2 India's informal economy

Past, present and future

Barbara Harriss-White

Advances in theory and research

Deliberate informality

Historical research has established that long before Keith Hart invented the concept of informality, “un”-organisation was the result of a deliberate state policy (and not a reflection of the limits to state competence or of the residual or incipient nature of informal economic activity).¹

India's Madras Non-Power Factories Act 1947, the Madras Shops and Establishments Act 1947 and the Industrial Disputes Act 1947 were not devised to regulate a pre-capitalist era. They were championed by unions, civil servants and labour commissioners to check abject work conditions and abuses to wage-labour. (These included long hours of work and little rest, lack of ventilation, meagre or no holidays, and savage punishment for “delinquency”.) But they were drafted as weak and splintered laws, neglecting wages, access to social security (the provident fund) and outlawing union activism except under restrictive conditions. Fiercely opposed by industrial lobbies, their coverage was confined to the largest factories, with sweeping exemptions, much discretion for the inspectorate, arbitrary decisions by undermanned tribunals and feeble punishments. In laws hampered by idiosyncratic definitions of labour, all establishments with fewer than three wage labourers were exempted (the great majority of all modern Indian firms); paid holidays were waived and casual labour was ineligible for protection. Preposterous reasons advanced by Business Associations and Chambers of Commerce convinced legislators to amend laws and reduce the scope of protection. Holidays were not practicable especially when work was organised through contracts: ‘workers don't want them’. The cost of compliance would increase hardship for labour. Women and children were not workers, but, in any case, work was better for children than school. Not being factories or shops, workshops could not be covered. Activity was piecemeal and therefore not work. For Rajagopalachari, “women ... needed protection from the labour laws rather than through the labour laws” (Dietrich-Wielenga, 2019). The acts were phased in reluctantly.

So the state and a host of organised lobbies were complicit in the scoping of an economy of small capitalist firms, socially regulated by norms of caste, locality, and gender, controlled through the private rules of business associations, protected at the expense of labour. Together, they created the classifications of livelihoods informing judicial interpretations and case law, most prevailing to this day.

Selective engagements with regulative law

The paradoxical binary of informal and formal is easy to criticise but useful in drawing attention to the state's regulative capacity – as seen above. But just as the classes of informal labour have been identified according to their precarity, autonomy and income, their non-work rights and claims (Lerche 2010), so firms may also be distinguished according to their engagement with regulative law. A firm may be registered and have (1–10) bank accounts, but flout the building regulations, the environmental laws as well as the labour laws, and evade tax. The frontier of informality is not so much Akhil Gupta's famous 'blurred boundary' (1995) between state and society as Aseem Prakash's "political space" (2015). We still do not know enough about it.

Contractualisation

New public management, neoliberal ideology, tax evasion and stretched public finances combine to make privatisation irresistible on efficiency grounds, to reduce deficits in public accounts, and to formalise/register firms that are engaging selectively with the regulative environment. Contractualisation is penetrating corporations as well as the state (Chen 2007). Its outcomes are a massive deterioration in conditions and rights of wage labour and self-employed workers. For instance, Indian Railways, public hospitals and municipalities are all contractualising their sanitation workers whose monthly earnings are collapsing from approximately 20,000–25,000 Indian rupees plus full work rights and unionisation to approximately 6,000–8,000 Indian rupees with none. This workforce is being *re-informalised*.

Austerity and the necessity of informal wage-work and self-employment

In addition, we meet a process of *double informalisation* – first, in the day-job (long shifts of casual wage-work) and, second, in the essential supplementary side-jobs (self-employment). This daily double informality adds to the obstacles to formalisation since non-work time for political mobilisation is squeezed to destruction. The feminisation of waste collection work is another obstacle to formalisation because to the double burden of wage work plus self-employment is added the third burden of reproductive work. Then, when women succeed in joining unions, they often have to struggle against anti-female biases in agendas

and practices: reason enough to salute Renana Jhabvala, the Self-Employed Women's Association (SEWA) and Women in Informal Employment: Globalizing and Organizing (WIEGO).

Informality and illegality

While much informal activity is left deliberately unregulated, research by Michelutti's team (Michelutti and Harriss-White 2019) has revealed the large extent of activity that is not outside the reach of law but is outside the reach of law enforcement and is therefore criminal. Either it deliberately breaks laws and/or it produces and trades in illegal commodities. India's criminal economy is difficult to identify, first, because a given firm may be selectively formal, informal and criminal and, second, because when law is impossible to enforce (as when there is one pollution inspector per district, without transport), in practical terms, it does not exist. The Michelutti project also shows how sectors of the economy (coal, fuel, real estate, granite, sand, liquor) may be dominated by criminal organisations – “mafias” – with origins not always in capital but in labour and in the profits of trade union leadership.

The regionalisation of social inclusion/exclusion

Not only is there growing evidence of the persistence of Gunnar Myrdal's “archaic forms” and Geoff Hodgson's social “outliers”, forms of social regulation all expected to disappear with the animal spirits of markets and Weber's steel cage of the state (Myrdal 1968; Hodgson 1988), but their roles are also reworked as the components of a social structure of accumulation and of market order: policing entry, maintaining contractual standards, resolving disputes, engaging with labour to control its rates, stabilising and supporting profit. Approaches to identifying such social institutions range from the specialised (e.g., gender) through the formalised (e.g., institutions/organisations such as banks, unions and business associations) to the set of all institutions without which informal work and production and social reproduction could not take place (adding race/caste, property relations, households and kin, education, health, housing, courts, social and economic policy and even language to the forces and practices shaping the informal economy). New commodities are thought to be untainted/“neutral” to social regulative forces but more often than not, this is not the case.

Recent work on caste, ethnicity, religion and gender shows how the social structure of accumulation is also a social structure of discrimination. Lack of access, disadvantage, exclusion and marginalisation are not only specific to sectors of the economy but are also regionalised in ways changing consistently over time (Fouillet 2010; Raju 2015; Vidyarthi 2015; Harriss-White 2017a). These robust regions are not co-terminus with the territories of states but often cross state boundaries. While they cannot be the product of politics/policy, the jury is out over the question of whether state policy can reduce regions of disadvantage.

The idea of the solidary economy

While trade unions have been struggling for wage workers for well over a century, the capacity of the solidary economy to provide an alternative model of development to capitalism is at present being widely discussed and questioned in India, as elsewhere, especially in Latin America (Laville 2010). Social and environmental objectives are pursued alongside economic ones through self-organisation in cooperative, associative and solidarity relations. Like the informal economy, the solidarity economy is a fuzzy concept and a multitude of terms have also sprouted to describe it: solidary economy, social economy, the moral and ethical economy, the human and popular economy. The concept of collective action differs from that of solidarity economy because sectional economic interests may be collectively pursued, as in the case of Business Associations (which may also pose as workers organisations). The question at issue for organisations like WIEGO is whether, in the overlap between the solidary and the informal economy, distinctive forms of empowerment for women may be generated which challenge both the logic and modes of expansion of capitalism and the movement towards Karl Polanyi's destructive market society (Polanyi 1944).

Key theoretical challenges and research gaps

The status of self-employment in the capitalist economy: economic expansion by multiplication

This is a field of bitter debates. Is self-employment capital, labour or neither? Since the self-employed are found everywhere, is the entire informal economy non-capitalist? If not, what is it? For Kalyan Sanyal and Partha Chatterjee, the non-corporate economy is the "needs economy" (Chatterjee 2008), for Altvater (1993), it is the "reserve army", for Kumar and Bhaduri (2014), the domain of "*jugaad*", for Jeffrey (2010), that of "time pass". For the National Commission for Enterprises in the Unorganised Sector (NCEUS 2007a, 2007b), self-employment is clearly Janus-faced (on the one hand, disguised wage work and, on the other, micro-capitalist activity). And for WIEGO, most self-employed workers are vulnerable workers, mainly own-account and contributing family workers, and potential agents of collective action.

But they rarely expand. Why not? Many explanations have been advanced: victims of adverse exchange relations; victims of investment-consumption balances preventing expansion; victims of expansion by multiplication of small firms using savings and resources transferred and mobilised at marriage and inheritance? Meanwhile the Indian labour law regards employers of up to five wage labourers as labour not capital (95 per cent of all Indian firms) on the grounds of their small scale, compared with the corporate sector and their lack of access to social safety nets. However, for the self-employed, as labour, unless an individual employer can be identified, court cases about work conditions are

usually struck down. Hence Sankaran (2008) has concluded that self-employed workers are both declassed and disfranchised. And to the extent that self-employment is disguised wage-work, then labour politics needs to be transformed to include the politics of workplace rents and technologies, of the terms and conditions of loans, of the processes of pricing raw materials and products and of access to infrastructure. A tall order.

When self-employment drives both GDP growth and increases in livelihoods (ILO 2018a), what is to be done? WIEGO has been active here in extending social and economic policies that protect and support own-account workers and family units.

Critical implications of informality for a green transition

Is the informal economy less or more polluting and environmentally damaging than the formal economy? The answer seems obvious: the more human labour per given output, the less the energy from fossil fuel (as in handloom versus power-loom weaving). When poverty resides in the informal economy, poorer countries (and classes within countries) have lower greenhouse gas (GHG) emissions per capita. But it can be counter-argued (as in the cook-stove controversies, Kay 2013) that when primitive technology is used in the informal economy, it is less efficient in energy and materials and has worse well-being outcomes than later technologies.

While standard coefficients for GHG emissions from economic activities are published, are they accurate converters for the informal economy? They may be under-estimates (because calculated at efficiency frontiers) or alternatively over-estimates (because the informal economy uses less fossil-fuel per unit of output). As yet there is no substitute for field research fusing social science and environmental science to identify pollution hotspots (Gathorne-Hardy 2015). Scoping the frontiers for technological alternatives encounters huge problems. Evidence is unsystematic; few studies examine trade-offs between livelihoods, costs and GHGs. The world needs a portal which examines frontier technologies, scales, patent protection and property rights, finance, costs, gendered employment, materials and energy use plus environmental damage in many dimensions (e.g., GHGs, biodiversity and soil losses, proximate pollution) – a “silver buckshot” approach to the ecological crisis rather than a “silver bullet” (Prins and Rayner 2007). Policy elites are defensive of the status quo. Their assumptions about policy processes and state capacities are vulnerable to errors of simplification. And so to the final point.

Informality and policy

Informal activity is not confined to the economy, it pervades the state and has to be understood and negotiated if change initiated by civil society is to materialise. Policy comes packaged in labelled fields, many of which sit ill at ease with the *actual practice of state interventions*: agriculture, for example, requires inputs

not just from the agriculture ministry but from most others. The time is ripe to specify wider sets of *policy pre-conditions* without which a given policy cannot be expected to work as intended. The same is true for political pre-conditions, including relations between state and civil society. When arranged against a policy objective, the means by which opposition to it is identified, neutralised (bought off, avoided, destroyed, pre-empted, democratised) are as important as the policy itself.

Informality is not a labelled field for policy – at best, in India, it is the “unorganised sector” or “casual labour”. Even though not regulated directly by the state, policy fields can affect informal activity. In 2016–17, the shock event of demonetisation alerted many economists to a stream of policies initiated under Congress: *aadhaar* (the still technically illegal unique identifier), followed under the Bharatiya Janata Party (BJP) by an unsuccessful amnesty for black money, digitisation and the electrification of money transfers, *jan dhan* (the people’s bank account), demonetisation and the new Goods and Services Tax, the ultimate purpose of which is to destroy the cash economy – in the name of quashing counterfeiting, smuggling, black money and terrorism – and the effect of which has been to devastate the informal economy, especially women’s work (Ghosh et al. 2017; Harriss-White 2017b; Reddy 2017). Since what seem deliberate attacks cannot be resisted in the informal economy, the question is whether such moments can stimulate collective organisation.

Just as the informal economy has shown much continuity during the era of liberalisation so, in the neoliberal state, reforms pile up like sedimentary rock strata, preserving stratified interests and their policies.

At the same time as being privatised, policy processes are themselves informalised. Not confined to faction, corruption, extortion and the proliferation of illegal markets within the state, relations of private status, of desecularisation, of lobbies colluding with or dominating bureaucracies at fractal scales, of party politics, of physical intimidation and violence, of ignorance and incompetence combine to result in policy outcomes far from those apparently intended. The informal state has been characterised as a “shadow state” (with socio-political institutions running activities for which the state is formally responsible; Harriss-White 2003), a “hybrid state” (giving and seeking rents; Prakash 2017) with state-society relations “blurred” (Gupta 1995) and “porous” (Rajagopal 2015). While the “deep state” is generally regarded as involving politics, intelligence and the military-industrial complex, India’s has been characterised as a “congeries of relations between business, career politicians, gangland mafiosi and the police” (Jha 2013). So deregulation is the reregulation of a state that has in practice been long deregulated (if ever regulated in the first place). Re-deregulation legitimises and expands the scope of the informal economy and polity. If such a state is an ensemble of “policies, laws and acts, processes and protocols, institutions, social, political and governmental actors and planning history” (Sundaresan 2017: 21), then there will be hostile opposition to formal activity and formalising the informal economy. To address this opposition needs mainstreaming in policy!

And what are the impacts on women and on gender relations when policies have effects so far removed from those “intended” that intentionality itself must be questioned? Do their heavier reproductive burdens than those of men reduce choice in livelihoods and negotiating power in organisation?

Until we understand this informalised politics, we are not going to understand how policy works, why it fails in terms of stated intentions and why constructive policy suggestions may fail.

Note

- 1 See Das Gupta (2016) and Dietrich-Wielenga (2019) for the post-Independence period and Sankaran (2008) for the contemporary period.