, and the quality of products is very low in informal firms relative to formal firms. They argue that informal firms are neither a hub of entrepreneurial energy as argued by De Soto, nor are parasites or a threat to formal firms as argued by McKinsey Global Institute. They cannot survive competition with formal forms and will eventually disappear. These arguments are arrived on the basis of data from World Enterprises Survey which show that 91% of the surveyed enterprises do not convert into formal enterprises; and there is reduction in the levels of self-employment with economic growth across countries.

¹ The study is based on NSSO data.

Although there are debates in the above studies on whether informality is a choice made by capital or labour; whether informal and formal economies are linked to each other; and whether informal enterprises have entrepreneurial potential etc.; it appears as though there is consensus over low productivity of informal sector and its inability to drive economic growth. In other words, the possibility of informal enterprises becoming sites of capital accumulation is not acknowledged. Sites of capital accumulation refer to spaces/sites where increase in labour productivity allows for generation of surplus and accumulation of surplus in the form of capital. Such an undifferentiated characterization of informal sector fails to capture the complexity and heterogeneity in the informal activities across regions and across sectors.

For instance, the American family farm is different from that of a Latin American or Asian peasant farm (Boltvinik & Mann, 2016, p. 53). American family farmers are owner-cultivators from New England who were given access to vast reaches of land without feudal ties in the North. The land is made available in the first place through what is called a 'genocide' or 'holocaust' of Native American Indians. These farmers cultivated land using family labour. The cultivation in Northern parts of America as simple or petty commodity production continued to survive till the 1930s due to the proactive support of the American State through agricultural policies (Friedman as cited in Bernstein, 1986). These American farms in the North along with the slave-trade in cotton plantations in the South until the Civil War formed sources of surplus and backbone of industrial production (Gerdeman, 2017). In other words, they were sites of capital accumulation.

In Asia in pre-war Japan, powerful landlord class had strong control over the peasantry. The average size of landholdings was very small, and tenancy was highly prevalent. The landlords were non-absentees and intervened with the improvements in agricultural techniques. Rents were much higher than profits from large-scale capitalist farming. The State also facilitated landlordism and extracted surplus in form of huge direct tax. Peasant resistance was suppressed through military forces. As result, peasantry was not differentiated into capitalist farmers and wage labour. However, the peasant cultivation in Japan formed a source of surplus and capital accumulation for industrialization (Byres, 1991). On the contrary, peasant cultivation in most third world countries is not a site of accumulation. Forced incorporation of peasantry into global circuits of commodity production and intense competition increased the peasant risks in third world. Peasantry in third world countries is forcefully integrated into global circuits of capitalist production. Growth and concentration of agribusiness capital in input markets; agro-processing and retail industries in product markets (Bernstein, 1986); intensified competition and a systematic over-production in tropical countries depressing prices in international markets; or increase in the demand for labour by cash crops tightening labour market in food grain cultivation and pushing up wages etc., are squeezing the surpluses of a peasant (Bernstein, 2010).

Similarly, there are instances of rural non-farm enterprises becoming sites of capital accumulation. Post- World War Japan had imposed land reforms and access to American markets. As there was no separation of a peasant from the land, there was greater emphasis on rural industrialization in Japan. It has witnessed the development of family-based capitalist industrial sector heavily reliant

on petty commodity outwork. The peasant subsistence was therefore, reproduced with the support of non-agrarian incomes. In the context of China, post-Deng reforms Chinese economic growth is also attributed to decentralized rural industrialization led by Township and village enterprises (TVEs). Rural population engaged in the intensive cultivation of small plots besides industrial and non-agricultural work. It is not just a mechanism of absorption of surplus rural labour, but it is also a way of expansion of domestic markets and improving productivity (Mohanty, 2012).

The above instances provide a counter narrative to mainstream approaches which do not acknowledge the possibility that informal enterprises can become sites capital accumulation. All these agrarian and rural non-agrarian enterprises qualify as informal enterprises by definition. The nature of productivity growth, capital accumulation, conditions of consolidation vary among these enterprises. Three reasons might explain why the dominant global discourse on informality guiding empirical studies and policy making in developing economies fail to capture these possibilities. 1) Urban orientation of informality discourse; 2) Approaches to informality from the standpoint of labour; 3) Abstraction of the nature of productivity growth from structural change and accumulation processes.

Firstly, since the origins in 1970s, the discourse on informality led by ILO has been oriented towards urban non-agrarian enterprises (Bhalla, 2018). The informal sector drew attention after Keith Hart's study identified large urban population engaged in low productivity yet income generating economic activities outside the modern capitalist sector in Kenya (Moser, 1978). Under the increasing pressure of migration from rural areas to urban areas across the World, and stagnation of modern capitalist sector, informal activities began to be viewed as sources of employment in cities. Though the concern was productive employment generation, agriculture and rural non-farm activities, which are by definition informal, were considered distinct from informal sector and left to be addressed separately. ILO never laid similar thrust on studies on rural areas (Bhalla, 2018). Besides, proliferation of precarious forms of labour due to scarcity of work in cities and rural areas (Breman, 1976); and increasing surplus population and intensification of poverty in urban slums (Bhattacharya & Sanyal, 2011); have also resulted in the concentration of most empirical studies on informal enterprises in large cities. As a result, the narratives of accumulation in agrarian and rural non-farm enterprises lost sight within the informality discourse.

Secondly, the dominant policy discourse led by ILO approaches informality from the standpoint of labour. Informal enterprises are primarily seen as transitional or intermittent sites of surplus labour absorption in the process of structural change. The policy discourse is articulated in terms increasing marginal labour productivity in informal enterprises as a means to improve incomes and livelihoods of surplus labour rather than a means to improve capital accumulation. This view is mainly shaped by the location of informal enterprises in Lewisian and Marxian theoretical frameworks (Bhalla, 2018). In Lewis model, the informal sector temporarily holds surplus labour shifting from agriculture, until absorbed by modern non-agrarian capitalist sector. Surplus labour here is defined relative to the available supply of capital and natural resources etc. On the contrary,

in Marxian framework, surplus labour is defined relative to labour demand in capitalist sector. In Capital Volume II, Marx argues that capitalist production destroys all forms of commodity production which are based on self-employment of producers or traders, and by degrees, transforms all commodity production into capitalist production [As cited in (Moser, 1978)]. These optimistic inferences of surplus labour absorption into capitalist sector and disappearance of informal sector are drawn based on the historical experiences of differentiation of petty commodity production in eighteenth century UK by Marx and the Golden Age of American Capitalism by Lewis (Bhalla, 2018). Neither of the two frameworks make a clear distinction between rural and urban non-farm activities. Consequently, the dominant discourse of informality in developing economies emphasized on the growth of modern capitalist sector as the only route to reduce informality. The possibility of informal enterprises becoming sites of capital accumulation or the route of rural industrialization to productivity growth in an economy are not paid due attention in both theory and practice.

Thirdly, the mainstream approaches abstract the analysis of productivity growth in informal enterprises from structural change and accumulation processes. They emphasize on the supply-side constraints to productivity growth in informal enterprises such as lack of access to, property rights, markets and supply chain, bargaining power, infrastructure, credit, education, human capital, training, and technology etc. While within sector productivity growth comes through capital accumulation, technological change, or reduction in misallocation of plants; between sector productivity growth can come from the shift of resources from less productive to more productive activities (McMillan et al., 2016; McMillan, Rodrik, & Verduzco-Gallo, 2014). While Asian economies experience growth-enhancing structural change i.e., shift of resources from agriculture to high productive informal activities; Latin American and African economies experience growth-reducing structural change i.e., shift of resources from agriculture to low productive informal activities (McMillan et al., 2014). This opens up possibilities of various paths of structural change. However, neither mainstream approaches nor Mcmillan & Rodrik framework locates nature of productivity growth in broader accumulation processes. The lens of accumulation allows us to capture variations in the causes and forms of persistence of informality.

Accumulation processes broadly refer to the processes which determine productivity growth, generation and distribution of surplus and capital formation in the economy (Lerche, 2013). The processes of accumulation depend on the historic path of capital formation (Byres, 1991), growth of agricultural productivity and the question of land, access to domestic and international markets, power relations external to the economy- imperialism or globalization etc., (Bernstein, 2010) and power relations within an economy –class struggle (Mitra, 1977; Robert Brenner, 1982), social structures such as caste and gender (Breman, 2010), and the role of state in regulating institutions (Barabara Harriss-White, 2003). The informality is a product of interaction among these parameters, and its consolidation qualitatively differs across regions. The conditions of organization of production of informal output and associated informal labour processes together shape the informal accumulation processes.

Sanyal (2007) locates causes and persistence of non-agrarian informality endogenously within accumulation process but approaches it from the standpoint of labour and urban orientation. He argues informal enterprises constitute the site of need economy while formal enterprises constitute the site of accumulation economy. The primary objective of the former is to generate sufficient incomes to meet current and future consumption needs of the family and the objective of the latter is to produce for profits. Enterprises in need economy do not accumulate as they operate outside capitalist circuits of production but within capitalism. The need economy is continuously created and destroyed and it is formed through 'exclusion' in the ongoing process of primitive accumulation. However, the need economy is never totally subsumed by the capital economy due to the labour-displacing nature of capital accumulation. The displaced labour do not constitute the reserve army of labour for the capital economy. Hence, the two parts operate with the logics of their own and there is no narrative of transition to formality in this framework. Therefore, informal enterprises in Sanyal's framework are characterized only as sites of surplus labour absorption. Persistence of surplus labour in agriculture and rural non-farm enterprises remains unaddressed.

On the contrary, the petty commodity production (PCP) approach to informality adopts the standpoint of capital. Petty commodity production is an independent, productive activity for market undertaken to meet the subsistence levels of production and culturally defined private consumption (Harriss-White, 2012). It is characterized by the unity of the owner and means of production, and the use of household or family labour in production (Bernstein, 1986; Harriss-White, 2012). Thus, a peasant who is attached to her land (Bernstein, 1986; Harriss-White, 2012), an artisan who owns and manages her instruments of production, and petty traders (Ayata, 1986; Harriss-White, 2012) broadly constitute the petty commodity producers. The pre-existing power categories and social structures determine the ownership of the means of production- be it land ownership or access to money, credit, and capital etc. Often, prior capital and credit requirements of a petty producer are met through non-market mechanisms such as inheritance, inter-generational savings, or social networks etc., (Harriss-White, 2012). But, the unity of capital and labour in PCP is constantly reproduced along with its social (production) relations within the capitalist circuits of commodity production (Bernstein, 1986). PCP is inserted into the circuits of capitalist commodity production in diverse ways and it has always been articulated in relation to the wider social formations of feudalism or capitalism (Moser, 1978).

The manner of consolidation of PCP is contextual. Harriss- White argues that the consolidation of PCP is an outcome of the contradiction between the forces accelerating accumulation in one place/activity but suppressing accumulation in some other place/branch of activity. So, PCP is not transitional and can be consolidated at any stage of the production in a commodity chain (Harriss-White, 2012) . The process of Capitalist development is a process of differentiation of peasantry and petty commodity production into capital and wage labour. The differentiation process is neither frictionless and instantaneous, nor unique (Byres, 1991). Few examples would highlight how PCP provides a suitable framework for the purpose of our study.

In the post-World War II Turkey, the emergence of new fields of industrial activity and new areas of specialization due to an internal division of labour among the existing crafts created spaces for PCP. Under the conditions of market growth and technological progress, petty producers in some sectors could accumulate and expand whereas some of them couldn't survive the competition due to changing demand patterns and rigidity in internal labour processes etc. Overall, Turkey had seen a relative decline in PCP in manufacturing and an increase in the small-scale capitalist enterprises and proletarian outwork in Turkey owing to the market growth and nature of industrialization (Ayata, 1986).

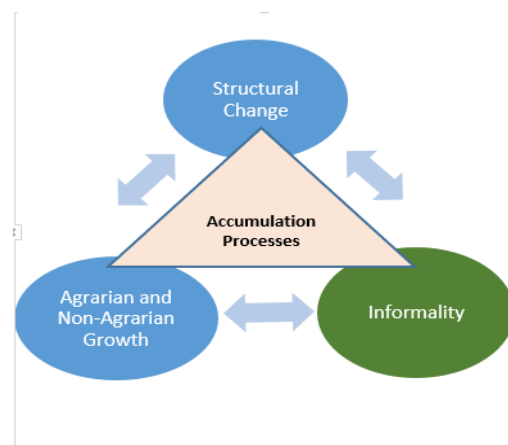
Bernstein (1986) argues that the process of differentiation of peasantry and PCP is conjectural and depends on the conditions of competition and class struggle. While in the global North, rising real incomes, agricultural productivity, and the accumulation patterns of the US and the UK allowed the surpluses generated in agriculture to form a basis for industrial accumulation; commodification of peasant subsistence under the conditions of globalization, led to consolidation of petty commodity production in non-agrarian activities in third world economies. Therefore, peasants also become petty commodity producers in order to meet their subsistence/reproduction needs. They rotate in the locations of the social division of labour from agriculture to non-agriculture, from rural to urban etc.

In India, the peasantry is subordinated to merchant and usury classes through interlocked contracts in multiple markets i.e., control over prices in different markets is with the same person. (Harriss-White, 2012). Thus, the setting of prices is no longer dependent on the demand-supply market mechanisms but is predetermined through power relations. It also shifts the risks of default to the peasant from multiple markets and pushes him into compulsive exchange relations (Bhaduri, 1986). The non-agrarian petty producers lose the direct control over their production due to vertically integrated forms of finance, or how the supply of raw materials, technology and labour are linked to the commercial and manufacturing capital. Some of the forms in which this integration is manifested are subcontracting, outsourcing, homeworking, in-sourcing etc. Under the circumstances of unequal power and authority structures and stunted market growth, PCP reverts to self-exploitation to reproduce itself. (Harriss-White, 2012)

Therefore, the PCP approach locates the possibility of agrarian and non-agrarian informal enterprises becoming sites of capital accumulation. The differentiation of PCP requires simultaneous growth of markets, expansion of commodity production, and formation of capitalist production/social relations. Inadequate or stunted market growth dampens the forces of accumulation and blocks the process of formation of wage labour. The nature of differentiation of PCP determines the structure of the labour force. Therefore, the PCP approach to informality is more suitable to capture the possibilities of informal enterprises as sites of surplus labour absorption and sites of capital accumulation.

Section II Framework and Methodology

Non-agrarian informal enterprises or unincorporated enterprises constitute bulk of enterprises and employment in non-agriculture sector in India. The nature of productivity growth and capital accumulation in these enterprises play an important role in shaping the nature of non-agrarian accumulation in India. As the domestic market for non-agrarian goods and services expand, the production of non-agrarian commodities can either consolidate in the form of petty commodity production; or in the form of capitalist commodity production. It depends on the historical conditions of capital formation and the relationship



between finance capital and petty commodity production (Moser, 1978, p. 1062). The process of differentiation of petty commodity production into capital or labour is subject to the nature of market growth, structural change, and associated path of agrarian and non-agrarian accumulation.

The process of structural change in agrarian-based economies is a shift of resources and people from agriculture to non-agriculture activities. It is also defined as a shift from low-productivity activities to high-productivity activities (Mcmillan et al., 2016). In a successful structural change, the share of agriculture output to total output must decline over time; and it must decline in tandem with the share of agriculture employment (Balakrishnan, 2010, p. 22). On the corollary, the share of non-agriculture output and employment must rise in tandem. It requires expansion of markets for non-agrarian goods and services and demand for labour in their production. On the other hand, if the share of employment in agriculture relative to its share of output is high and if they do not decline in tandem, it indicates relative surplusness of labour (RSL) in agriculture (Mohanty, 2009). It may be an indicator of a distorted structural change. It is interesting to note that high levels of economic growth can be obtained in both scenarios. However, existence of surplus labour in agriculture allows for a different type of capital accumulation (Breman, 2010).

According to Kuznets stylization, dynamic agriculture is at the center of accumulation in the non-agrarian economy. In peasant economies, usually rising productivity and the subsequent rise in per capita incomes in agriculture constitute the initial sources of demand for non-agrarian industrial and consumer goods². Demand for the production of non-agrarian goods creates demand for labour. It gives an impetus to the shift of labour from agriculture to non-agricultural activities.

² The share of food in the total consumption declines and it is substituted by non-food items because the income elasticity of demand for necessities (agricultural commodities) is less than one and the income elasticity of demand of superior goods (industrial goods) is greater than one.

However, economic growth i.e., sustained increase in per capita income is a necessary but not sufficient condition to attain structural change in terms of employment. Two more conditions should be satisfied: a) positive and rising absolute levels of productivity in agriculture and non-agriculture; and b) convergence of productivity growth rates between agriculture and non-agriculture. Brenner (1982, p. 111) argues that continuous transformation of agricultural productivity in England provided a home market for sustained industrial expansion whereas stagnant agricultural productivity in France, West Germany and Eastern Europe led to declining home market and the subsequent fall in manufacturing productivity. If the rate of growth of productivity in agriculture is lesser than the rate of growth of productivity in non-agrarian activities, the market growth will be stunted. As a result, non-agriculture sector faces constraints in accumulation, output growth and labour absorption. Therefore, simultaneous expansion of markets and production of goods and services in both sectors is a necessary to sustain stable economic growth, productivity convergence between sectors and surplus labour absorption (Balakrishnan, 2010).

However, higher level of economic growth is possible to attain even without productivity convergence between agriculture and non-agriculture. Lewis model of structural change indicates the possibility of capital accumulation in non-agriculture sector in the presence of surplus labour. Increase in labour demand in modern sectors can be supplied with the transfer of surplus labour in agriculture at constant and low level of wages. The underlying assumption is that profits are reinvested in the form of capital in labour-absorbing industries. As the surplus labour in agriculture declines, average product of labour i.e., labour productivity in agriculture begins to rise. Competition in the labour market intensifies and puts an upward pressure on wages in both the sectors which tends to squeeze profits. As a result, capitalists will have an incentive to adopt mechanization in agriculture to increase labour productivity in agriculture in order to cheapen the costs of labour reproduction i.e., wages. Thus, wages in agriculture begin to respond to marginal productivity of labour and dynamic agriculture begins to set in. In this process, per capita income and overall productivity levels in the economy goes up. The surplus labour continues to decline until productivity growth rates between agriculture and non-agriculture converge.

The productivity growth rate convergence between agriculture and non-agriculture can either be driven by urban or rural industrialization. Surplus labour in agriculture displaced from the land and other means of production can migrate to urban areas to generate self-employment or to find wage work. The process of proletarianization of rural surplus labour can take many forms. Under the conditions of adequate urban industrialization, labour markets are well organized and actual wages converge with market determined wages linked to demand-supply dynamics. On the contrary, under the conditions of scarcity of work in rural and urban areas, labour markets are fragmented and the links between the demand and supply are organized in a particularist fashion and the actual wage deviates from market determined wage (Breman, 1976). The underlying assumption here is necessary separation of peasants from land and capital accumulation is by dispossession.

On the contrary, Arrighi argues that dispossession is not a precondition to capital accumulation (Arrighi et al., 2010). The route of rural industrialization allows the possibility of partial proletarianization i.e., rural household incomes partly come from the attachment to land and partly from the sale of labour power in return for market wages. It also makes leaving the land without leaving the village possible (Mohanty, 2012).

Therefore, the path of successful structural change is not unique. There can be many variants/trajectories (Byres, 1991). The twin processes of surplus labour absorption and productivity convergence between agriculture and non-agriculture provide insights into the nature/ path of structural change. Surplus labour absorption is also a process of differentiation of sites of surplus labour i.e., informal enterprises. While the nature of surplus absorption provides insights into the labour processes, ways of integration of labour into production, and nature of class formation; the nature of productivity convergence throws light on different routes of closing productivity gap between the sectors. Together, they provide insights into the nature of market growth, agrarian and non-agrarian accumulation for a given path of structural change.

In this paper, we note four scenarios/paths of structural change. 1) High Growth- Productivity Convergence; 2) High Growth- Productivity Divergence; 3) Low Growth- Productivity Convergence; and 4) Low Growth- Productivity Divergence. While the first scenario is a case of successful structural change, rest of them are cases of distorted structural change. We explore variations in the nature of non-agrarian informal enterprises under these scenarios.

1) High Growth- Productivity Convergence Path

The scenario is primarily characterized by a) high levels of economic growth i.e., high levels of per capita income; b) positive and rising levels of agricultural and non-agricultural productivity; c) convergence of productivity i.e., agricultural productivity is growing at a faster rate than non-agricultural productivity over a period of time; and d) Low levels of RSL in agriculture. The high growth and productivity convergence path can be led either through urban industrialization or rural industrialization.

Under the conditions of simultaneous market expansion in both sectors, the process of differentiation of sites of surplus labour and creation of wage labour in agriculture and non-agriculture accelerates. In other words, the forces of accumulation accelerate differentiation process of peasantry and petty commodity production. Based on the dynamics of competition, non-agrarian informal enterprises may become sites of capital accumulation using hired wage labour or exit the market unable to survive competition. As the availability of surplus labour declines, labour markets tighten and there is upward pressure on wages which tends to squeeze profits in both sectors. This incentivizes introduction of mechanization and other methods of labour intensification to increase labour productivity and displace labour in order to cut down wages. Displaced labour enters reserve army of the labour. This is a cyclical process. At some point, the rate of productivity growth between agriculture and non-agriculture converge, and any further

increase in the productivity and economic growth shall come from capital intensification of labour processes (i.e., increasing capital to labour ratio) only.

2) High Growth- Productivity Divergence Path

The scenario is primarily characterized by a) high levels of economic growth i.e., high levels of per capita income; b) positive and rising levels non-agricultural productivity and positive but stagnant levels of agricultural productivity; c) divergence of productivity growth i.e., agricultural productivity is growing at a slower rate than non-agricultural productivity over a period of time; and d) high levels of RSL in Agriculture

Under these conditions, simultaneous market expansion in both sectors, the process of differentiation of sites of surplus labour and creation of wage labour in agriculture and non-agriculture are constrained. In other words, the forces of accumulation block differentiation process of peasantry and petty commodity production. The rate of productivity growth in non-agriculture grows at a much faster rate than the rate of non-agriculture productivity growth due to high levels of RSL in agriculture. However, high economic growth is led by positive and rising levels of agricultural productivity in absolute terms. In the availability of surplus labour, capital accumulation in non-agrarian sector can continue without creating an upward pressure on wages. Therefore, there is no incentive to introduce mechanization and other methods of labour intensification to increase labour productivity to displace labour in order to cut down wages. Hence, Capital integrates labour into production arrangements through various wage forms with or without capital intensification of internal labour processes.

3) Low Growth – Productivity Convergence Path

The scenario is primarily characterized by a) low levels of economic growth i.e., low levels of per capita income; b) positive and rising but low levels of agricultural and non-agricultural productivity; c) convergence of productivity growth i.e., agricultural productivity is growing at a faster rate than non-agricultural productivity over a period of time; and d) low levels of RSL in Agriculture.

Market growth in both sectors is not very rapid to accelerate the process of differentiation of peasantry and petty commodity production. Low levels of RSL in agriculture is due to higher absolute shares of employment and output in agriculture which in turn indicate stagnation in the growth of non-agrarian output. Non-agrarian production may largely consolidate in informal enterprises. Productivity convergence between sectors is due to low rates of growth of both agricultural and non-agricultural productivity. It is constrained by low levels of non-agricultural productivity in absolute terms and lack of capital intensification of non-agrarian enterprises.

4) Low Growth – Productivity Divergence Path

The scenario is primarily characterized by a) low levels of economic growth i.e., low levels of per capita income; b) positive or negative, very low and almost stagnant levels of agricultural and non-

agricultural productivity; c) divergence of productivity growth i.e., agricultural productivity is growing at a lesser rate than non-agricultural productivity over a period of time; and d) high levels of RSL in Agriculture.

This may be the classical case of informality where the shares of employment and agriculture are very high in absolute terms. The overall productivity levels in the economy in both agriculture and non-agriculture is very low. Market growth in both the sectors is stunted. The peasantry and petty commodity production persists and their differentiation process is blocked by the nature of forces of accumulation. There is no capital intensification in non-agrarian informal enterprises.

Methodology and Data:

The objective is to explore variations in the nature of non-agrarian informal enterprises among major states in India through the lens of structural change and accumulation. Therefore, major Indian states are classified into four groups based on the relative surplusness of labour (RSL) in agriculture and per capita income with reference to all India averages. RSL is a proxy indicator of the nature of structural change. RSL is defined in terms of sectoral shares of employment vis-à-vis output.

RSL is defined for a given sector as:

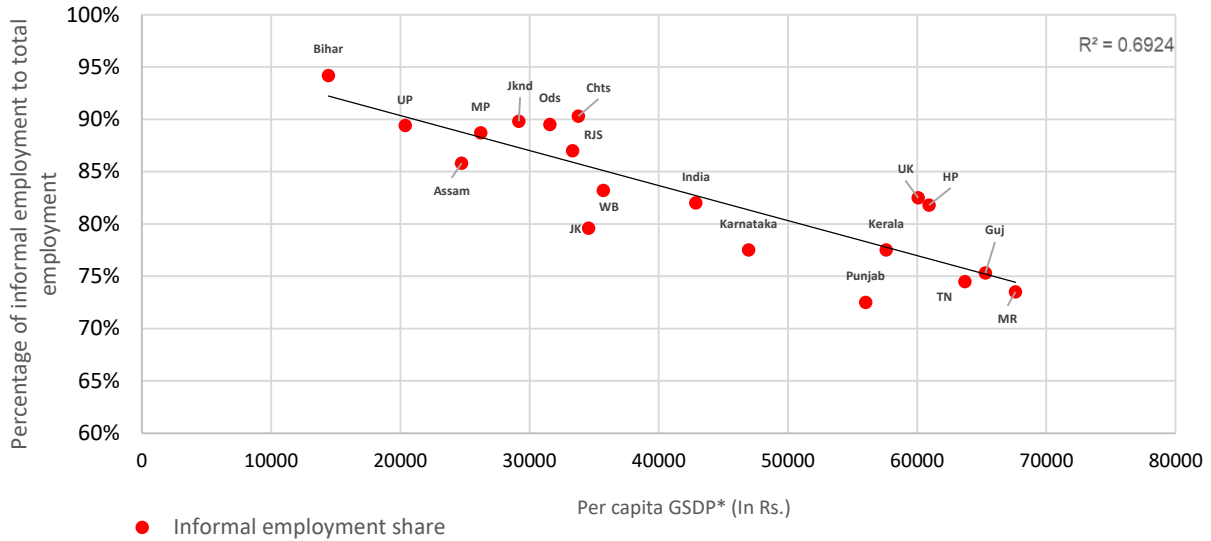
$$\text{RSL} = \frac{\text{Percentage share of employment to total employment}}{\text{Percentage share of output to total output}}$$

This classification enables us to identify the broad trajectories of structural change and associated accumulation patterns in India. Variations in output per worker in agriculture and non-agricultural informal enterprises across the four groups are studied. The study uses the data from National Sample Survey (NSS) on unincorporated non-agricultural enterprises- 67 and 73 round, NSS employment and unemployment surveys, Census, Reserve Bank of India and Annual Survey of Industries.

Section III: Variations in the nature of informality in India

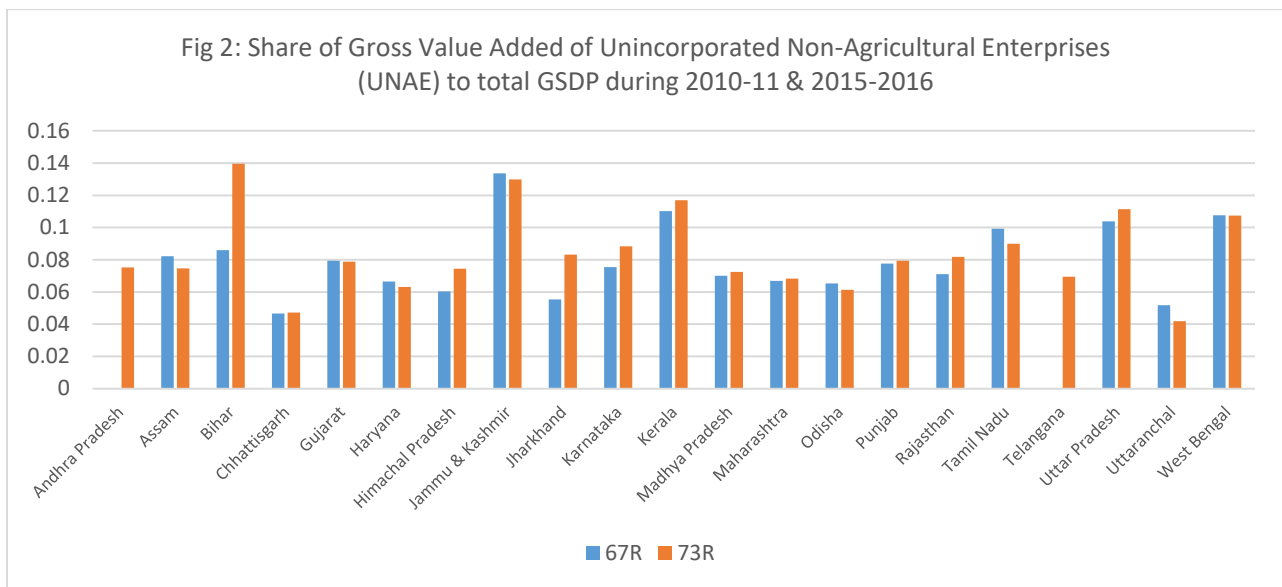
Across the countries, there is a negative relationship between the level of GDP per capita and the share of informal employment to the total employment. However, at every level of per capita GDP, there is a dispersion among countries in their levels of informality (p 46) (ILO, 2018). In India, as per Labour Bureau Fifth Employment and Unemployment Survey Report 2015-2016, total informal employment in India is 80% out of which self-employed is 47% and casual labour is 33%. The rest of 20% is regular wage or salaried and contract workers. According to NSSO 68th Round Survey, total informal employment is 82% during 2011-12. Across the major states, we find that share of informal employment to total employment varies widely in the range of 94% in Bihar to 74% in Maharashtra. Though we notice a negative relationship between the per capita GSDP levels and the share of informal employment, at least three-quarters of workforce is engaged either in self-employment or casual labour.

Fig 1: Percentage of informal employment among major states in India in 2011-12

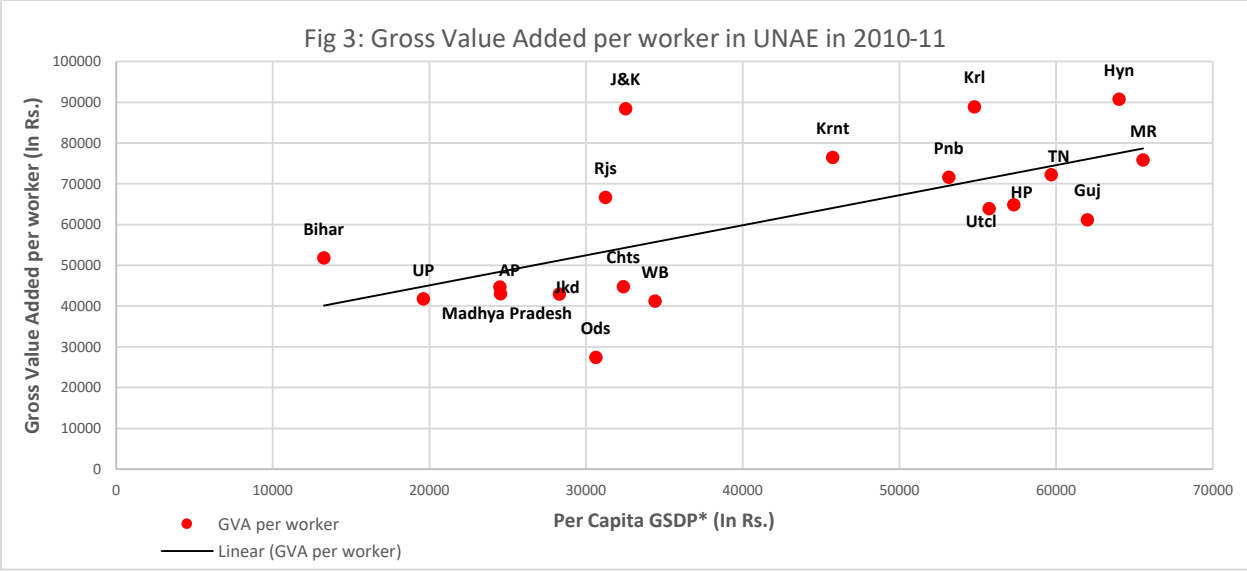


On the output side, informal sector output consists of agriculture and non-agriculture output. According to NSSO 67 (2010-11) and 73(2015-16) rounds of survey on unincorporated non-agricultural enterprises (UNAE), the output share of UNAE to total GSDP per each State varies in the range of 4% in Uttaranchal to 16% in Bihar during 2015-16.

Fig 2: Share of Gross Value Added of Unincorporated Non-Agricultural Enterprises (UNAE) to total GSDP during 2010-11 & 2015-2016



However, the average productivity level of UNAE indicated by Gross Value added per worker varies across States in the range of Rs. 27000 to Rs. 90000 (Fig 3).

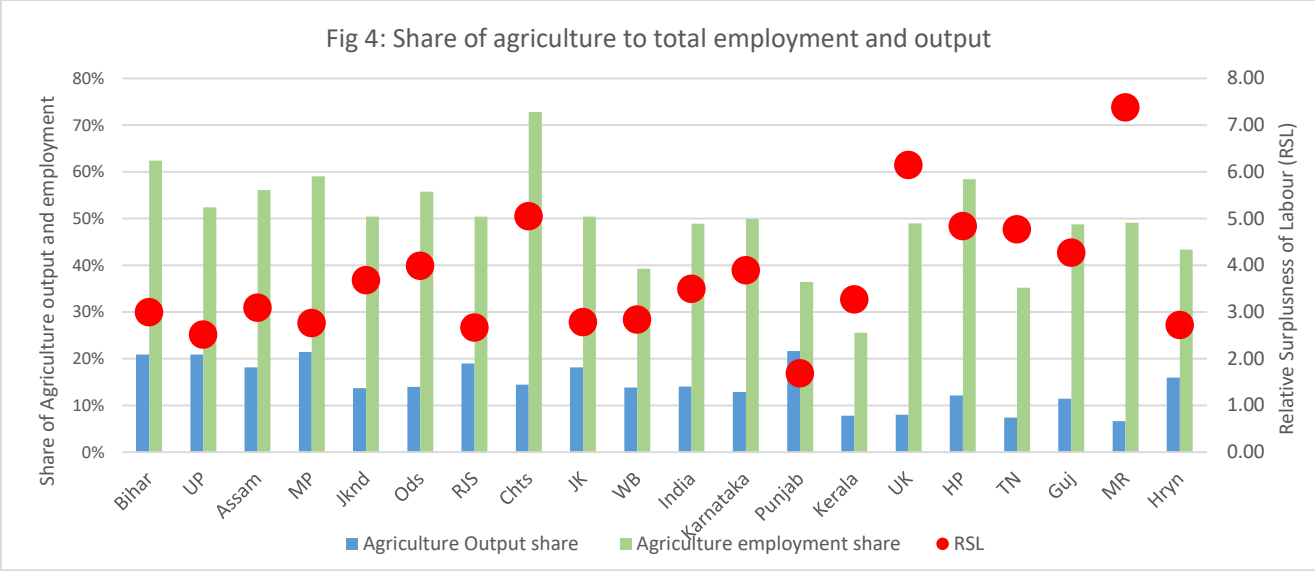


Agriculture output and employment are also important indicators of informality in India. It is observed that across countries, there is a negative relationship between per capita GDP levels and the share of agriculture in total economic output. We observe a similar trend in India across major states during 2011-12. The share of agricultural GSDP to total GSDP varies from almost 24% in Bihar to 7% in Maharashtra. However, we do not observe a negative relationship between the share of agriculture in total employment and per capita GSDP levels. Though the former varies in the range of 26% in Kerala to 73% in Chhattisgarh, majority of the states have at least 50% to 60% of its working population employed in agriculture, including high income states.

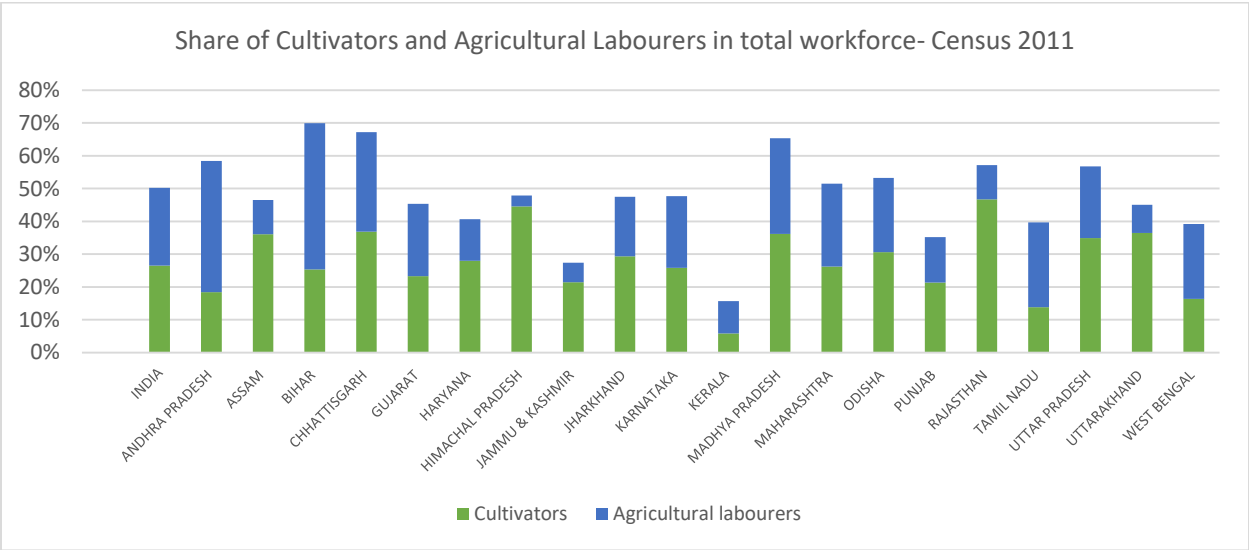
In a given economy, structural change must entail two things: 1) the share of agriculture employment to total employment must decline over time; and 2) it must decline in tandem with the share of agriculture output. However, in India, across large number of states, the absolute share of agriculture employment is high and there is a wide gap between the output and employment share in agriculture which indicates existence of surplus labour in agriculture.

We use a measure called ‘Relative surplusness of Labour’ (RSL) as an indicator of the nature of structural change. RSL is defined for a given sector as:

$$RSL = \frac{\text{Percentage share of employment to total employment}}{\text{Percentage share of output to total output}}$$



As per Census data, the share of total agricultural workforce (cultivators and agriculture labourers) to total workforce in India has fallen only from 69.7% in 1951 to 54.6% in 2011. Out of the total workforce, the share of agriculture labourers varies in the range of 6% in Jammu & Kashmir to 45% in Bihar and the share of cultivators varies in the range of 6% in Kerala to 47% in Rajasthan.

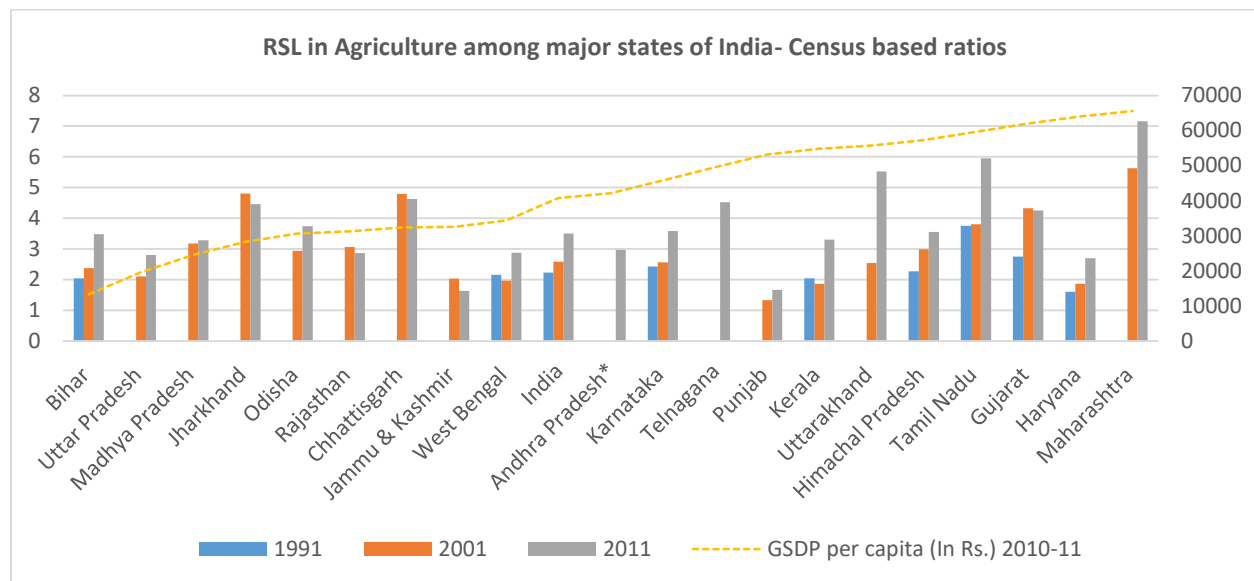


During this period the composition of the total agricultural workforce has also drastically changed and it varies across states. Out of the total agricultural workforce, share of cultivators has reduced from 71.9% to 45.1% while the share of agricultural labourers has increased from 28.1% to 54.9%. While the share of cultivators is highest among the states such as Himachal Pradesh (93%), Rajasthan (82%), and Uttarakhand (81%), the share of agricultural labourers is the highest among Andhra Pradesh (68%), Tamil Nadu (65%) and Bihar (64%). These figures indicate the nature of persistence of peasantry and growth of wage labour relations in agriculture varies across states.

Based on the workforce data from Census, we find that RSL in Agriculture has been continuously rising since 1991 till 2011. This indicates that decline in the share of employment is slower than

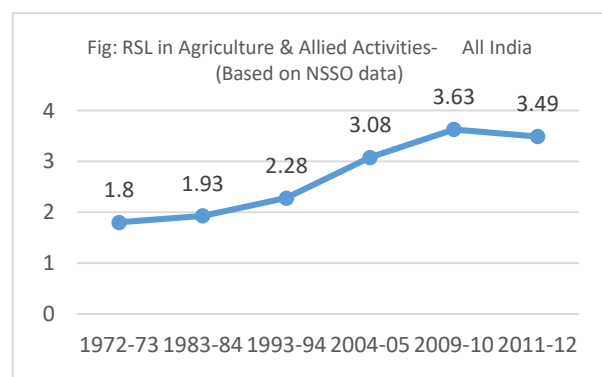
the decline in share of output in agriculture during these years. In other words, the shift of workforce from agriculture to non-agriculture is not in tandem with the shift of output from agriculture to non-agriculture. This is also called as ‘distorted’ or ‘stunted’ structural change.

However, this trend varies across the major states. The RSL ratios in Agriculture have continuously been rising among the states of Bihar, Karnataka, Himachal Pradesh, Tamil Nadu, Gujarat and Haryana during 1991 to 2011. However, West Bengal and Kerala saw a decline in the RSL ratios in Agriculture between 1991 and 2001 and a rise between 2001 and 2011. While the RSL ratios in Agriculture between 2001 and 2011 are rising among all the major states of India, Rajasthan and Jammu & Kashmir saw a significant decline followed by Chhattisgarh and Jharkhand with a marginal decline.

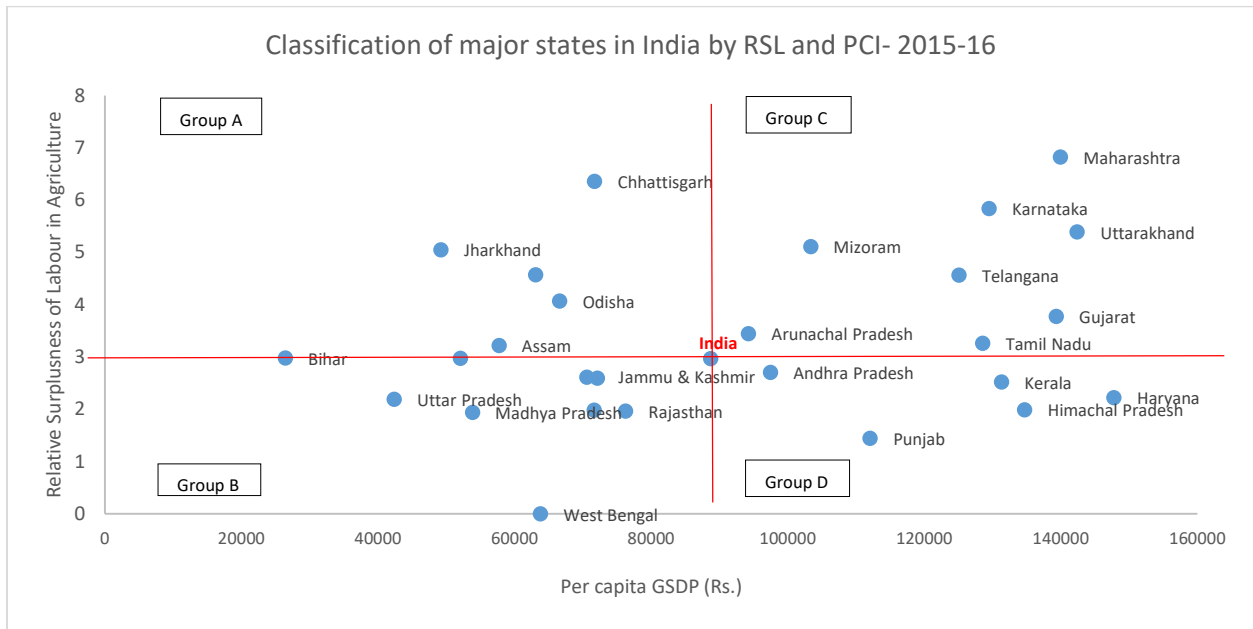
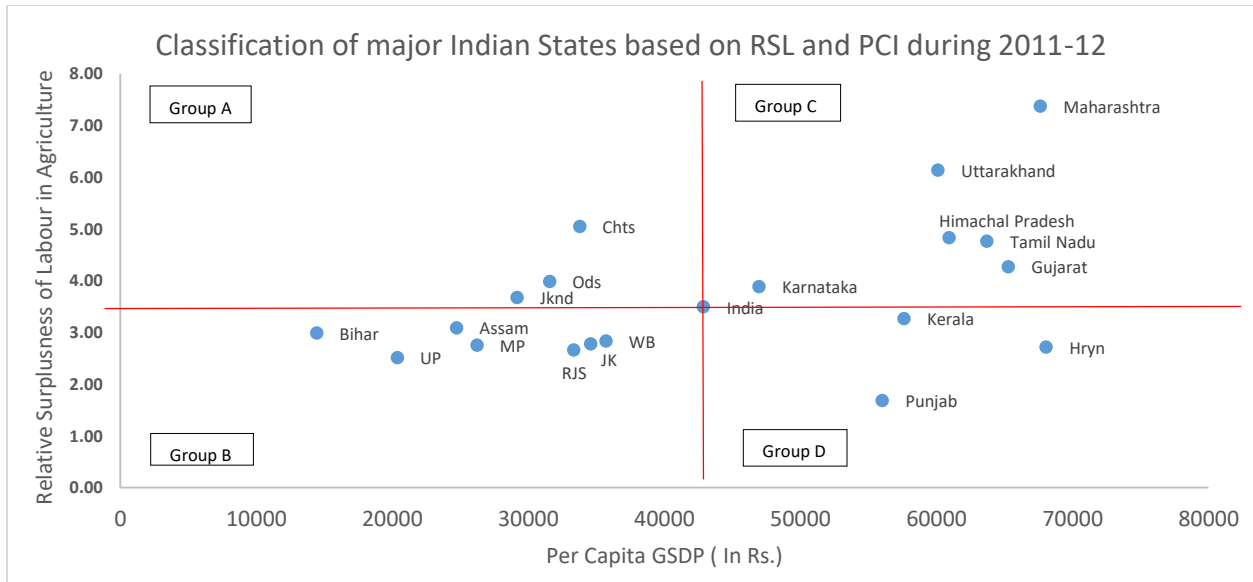


Based on the NSSO data on workforce, RSL in Agriculture at all India level has also been continuously rising since 1972-73 till 2009-10 and begins to fall marginally in 2011-12.

The state-wise variations also broadly follow this trend. Most of the major states saw a rise in RSL ratio in Agriculture from 2004-05 to 2009-10 and a subsequent fall from 2009-10 and 2011-12. However, the RSL ratio in Agriculture for the states of Odisha, Kerala, Uttarakhnad, and West Bengal continued to rise. The notable exception is Jharkhand where RSL ratios continued to decline through 2004-05, 2009-10 and 2011-12.



The major Indian states are grouped on the basis of RSL and per capita income with reference to all-India values. All the states sort themselves into four groups namely A, B, C, and D as follows.



With respect to All India value of per capita income, A and B are low income groups and C and D are high income states. RSL can be high or low depending on the gap between shares of employment and output. Very high levels of RSL indicating wider gap between these shares can be obtained either due to a) very high share of employment relative to output (Group A); or b) very low share of output relative to employment (Group C). On the other hand, low levels of RSL indicating smaller gap between the output and employment shares can be obtained either due to a) higher absolute shares (Group B); or b) lower absolute shares (Group D).

This classification of states into four groups with reference to values of All-India level remains fairly stable through time. The fall in agriculture output share or employment share implies a corresponding rise in non-agriculture output or employment share respectively. We notice that across many states, the increasing share of non-agriculture output does not translate into rising shares of non-agriculture employment.

2001 Census	Low Income <Rs. 22637	High Income >Rs. 22637
High RSL >2.58	Group A Odisha, Jharkhand, Chhattisgarh, Madhya Pradesh, Rajasthan	Group C Gujarat, Tamil Nadu, Himachal Pradesh, Maharashtra
Low RSL < 2.58	Group B Bihar, Uttar Pradesh, United Andhra Pradesh, Uttarakhand, Jammu & Kashmir	Group D Karnataka, Kerala, Punjab, Haryana

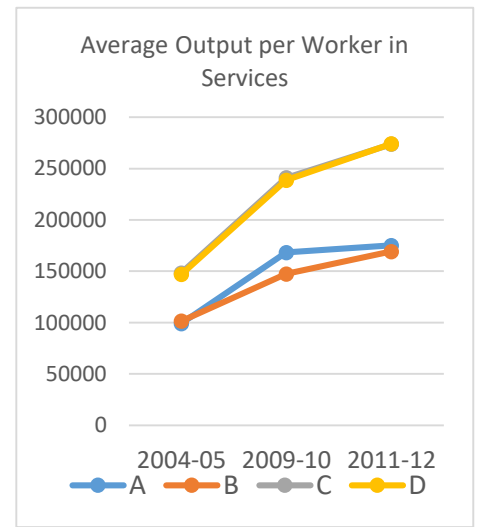
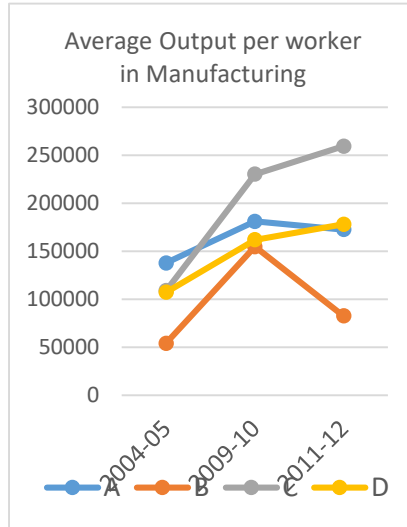
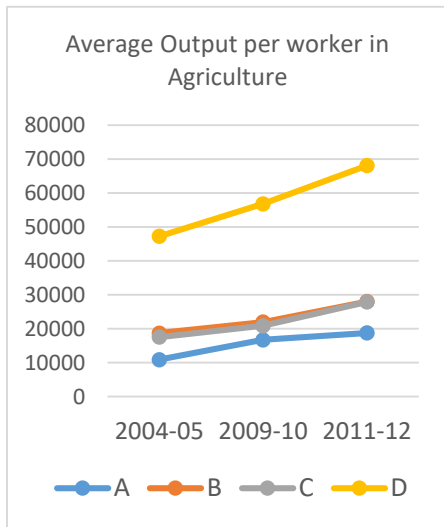
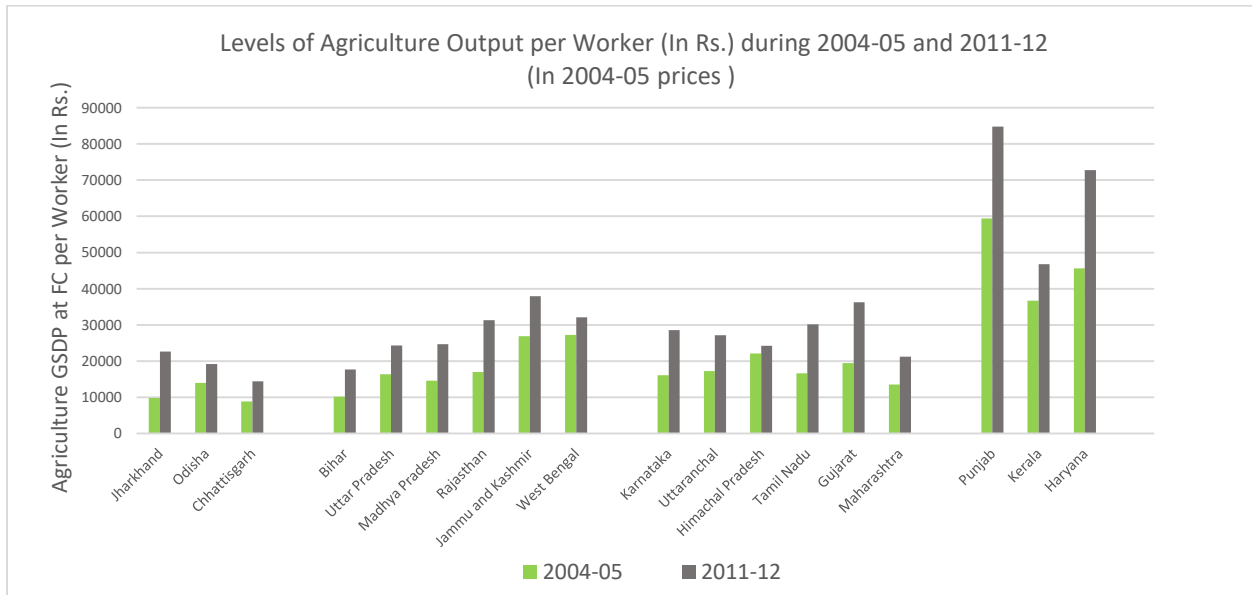
2004-05 NSSO	Low Income	High Income
High RSL	Group A Jharkhand (5); Odisha (4); Chhattisgarh (7)	Group C Karnataka (12), Uttarakhand (11); Himachal Pradesh (17), Tamil Nadu (13); Gujarat (15); Maharashtra (18)
Low RSL	Group B Bihar (1); Uttar Pradesh (2); Madhya Pradesh (3) Rajasthan (5); Jammu & Kashmir (9); West Bengal (8)	Group D Punjab (16); Kerala (14); Haryana (19)

2011-12 NSSO & 2011 Census	Low Income	High Income
High RSL	Group A Jharkhand (4); Odisha (5); Chhattisgarh (7)	Group C Karnataka (11), Uttarakhand (14); Himachal Pradesh (15), Tamil Nadu (16); Gujarat (17); Maharashtra (18)
Low RSL	Group B Bihar (1); Uttar Pradesh (2); Madhya Pradesh (3) Rajasthan (6); Jammu & Kashmir (8); West Bengal (9) Assam	Group D Punjab (12); Kerala (13); Haryana (19)

2015-16	Low Income	High Income
High RSL	Group A Odisha, Jharkhand, Chhattisgarh, Assam	Group C Maharashtra, Tamil Nadu, Uttarakhand, Karnataka, Telangana, Gujarat
Low RSL	Group B Bihar, Madhya Pradesh, Uttar Pradesh, Jammu & Kashmir Rajasthan	Group D Andhra Pradesh, Kerala, Punjab, Haryana, Himachal Pradesh

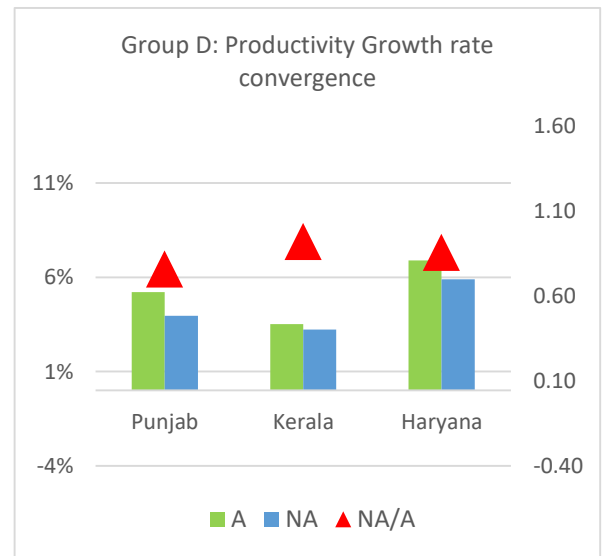
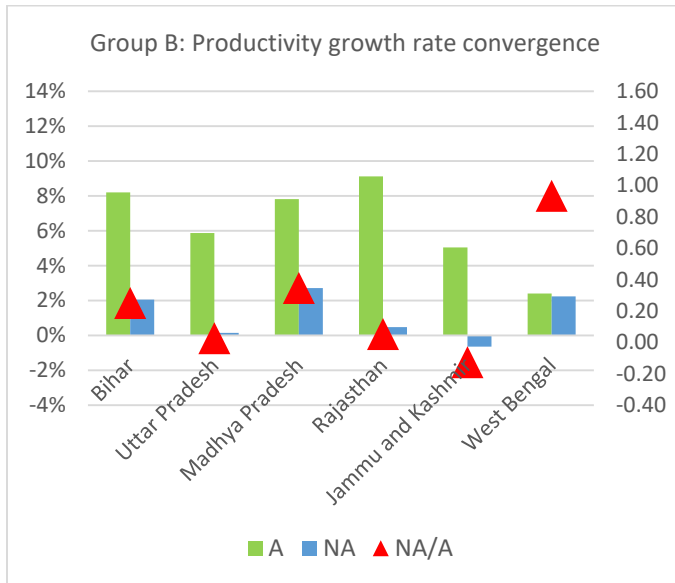
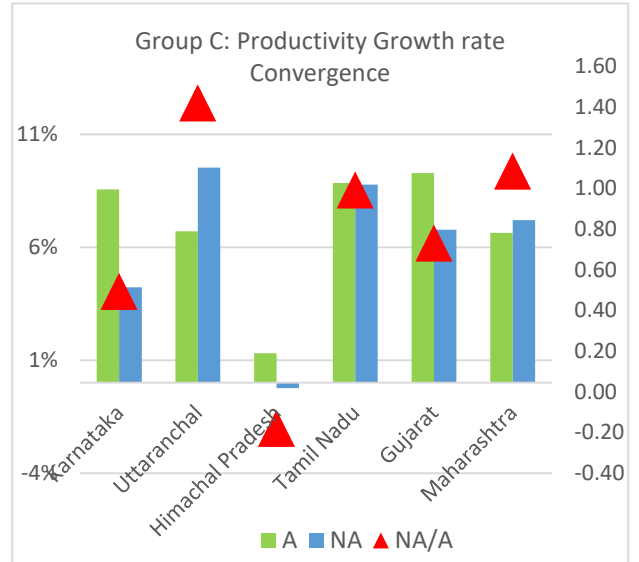
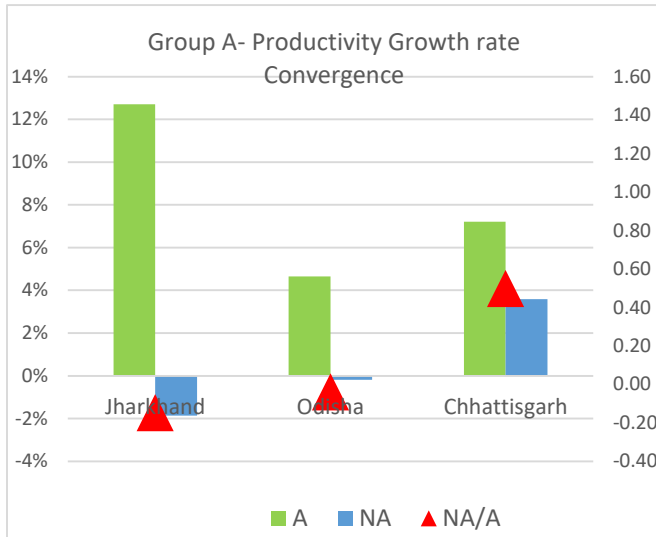
Since 2001, we notice that Chhattisgarh, Jharkhand and Odisha are in Group A; Bihar, Jammu & Kashmir, Uttar Pradesh, United Andhra Pradesh and West Bengal are in Group B; Gujarat, Maharashtra, and Tamil Nadu are in Group C, and Haryana, Kerala, and Punjab are in Group D. However, during 2000-01 to 2004-05 Madhya Pradesh and Rajasthan moved from Group A to Group B and remain there even in 2015-16. Himachal Pradesh has been in Group C since 2001 till

2011-12, but it has moved to Group D in 2015-16. The united Andhra Pradesh has been in Group B since 2001. However, after the separation of the states, Telangana is in Group C while Andhra Pradesh is in Group D.



The major distinguishing factor across the groups is agriculture output per worker (i.e., Agriculture GSDP/ Total Agriculture Workforce). The average output per worker is higher in Group B relative to Group A while it is higher in Group D relative to Group C. Also, Group D has higher average output per worker relative to Group B. Group B and Group D are low RSL states while Group B has low income states and Group D has high income states. The nature of convergence of rate of

growth of output per worker in agriculture and non-agriculture across the four groups is studied. Rate of growth is measured by CAGR of output per worker during 2004-05 and 2011-12.



Based on the characteristics above, we may classify these Groups as follows:

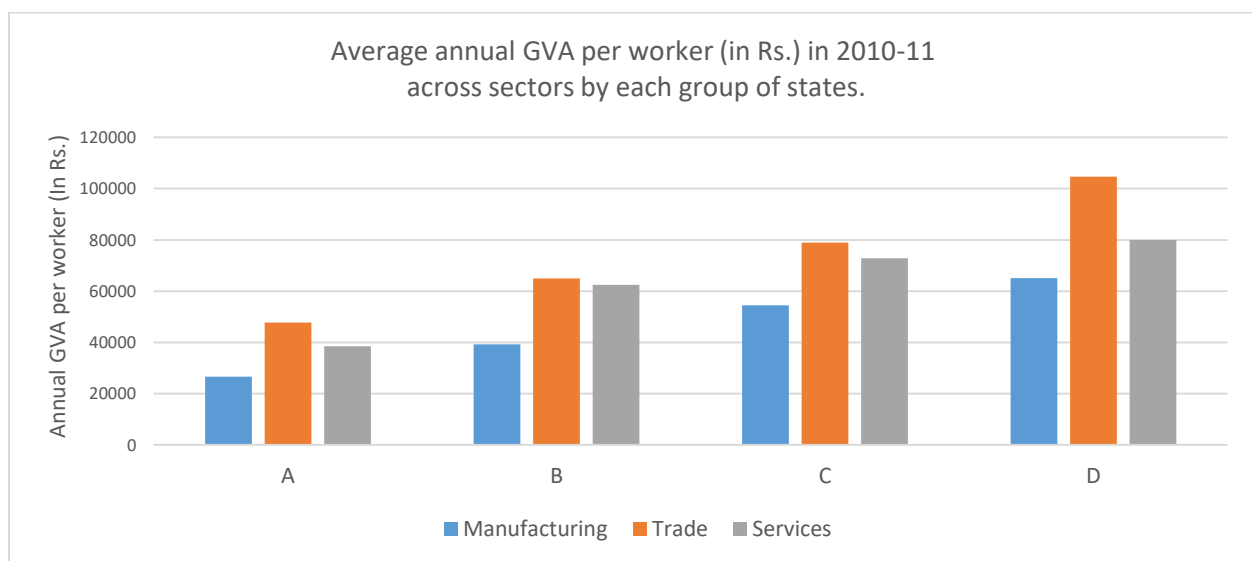
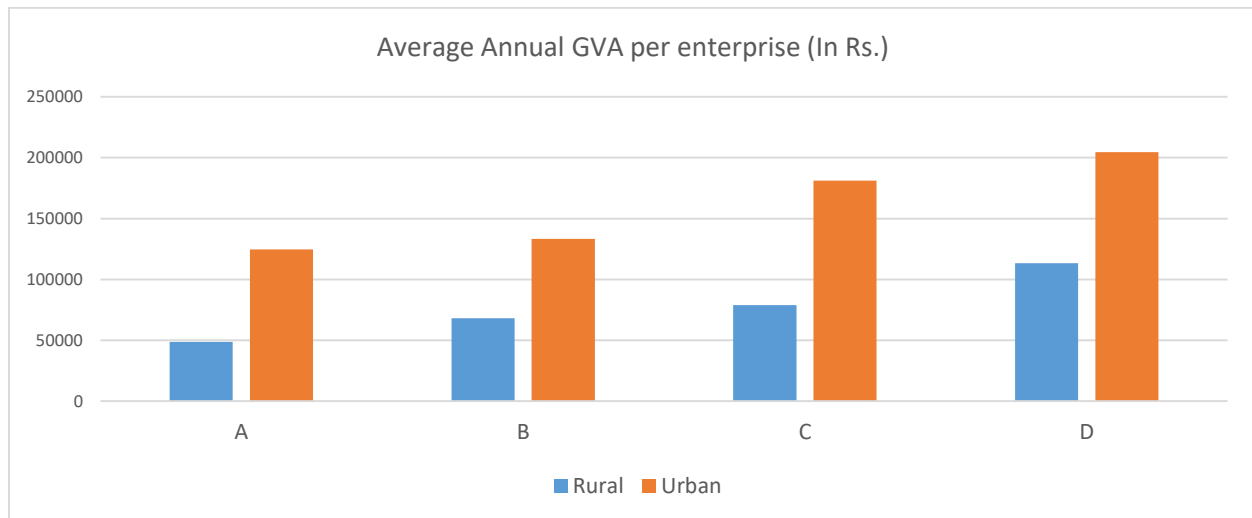
Group A – Low Growth- Productivity Divergence Path

Group B- Low growth- Productivity Convergence Path

Group C- High Growth- Productivity Divergence Path

Group D- High growth- Productivity Convergence Path

We shall now observe characteristics of Value Added per enterprise and Value Added per worker in non-agrarian informal enterprises across these groups.



We notice that states with high growth and productivity convergence have the highest average levels of GVA per enterprises and per worker in both rural and urban areas; as well as across manufacturing, trade, and services.

<p>Group A</p> <ul style="list-style-type: none"> • Lowest levels of Agricultural output per worker. • Negative or very low rate of growth of non-agricultural output per worker. • All the states are below the line of divergence except Chhattisgarh. • Low levels of informal output. • GVA per worker in informal manufacturing, trade and services- lowest. 	<p>Group C</p> <ul style="list-style-type: none"> • Medium levels of agricultural output per worker. • Positive and very high rate of non-agricultural output per worker. • All the states are either closer to or above the line of convergence, except Himachal Pradesh. • High levels of informal output • GVA per worker in informal manufacturing, trade and services- high
<p>Group B</p> <ul style="list-style-type: none"> • Medium levels of agricultural output per worker. • Negative or low rate of growth of non-agricultural output per worker. • All the states are closer to the line of divergence except West Bengal. • Low levels of informal output except J&K and WB. • GVA per worker in informal manufacturing, trade and services- medium 	<p>Group D</p> <ul style="list-style-type: none"> • Highest levels of Agricultural output per worker. • Positive and high rate of growth of non-agricultural output per worker. • All the states are closer to the line of convergence. • High levels of informal output • GVA per worker in informal manufacturing, trade and services- high

Key Observations:

During 2004-05 and 2011-12, Agricultural productivity levels and growth rate are positive and rising across all the states. To attain higher levels of PCI:

- a) the levels of agricultural and non-agricultural productivity should be positive and rising; and
- b) convergence of productivity growth rate between agriculture and non-agriculture

In group A and B, Agricultural productivity levels are positive and rising but we do not observe productivity convergence.

Convergence of productivity growth among higher PCI states can come through:

- a) Falling Agricultural output and employment in tandem (structural change- Group D) or
- b) Fall in Agriculture output more than the fall in agriculture employment (i.e., distorted structural change- Group C)

Higher levels of PCI can be driven by structural change (group D) or distorted structural change (group C). Group D has the highest levels of productivity in informal enterprises followed by group C, Group B and Group A.

Section IV: Concluding Remarks

It is observed that higher levels of per capita income are associated with higher absolute levels of productivity in agriculture and non-agriculture. Groups with higher levels of per capita income have higher levels of productivity in non-agricultural informal enterprises as well. Two scenarios of high growth emerge: 1) shares of agricultural output and employment fall in tandem (the value of RSL in agriculture is declining and tends towards one i.e., virtuous structural change); and 2) fall in share of agricultural output is greater than the fall in share of employment (value of RSL is rising and moves away from one i.e., distorted structural change). Productivity levels of non-agricultural informal enterprises in the case of virtuous structural change are likely to be higher than in the case of distorted structural change.

The paper suggests that a) per capita income alone cannot explain the variations in informality; b) the nature of market growth and associated structural change may be important factors in explaining the variations in the productivity levels of non-agricultural informal enterprises; and c) it is worthwhile to explore the various regional trajectories of capital accumulation in agriculture and non-agriculture in India.

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