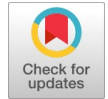


Productivity Saga of The Indian Informal Sector

Anoushka Bose



Abstract: While considering the developing countries like India, it is very important to focus on the primary source of employment for the majority of the labour force, i.e., the Informal or the Unorganised sector of the Indian Economy. The aim of this paper is to take an insight in the various parameters of the growth, employment and labour productivity figures that have changed since 1972. The analysis would empirically capture the progress and changes in the sector down the financial years and scrutinize how it has resulted in a change in the informal labour market. The aim is to establish the importance of the Informal Sector in India and show how the grandeur behind the growing variables are a deception and hides the crumbling core of the Indian Informal Sector: falling labour productivity over the years.

Key Words: Informal, Labour, Falling Productivity

I. INTRODUCTION

This paper will probe into the dynamics of the Informal Sector and analyze the changes in the contribution to the share of GDP, employment and labour productivity. We would take a look at how the production, employment and investments have increased from 1972 onwards but on the contrary the labour productivity in the informal sector has not seen a growing trajectory. We will also establish a relationship between investments and production in the medium and small-scale industries which is not directly proportional but fluctuating in nature. Similarly, employment is also not directly proportional to investments. A paradox has been observed which states that higher investments in the Medium and small-Scale industries does not necessarily lead to an increase in production and employment. This paradox has been justified with the help of falling productivity. The paper displays empirical as well as policy prescriptions for correcting the problem of falling productivity in the face of growing production, investment and employment in the Medium and Small-Scale industries across various States of India. The above literatures provide a kaleidoscopic view into the MSME and labour productivity potential of India but fail to capture a stagnant and in some cases a paradoxical relationship between Employment, Investments, Production on the one hand and Labour Productivity on the other hand, among the various States of India. A vast country like India, with diverse regional traits and potential, needs an inter-state comparison to trace the regional backwardness and MSME potential in them.

The major question is that does higher investments, production and employment necessarily lead to higher labour productivity in the MSME sector? Is the MSME sector homogeneous throughout the country with equal potential? What are factors leading to difference in MSME potential in the various States of India? These questions need a definite answer in order to ascertain the true contribution of the MSME sector in India. This paper tries to answer them, with a kaleidoscopic and empirical approach.

The questions raised under the purview of this paper forms the foundational blocks. The main hypothesis is to find the stagnancy in average labour productivity along with the state-wise productivity performance in the MSME sector. The main objectives of the paper is to establish the relationship between production, investment, employment and labour productivity in the MSME sector, in various States of India.

This paper is divided into eight sections. The first section is invariably the introduction followed by what is the share contributed to the GDP by the informal sector in the second section. The third section talks about the investment status in MSMEs across the states and the fourth and fifth sections deal with the production and employment in the MSMEs. The sixth section talks about the poor productivity status in spite of in investments, employment and production in the states. This shows the skewed nature of rise in investments as compared to its return shown in production and employment. The seventh talks about a few policy prescriptions in the framework of developmental economics and finally the eighth section bears the conclusion and focus on the stagnant productivity prevailing in the Indian MSMEs and how the glory of the formal sector conceals the crumbling structure of the informal sector through an idiosyncratic growth trajectory.

II. LITERATURE REVIEW

There have been several works in this field of analyzing the labour productivity in Indian and the inspiration arises out of few of these works. (Maiti, 2019) <https://www.adb.org/sites/default/files/publication/487/696/adbi-wp926.pdf>. (Abraham, 2017) http://www.isec.ac.in/WP%20386%20-%20Rosa%20Abraham_2%20-%20Final.pdf

Both the papers focus on how the labour productivity is deteriorating down the years and the factors responsible for the growth in labour share and trade. The external sector of India has also been pointed out by Dibyendu Maiti and the role of informal has been very precisely articulated in the works of Rosa Abraham. (Jain, 2019) <https://journals.sagepub.com/doi/abs/10.1177/0973801019841258> tries to bring out the state wise analysis which was very helpful in understanding how diverse the productivity patterns are there in various states of India.

Manuscript received on 28 March 2023 | Revised Manuscript received on 04 April 2023 | Manuscript Accepted on 15 May 2023 | Manuscript published on 30 January 2024.

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<https://www.oecd.org/economy/growth/46866991.pdf>

(Dougherty, Herd and Chalaux, 2009) tries to encapsulate the essence of the faltering labour productivity and reasons why India cannot achieve its potential growth. It discusses about the hindrances of migration, resource reallocation, state ownerships, bureaucracy and lack of basic amenities and prevalence of abject poverty. (Bhuyan, 2016), https://globaljournals.org/GJMBR_Volume16/5-A-Study-on-the-Performance-of-Micro.pdf has very beautifully carved out the contribution of MSMEs to the GVA and total output (GDP) of India and has explained how MSMEs can enhance the entrepreneurial health of the Indian economy.

III. SHARE IN GDP CONTRIBUTED BY THE INFORMAL SECTOR:

The informal sector contributes a major chunk of dough to the Gross Domestic Product (GDP) of India and hence it is a source of lucrative earnings for the country with minimal or no legalities. The National Accounts Statistics show the following share of the formal and informal sectors contributing to India's GVA at basic prices for the accounting year 2019. The Table 1.1, presents the share of informal/unorganised sector GVA to total. As shown in Table, it is more than 50% across all years. However, if quasi-corporate sector is not taken under consideration, the share reduces below 50%. The share of unorganised sector is highest in agriculture as the holdings are small and fragmented. This is followed by trade, construction, real estate, professional services etc and other services.

TABLE 1.1

Industry	2011-12			2016-17			2017-18					
	Organised / formal	Unorganised/ Informal		Total	organ ised/f ormal	unorganised/i nformal		Total	organ ised/f ormal	unorganised/inf ormal		Total
		Of which HH*	Of which HH*			Of which HH*	Of which HH*					
Agriculture, forestry and fishing	3.2	96.8	94.8	100.0	2.8	97.2	95.2	100.0	2.9	97.1	95.2	100.0
Mining and quarrying	77.4	22.6	22.6	100.0	77.4	22.6	22.6	100.0	77.5	22.5	22.5	100.0
Manufacturing	74.5	25.5	12.7	100.0	76.4	23.6	12.5	100.0	77.3	22.7	12.0	100.0
Electricity, gas, water supply & other utility services	95.7	4.3	3.2	100.0	95.0	5.0	5.0	100.0	94.7	5.3	5.3	100.0
Construction	23.6	76.4	76.4	100.0	26.6	73.4	73.4	100.0	25.5	74.5	74.5	100.0
Trade, repair, Accommodation and food services	13.4	86.6	56.0	100.0	13.4	86.6	55.8	100.0	13.4	86.6	55.8	100.0
Transport, storage, communication & services related to broadcasting	53.0	47.0	39.6	100.0	53.7	46.3	38.5	100.0	52.3	47.7	39.6	100.0
Financial services	90.7	9.3	0.0	100.0	88.1	11.9	0.0	100.0	88.1	11.9	0.0	100.0
Real estate, ownership of dwelling & professional services	36.9	63.1	57.2	100.0	46.8	53.2	46.7	100.0	47.2	52.8	46.0	100.0
Public administration and defence	100.0	0.0	0.0	100.0	100.0	0.0	0.0	100.0	100.0	0.0	0.0	100.0
Other services	58.8	41.2	22.6	100.0	52.7	47.3	24.4	100.0	52.1	47.9	24.3	100.0
TOTAL GVA at basic prices	46.1	53.9	45.5	100.0	47.3	52.7	43.6	100.0	47.6	52.4	43.1	100.0

Source: Computed from National Accounts Statistics, 2019

The workforce employed in the informal sector can be classified into three broad categories, namely,

- (i) self-employed
- (ii) regular wage/salaried employee
- (iii) casual labour

Within the category of self-employed two sub-categories have been made as follows:

- i. own account worker and employer
- ii. unpaid helper in household enterprises.

Before plunging into statistics, let's examine what these categories imply. According to the PLFS 2018-19, the terms are defined as follow:

“Self Employed: Persons who operated their own farm or non-farm enterprises or were engaged independently in a profession or trade on own-account or with one or a few partners were deemed to be self-employed in household enterprises. The essential feature of the self-employed is that they have autonomy (decide how, where and when to produce)

and economic independence (in respect of choice of market, scale of operation and finance) for carrying out their operation. The remuneration of the self-employed consists of a non-separable combination of two parts: a reward for their labour and profit of their enterprise.

Helpers in Household Enterprise: Self-employed persons who were engaged in their household enterprises, working full or part time and did not receive any regular salary or wages in return for the work performed were considered as helpers in household enterprise. They did not run the household enterprise on their own but assisted the concerned person living in the same household in running the household enterprise.

Regular Wage/Salaried Employee: These were persons who worked in others' farm or nonfarm enterprises (both household and non-household) and, in return, received salary or wages on a regular basis (i.e., not on the basis of daily or periodic renewal of work contract). This category included not only persons getting time wage but also persons receiving piece wage or salary and paid apprentices, both full time and part-time.

Casual Labour: A person who was casually engaged in others' farm or non-farm enterprises (both household and non-household) and, in return, received wages according to

the terms of the daily or periodic work contract, was considered as a casual labour."

A. Why is the Sector So Important?

Being the disciples of Economics, it is of utmost importance, that we support our definitions, observations and inferences, with adequate and valid data.

The following Table 1.2 holds proof of the humongous working population employed in the informal sector, compared to the formal sector and thus, depicting its importance in the Indian economy.

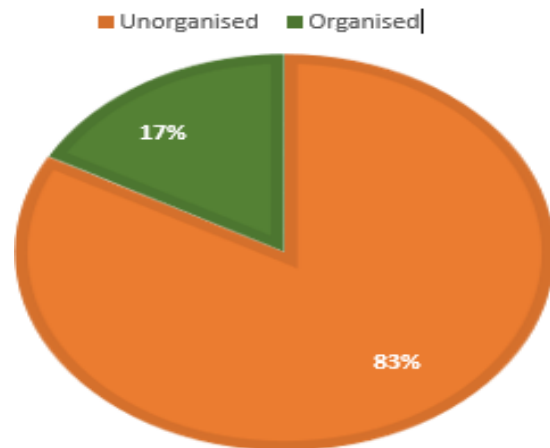
TABLE 1.2

Worker	2011-12 (in %)			2017-18 (in %)		
	Unorganised	Organised	Total	Unorganised	Organised	Total
Informal	82.6	9.8	92.4	85.5	5.2	90.7
Formal	0.4	7.2	7.6	1.3	7.9	9.3
Total	83.0	17.0	100.0	86.8	13.2	100.0

Source: Computed from NSS 68th Unit Level Data on Employment Unemployment, 2011- 12 and Periodic Labour Force Survey, 2017-18

In terms of employment share the unorganised sector employs 83% of the work force and 17% in the organised sector. There are 92.4% informal workers (with no written contract, paid leave and other benefits) in the economy. There are also 9.8% informal workers in the organised sectors indicating the level of outsourcing. These are possibly the contract workers. In 2017-18 the share of unorganised sector employment has increased by 3.6 percentage points while on the other hand the share of formal employment has increased by 0.9 percentage points. There has been an increase in share of formal employment. This also indicates the efforts of the government to provide social security to workers in the unorganised sector. Let us now delve deep into the subject of Informality and look at how the variables have changed down the years. While we have considered a plethora of reasons for informality and also the importance of Informality. Now let us turn our attention in examining why the Informal Sector is still under the shackles of underdevelopment. We would now consider three dimensions, existing in the Informal sector. On the basis of which we can compare the performance and analyze the reasons for the existence of high informality with so little development in the sector. The Production, employment and Investment dimensions would be appropriate in elucidating the reasons for heavy informality and its underdevelopment.

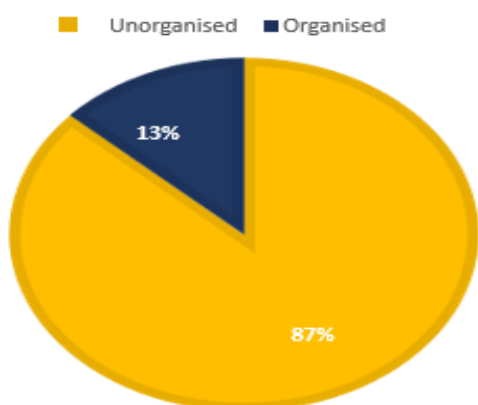
DISTRIBUTION OF LABOUR FORCE (2017-18)

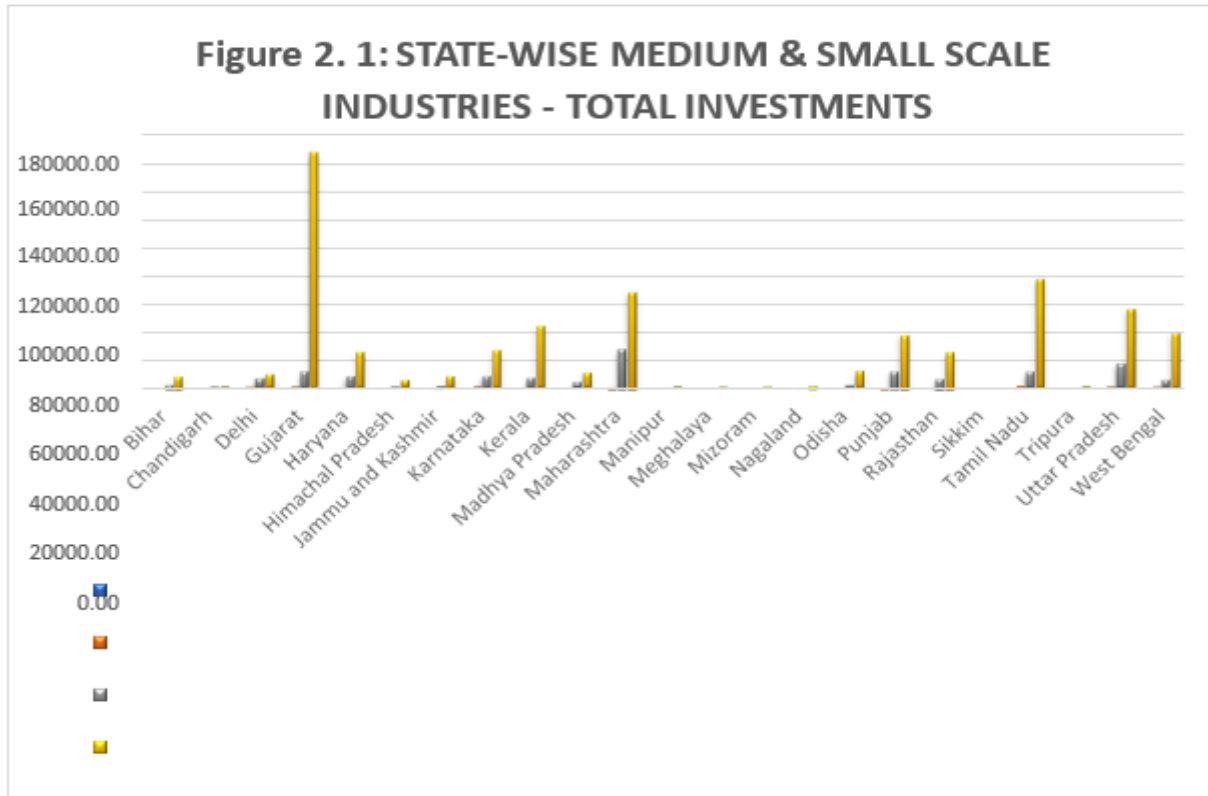


IV. INVESTMENT INSIGNIA

To analyze the development of the informal sector, the life blood; "Investments in the MSME" should be considered as a crucial factor. Any sector without the finance to drive it, would not survive in this competitive global scenario. In the "Classical" framework, the market equilibrium was reached when Marginal Productivity of Labour was equated to the Wages. But Wages is a very narrow perspective for dealing with the developmental aspect of the informal sector. Thus, we should examine "Investments" both public and private in this case.

DISTRIBUTION OF LABOUR FORCE (2011-12)





Source: Author’s Own Computation (Reference Table 2.1)

Table 2.1: State-Wise Medium & Small-Scale Industries - Total Investments

(₹ Crore)

State/Union Territory	First Census (1972-73)	Second Census (1987-88)	Third Census (2001-02)	Fourth Census (2006-07)
Bihar	31.79	333.34	2718.61	8405.45
Chandigarh	3.33	36.50	505.61	607.05
Delhi	52.68	401.22	6960.90	10164.54
Gujarat	96.04	887.40	11030.37	166753.60
Haryana	40.45	355.90	7988.63	25998.80
Himachal Pradesh	3.16	80.67	720.06	5599.25
Jammu and Kashmir	3.67	113.31	1283.26	8475.28
Karnataka	43.79	660.85	8430.23	27161.11
Kerala	44.08	387.51	7021.14	44353.53
Madhya Pradesh	30.43	260.15	3451.50	10530.40
Maharashtra	226.66	1260.25	27960.98	67941.24
Manipur	9.00	20.78	364.12	646.03
Meghalaya	0.87	8.88	136.81	468.55
Mizoram	2.10	13.88	120.56	403.14
Nagaland	0.28	7.29	267.77	1273.67
Odisha	8.79	156.46	1913.39	12284.89
Punjab	81.54	567.34	11828.80	37126.69
Rajasthan	25.59	364.38	6600.81	25452.90
Sikkim	-	7.84	15.43	72.16
Tamil Nadu	111.15	1085.84	10989.32	77824.34
Tripura	0.79	14.73	319.98	661.73
Uttar Pradesh	91.33	980.96	17291.63	56161.03
West Bengal	91.90	429.25	5601.06	39433.22
ALL INDIA	1054.68	9296.03	154348.70	689954.86

∴ Not Applicable. ∴ Not Available.

Notes: Figures are based on-

1. First All India Census of Small-Scale Industrial Units 1972. (Figures of Daman & Diu were included in the erstwhile State of Goa, Daman & Diu, before it got delinked as a separate Union Territory).
2. Second All India Census of Small-Scale Industrial Units 1987-88.
3. Third All India Census of Small-Scale Industries 2001-02.
4. Fourth All India Census of Micro, Small and Medium Enterprises 2006-07.

Source: Office of the Development Commissioner, Ministry of Micro, Small and Medium Enterprises (MSME), Government of India, New Delhi.



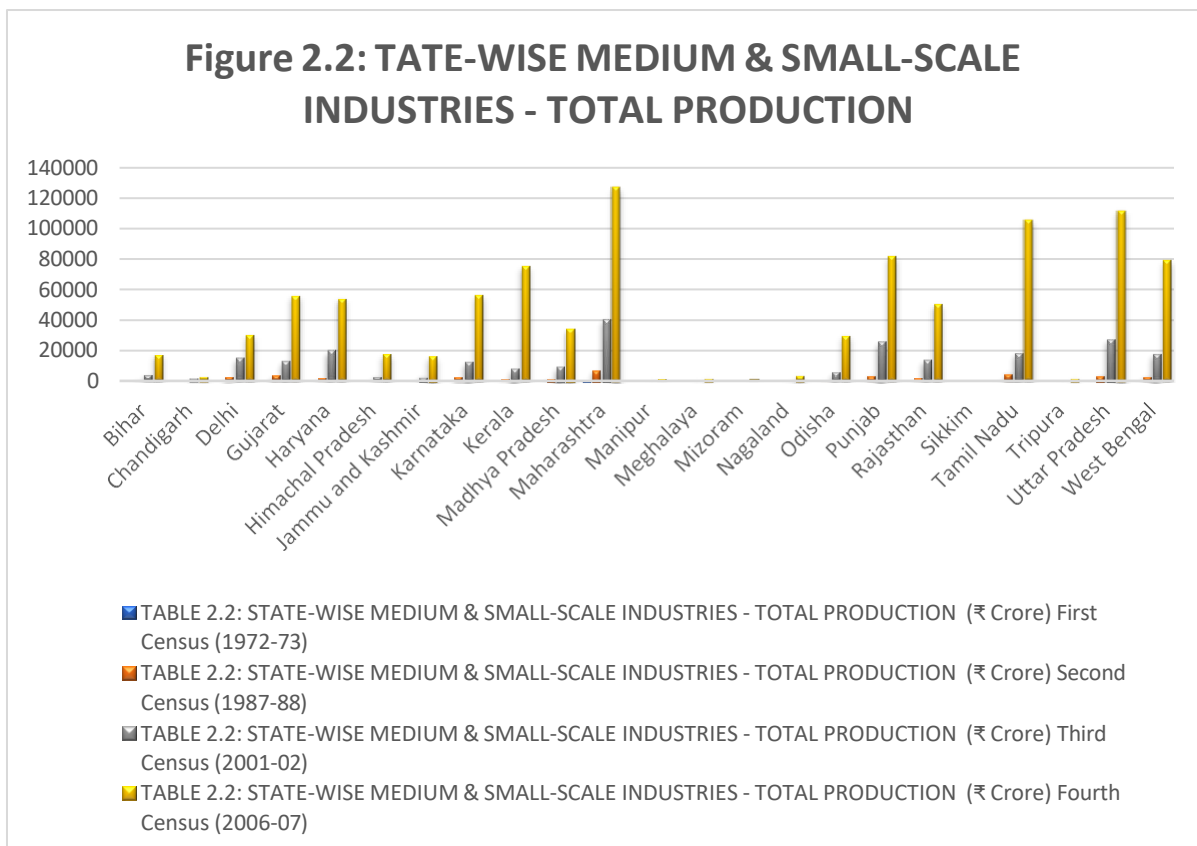
From the table 2.1 below, it is very evident that there exists a huge regional disparity in the levels of investments in the medium and small-scale industries where the maximum informal labour is engaged. The States of Gujrat, Tamil Nadu and Maharashtra tops the table with 24.17%, 11.27% and 10.16% (Census 2006-07) of the total investments in Medium and Small-Scale industries, respectively. On the other hand, we see the States of Uttar Pradesh, West Bengal, Bihar, Delhi (Being the capital city), Madhya Pradesh and Odisha lagging behind in the matters of investments in the MSME domain. The figure 2.1, shows the diagrammatic representation of the table 2.1 and thus, justifies the data with a regional disparity in investments.

While the other states have entered in the league of growing investments, the North-Eastern States of Mizoram, Manipur, Meghalaya, Nagaland and Tripura have grown on a minimalistic scale. Their present growth in Investment is too low as compared to the other States. The North Eastern States are a home to several tribes and cultural heritage of the country. Their forest resources and level of informal and cheap labour is very high but is kept immobilised and untapped

due to the lack of industries. Over the years, Investment has risen in all the States. The unorganised sector employing informal labour, has been given the investment boosts undoubtedly but the stark regional disparities have prevailed throughout the decades and is still reflected in the data.

V. PRODUCTION PUZZLE

In most of the cases we usually try to equate the investments with the production process. Higher the investment, higher is the production. But in case of the Medium and Small-Scale Enterprises a very unique revelation has come to the sight. If we look closely and examine the figures in the Table 2.2, Gujarat with the highest investment among other States at 24.17%, (Census 2006-07) does not account for the highest production. The other States with not the highest Investments have outshone the higher investment States in the arena of production. The States of Maharashtra, Uttar Pradesh and Tamil Nadu take the lead in the case of Production.



Source: Author’s Own Computation (Reference Table 2.2)

Table 2.2: State-Wise Medium & Small-Scale Industries - Total Production				
(₹ Crore)				
State/Union Territory	First Census (1972-73)	Second Census (1987-88)	Third Census (2001-02)	Fourth Census (2006-07)
Bihar	72.03	877.81	3698.27	16709.30
Chandigarh	6.35	131.38	1300.68	1888.55
Delhi	136.98	2530.63	15277.29	29672.34
Gujarat	208.62	3586.25	13286.23	55306.91
Haryana	101.79	1763.91	19964.64	53198.68



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Himachal Pradesh	4.52	245.17	2410.73	17247.20
Jammu and Kashmir	11.03	303.09	2575.52	16035.39
Karnataka	79.77	2526.86	12320.54	56317.61
Kerala	115.65	1136.91	8151.05	74821.73
Madhya Pradesh	70.03	1967.36	9702.34	34388.44
Maharashtra	529.47	7511.79	41014.51	126864.55
Manipur	3.32	29.88	480.90	1094.70
Meghalaya	1.20	27.00	322.87	1150.80
Mizoram	0.30	14.70	132.09	677.21
Nagaland	0.48	112.47	370.28	2845.03
Odisha	22.26	657.34	5266.97	29075.42
Punjab	243.37	2776.39	26017.69	81625.05
Rajasthan	56.38	1460.76	13672.51	50004.43
Sikkim	-	11.55	28.23	189.76
Tamil Nadu	321.78	4513.02	18256.77	105270.21
Tripura	1.45	29.57	304.83	1177.84
Uttar Pradesh	222.67	3727.04	27424.30	111089.69
West Bengal	270.22	2530.03	17678.77	78880.05

: Not Applicable. -: Not Available.

Notes: Figures are based on-

1. First All India Census of Small-Scale Industrial Units 1972. (Figures of Daman & Diu were included in the erstwhile State of Goa, Daman & Diu, before it got delinked as a separate Union Territory).

2. Second All India Census of Small-Scale Industrial Units 1987-88.

3. Third All India Census of Small-Scale Industries 2001-02.

4. Fourth All India Census of Micro, Small and Medium Enterprises 2006-07.

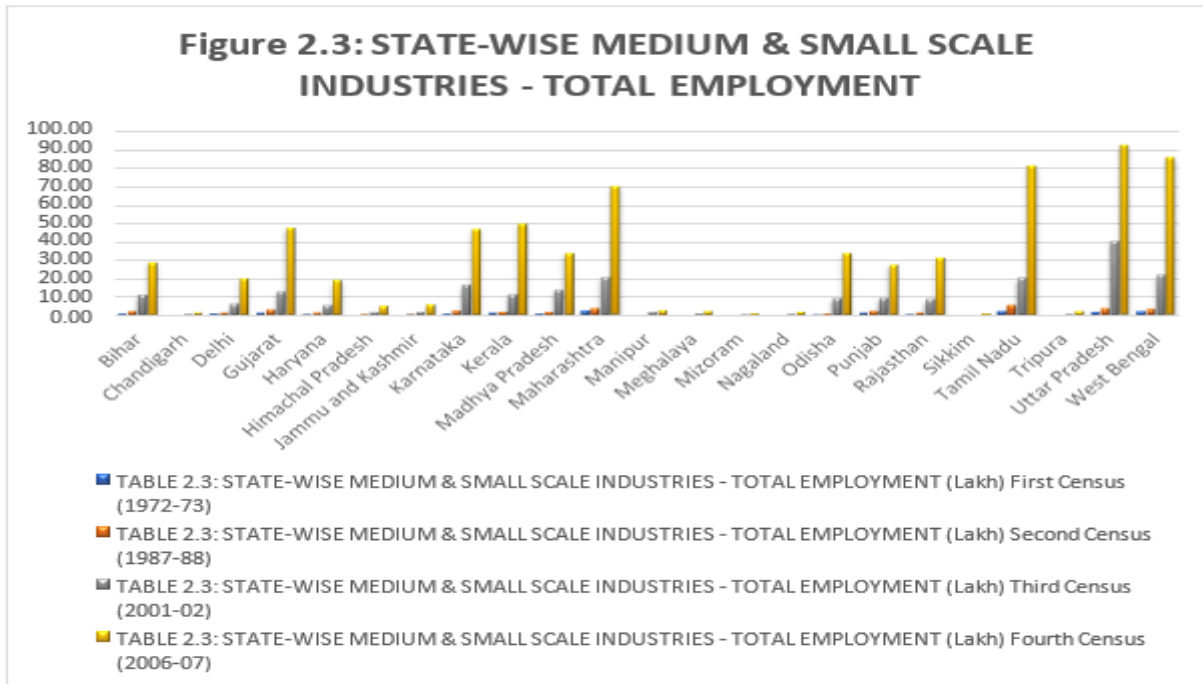
Source: Office of the Development Commissioner, Ministry of Micro, Small and Medium Enterprises (MSME), Government of India, New Delhi.

Uttar Pradesh was one of the States with a considerably low level of investment, but accounts for the second highest production level, showing the high employment of the labour, producing surplus output. Similarly, the State of Maharashtra has overpowered its investment value and mobilised its resources efficiently with surplus production. Gujarat has highly underperformed as compared to its level of investment but the other states like West Bengal, Sikkim, Odisha, Punjab and Delhi have also produced higher than its investment. (Census 2006-07). States have done well in case of production as compared to its investments and the reasons can be accredited to its productivity or maybe labour migration. The

discrepancy between production and investment has guided the study towards its direction of taking an insight into labour productivity of the different Indian States under the jurisdiction of this paper.

VI. REASONS FOR THE PARADOX

While we are still puzzled with the production paradox, let us look at a few reasons which would help us take an insight into the functionalities of the real factors according to the Classical Dichotomy such as Employment and Production.



Source: Author's Own Computation (Reference Table 2.3)

The foremost reason for this paradox can be attested to the Productivity prevailing in these states in the Medium and Small-Scale Industries. Productivity is the key factor that drives the growth of production in almost all sectors and worker productivity turns out to be a substantial indicator of

the sectoral health (Primary, Secondary and Tertiary) of any economy. For tabulating the productivity of the existing states taken under the scope of this paper, it is important to look into the employment status in Medium and Small-Scale Industries in these States.

Table 2.3: State-Wise Medium & Small-Scale Industries - Total Employment

(Lakh)				
State/Union Territory	First Census (1972-73)	Second Census (1987-88)	Third Census (2001-02)	Fourth Census (2006-07)
Bihar	0.61	1.82	10.83	28.26
Chandigarh	0.03	0.11	0.48	1.23
Delhi	0.65	1.22	6.27	19.81
Gujarat	1.15	2.77	12.68	47.73
Haryana	0.49	1.06	5.53	18.84
Himachal Pradesh	0.06	0.26	1.30	4.68
Jammu and Kashmir	0.10	0.41	1.52	5.75
Karnataka	0.64	2.44	16.39	46.72
Kerala	1.27	1.69	11.15	49.62
Madhya Pradesh	0.60	1.59	13.44	33.66
Maharashtra	2.40	3.56	20.51	70.04
Manipur	0.03	0.10	1.36	2.36
Meghalaya	0.01	0.04	0.65	1.92
Mizoram	0.00	0.04	0.24	0.81
Nagaland	0.00	0.03	0.57	1.71
Odisha	0.19	0.69	9.25	33.24
Punjab	1.24	2.06	9.08	26.79
Rajasthan	0.46	1.23	8.68	30.79
Sikkim	-	0.01	0.03	0.79
Tamil Nadu	2.15	5.36	20.18	80.98
Tripura	0.02	0.10	0.57	1.75
Uttar Pradesh	1.60	3.49	40.02	92.36
West Bengal	1.76	3.12	21.69	85.78

: Not Applicable. -: Not Available.

Notes: Figures are based on-

1. First All India Census of Small-Scale Industrial Units 1972. (Figures of Daman & Diu were included in the erstwhile State of Goa, Daman & Diu, before it got delinked as a separate Union Territory).
2. Second All India Census of Small-Scale Industrial Units 1987-88.
3. Third All India Census of Small-Scale Industries 2001-02.
4. Fourth All India Census of Micro, Small and Medium Enterprises 2006-07.
5. NSS 73rd round (July 2015-June 2016)

Source: Office of the Development Commissioner, Ministry of Micro, Small and Medium Enterprises (MSME), Government of India, New Delhi and Ministry of Statistics and Programme Implementation (MOSPI).

The total employment in the Medium and Small-Scale industries again reveal a paradoxical relationship with Investments as shown in Table 2.3. Gujarat and Maharashtra being the States of highest investments (Census 2006-07) do not employ the maximum number of people. Whereas, the States of Uttar Pradesh tops the employment table, followed by West Bengal and Tamil Nadu. The State of Tamil Nadu has done justice on an average to its Investments, Production and employment status in the medium and small-scale industries as it proves to be the State of Optimality where the factors are in synergy and synchronises with the investments undertaken in the State.

VII. PRODUCTIVITY PANGS

Citing productivity to be one of the main reasons why high investment states cannot do well, let us take a look at the productivity situation in the states. The results have conformed to the hypothesis that the reason why high investments have not led to higher production is because of the extremely low level of labour productivity prevailing in the States. Gujarat being the state with the highest level of Investments (Census 2006-07), it does not account for the highest level of production. Thus, the existing level of low productivity in the states accounts for the fall in production in spite of high investments.

Table 2.4: State-Wise Medium & Small-Scale Industries – Average Productivity

(PER 100 WORKERS)				
State/Union Territory	First Census (1972-73)	Second Census (1987-88)	Third Census (2001-02)	Fourth Census (2006-07)
Bihar	118.082	482.3132	341.4838	591.270347
Chandigarh	211.6667	1194.364	2709.75	1535.4065

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Delhi	210.7385	2074.287	2436.569	1497.84654
Gujarat	181.4087	1294.675	1047.81	1158.74523
Haryana	207.7347	1664.066	3610.242	2823.70913
Himachal Pradesh	75.33333	942.9615	1854.408	3685.29915
Jammu and Kashmir	110.3	739.2439	1694.421	2788.76348
Karnataka	124.6406	1035.598	751.7108	1205.4283
Kerala	91.06299	672.7278	731.0359	1507.8946
Madhya Pradesh	116.7167	1237.333	721.9003	1021.64112
Maharashtra	220.6125	2110.053	1999.732	1811.31568
Manipur	110.6667	298.8	353.6029	463.855932
Meghalaya	120	675	496.7231	599.375
Mizoram	0	367.5	550.375	836.061728
Nagaland	0	3749	649.614	1663.76023
Odisha	117.1579	952.6667	569.4022	874.711793
Punjab	196.2661	1347.762	2865.384	3046.8477
Rajasthan	122.5652	1187.61	1575.174	1624.04774
Sikkim	0	1155	941	240.202532
Tamil Nadu	149.6651	841.9813	904.6962	1299.9532
Tripura	72.5	295.7	534.7895	673.051429
Uttar Pradesh	139.1688	1067.92	685.2649	1202.79006
West Bengal	153.5341	810.9071	815.0655	919.562252

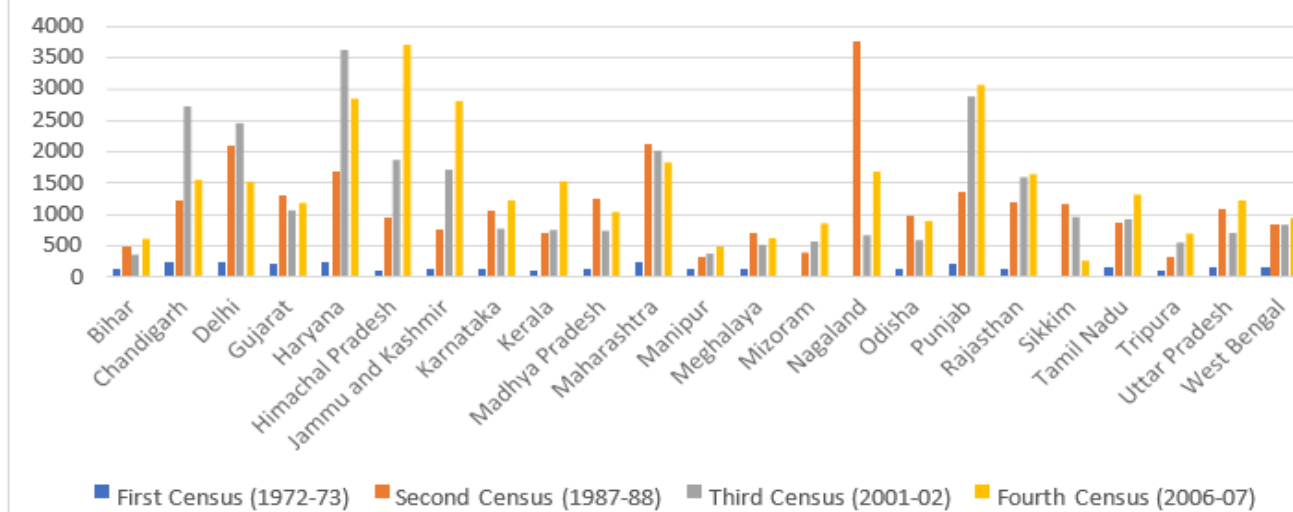
Source: Author's Own Computation

(Dividing Total Production by Total Employment to Get the Average Productivity Per 100 Workers; Ceteris Paribus. Refer to Table 2.2 and Table 2.3)

The productivity has been calculated from the existing data on employment and production levels. The productivity of workers has always been a questionable topic, with many factors ruling it. The following results show that productivity is not only low in high investment states but the average productivity of the Medium and Small-Scale industries in some states has drastically fallen since 1972-73. The Indian Economy has seen a growth in all the variables taken under

consideration since 1972-73, such as Employment, Production and Investments but it is only the Labour Productivity that has diminished in some states, down the years in the informal sectors. Another revelation that comes into existence is that the states of Jammu and Kashmir and Himachal Pradesh with very low investments accompanied by low employment and production, has a considerably higher rate of productivity during 2006-07.

Figure 2.4: STATE-WISE MEDIUM & SMALL-SCALE INDUSTRIES - AVERAGE PRODUCTIVITY



Source: Author's Own Computation (Reference Table 2.4)

The states of Gujarat, Maharashtra, Chandigarh, Delhi, Madhya Pradesh, Nagaland, Meghalaya, Sikkim and Odisha have shown signs of falling productivity in 2006-07 as compared to the previous years' censuses. The rest of the states have shown very minimal growth in average productivity over the years except Himachal Pradesh, Jammu and Kashmir, Kerala, Punjab and Tamil Nadu. Thus, the problem of low productivity is considered to be a recent phenomenon in the economic forefront. The reasons for this fall in productivity over the years can be attributed to many causes prevailing in the informal labour market. Catering to

those needs of the market, the government should initiate measures in order to raise the labour productivity. The policy formulations would focus on how to improve the sick labour markets and deal with the problem of plummeting productivity in the Indian informal labour markets.



The informal labour forms a huge part of our national employment. Under the jurisdiction of this paper, we haven't focussed on the casual labourers or self-employed workers but considering the productivity in the Medium and Small-Scale industries, it is quite reflective of the health of the informal labour market.

VIII. POLICY PRODIGY

The Indian Informal sector is a sheer example of what is better known as a furniture corrupted by a termite. I would

like to name it as the "termite effect" which practically means that the sector shows a sheen polish covering it with the growing variables of Investment, Employment and Production but the core structure which is the labour productivity is eroding with time. The interior of the furniture is hollow and doesn't support the outer extravagance of its appearance. To cure a hollow sham is a humongous task but the policies aimed at recovering the lost productivity in the Indian Labour Market or the Informal Sector, might help a little.

Table 3.1

AGGREGATE VALUES (1972-2007)	First Census (1972-73)	Second Census (1987-88)	Third Census (2001-02)	Fourth Census (2006-07)
Total Employment (In Lakh)	15.46	33.2	212.42	658.62
Total Production (In Rs. Crore)	2479.67	38470.91	239658.01	945530.89
Total Investments (In Rs. Crore)	999.42	8434.73	133520.97	627798.6
Total Productivity (Per 100 workers)	2849.82	26197.47	28840.16	33071.5397

Source: Author's Own Computation

(Total Figures of the Variables Contain Only the Selected States Under the Jurisdiction of This Paper)

It is very clear from the aggregate values shown in Table 3.1, that India is in dire need of reformation policies to revive the productivity of the Indian Informal sector. Some reforms can be stated as follows:

A. Lack in Social Security Benefits and Job Security:

I assume one reason to be the prevalence of a dearth in social security schemes such as PPF, EPF, Job Security, Pension Schemes and Paid Leaves. The informal Sector suffers from the pangs of not having a properly drafted written contract and thus, the workers lack the ability or rather the incentive to perform better, leading to a fall in productivity. Hence, the government should focus on providing adequate employment benefit schemes, paid leaves and proper working conditions throughout the official work hours and the required job security to the informal sector of the Economy. A secured employment always leads to a psychological sense of fulfilment and thus, increases productivity.

B. Low Skill Low Will:

I owe my explanation to this particular proposition because it has been found that the workers employed in the Informal Sector are usually the unskilled and semi-skilled population. Thus, their low skills lead to the incidence of low wages as compared to that of the skilled workers. This cycle of being low skilled and receiving low wages in turn reduces the productivity of the workers. They are always dissatisfied with their low wage rate leading to a fall in productivity and no incentive to work efficiently. Thus, "Low Skill Low Will" signifies the lack of skills due to which the wage rate is low and so is their willingness to work. The plan of action that should be adhered to is providing proper education to the youth, vocational training and conducting skill development programmes in order to enhance the skill of the workers which would ultimately give them a higher wage rate and thus, their productivity would increase. The VMPL of the labourers would increase as the wage and MPL both increases with the provision of vocational training, skill development and proper education among the lower rank of the population.

C. Provision of Basic Amenities:

After discussing about vocational training and proper

education, lets look at the provision of basic survival amenities. The low skilled labourers also lack the basic amenities like proper food, shelter, water, sanitation facilities and health benefit schemes. This class of "Have- Not(s)" cannot perform to the best of their ability because of lack of proper nutritional requirements needed for them. Their low living standards reduce the incentive and willingness to work, thus adversely affecting their productivity.

D. Disguised Unemployment:

Indian Agriculture forms a major part of the Informal sector(though not under the focus of this paper) and the prevalence of disguised unemployment actually highlights the problem of low productivity. The employment might sow swelling figures but the land area might not need all those who are employed. There are a few excess labourers whose MPL is not exactly zero but it is lower than the urban MPL thus, giving rise to the phenomenon of migration. The same phenomenon is seen in unorganised industries whereby labourers who aren't productive, are also employed to carry out menial tasks but this results in an increase in employment statistics but a fall in actual labour productivity as they are the excess labourers present in the industry. These excess or surplus labourers from the agricultural sector should be absorbed into the urban sector. This absorption of surplus labourers is what brings us to the Lewis Model of migration which says that due to this migration, the turning point might be reached much before rural and urban MPL are equal. The Urban Informal Sector is said to have absorbed these excess labourers but unfortunately due to this seeping in and "trickle down" effect of the surplus labourers to the Informal sector, labour productivity is strangled at the cost of rising labour employment data leading to "overcrowding". To resolve this issue, the informal sector has to generate more employment opportunities, as compared to the rate of migration. The industries are mostly inefficient except a few and the burden of excess employment makes them sicker.

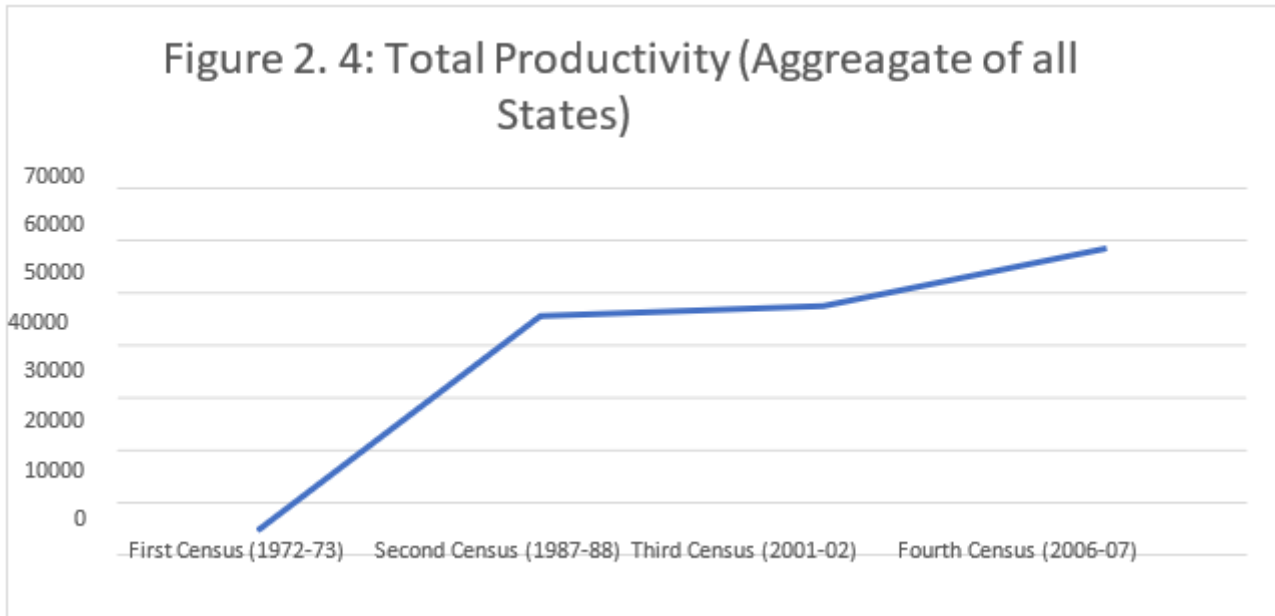


Productivity Saga of The Indian Informal Sector

The use of labour-intensive techniques, introduction of more cottage industries in order to prevent mass migration and also the establishment of various lines of production with enhancing the manufacturing or the Secondary sector of India, would serve the purpose. Higher investments should be undertaken in providing employment opportunities in the Informal Sector.

IX. CONCLUSION

The Indian Informal Sector is the one infested with the problem of low productivity due to a plethora of reasons. Not going into the political framework, the reforms needed are severe and immediate.



Source: Author's Own Computation (Reference Table 2.4)

Increase in labour productivity should be the ultimate aim in order to make things smoothly and develop the informal sector which form the pillar of the Indian Employment. Focussing on the points mentioned above such as employment guarantee, skill development, provision of basic amenities and reducing the incidence of disguised unemployment would serve the purpose if not eradicate the problem. Productivity in India has gradually risen but has been met with a stagnancy. This stagnancy is a real sham on the growing variables of Production, Employment and Investments in the Medium and Small-scale industries. Thus, the "Termite Effect" very rightly defines how the Informal sector is suffering under the pangs of low productivity over the years.

DECLARATION STATEMENT

Funding	No, I did not receive any financial support for this article.
Conflicts of Interest	No conflicts of interest to the best of our knowledge.
Ethical Approval and Consent to Participate	No, the article does not require ethical approval and consent to participate with evidence.
Availability of Data and Material	Not relevant.
Authors Contributions	I am only the sole author of this article.

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