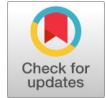


# Productivity Saga of The Indian Informal Sector

Anoushka Bose



**Abstract:** While considering the developing countries like India, it is essential 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. This paper aims to provide insight into the various parameters of growth, employment, and labour productivity figures that have changed since 1972. The analysis would empirically capture the progress and changes in the sector over the financial years and scrutinise how these changes have resulted in a shift in the informal labour market. The aim is to establish the importance of the Informal Sector in India and demonstrate how the grandeur behind the growing variables is a deception, hiding 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 examine the dynamics of the Informal Sector and analyse the changes in its contribution to the GDP share, employment, and labour productivity. We would discuss how production, employment, and investments have increased from 1972 onwards; however, in contrast, labour productivity in the informal sector has not followed a growing trajectory. We will also establish a relationship between investments and production in 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 medium and small-scale industries do not necessarily lead to an increase in production and employment. The decline in productivity has justified this paradox. The paper presents empirical evidence as well as policy prescriptions for addressing the issue of declining productivity in the face of increasing production, investment, and employment in medium and Small-Scale industries across various states in India. The above literature provides a kaleidoscopic view of the MSME and labour productivity potential in India. Still, it fails to capture a stagnant and, in some cases, paradoxical relationship between Employment, Investment, production, and labour productivity among the various States of India. A vast country like India, with diverse regional traits and potential, requires an inter-state comparison to identify regional backwardness and MSME potential.

The central question is whether 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 the factors leading to the difference in MSME potential in the various States of India? These questions require a definitive answer to determine the actual 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 form the foundational blocks. The central hypothesis is to identify stagnation in average labour productivity, along with state-wise productivity performance, in the MSME sector. The primary objective of this paper is to investigate the relationship between production, investment, employment, and labour productivity in the MSME sector across various states in India.

This paper is divided into eight sections. The first section is invariably the introduction, followed by the share of the informal sector's contribution to the GDP in the second section. The third section discusses the investment status in MSMEs across the states, while the fourth and fifth sections focus on production and employment in MSMEs. The sixth section discusses the poor productivity status despite investments, employment, and production in the states. This illustrates the skewed nature of the rise in investments compared to their return, as shown in output and employment. The seventh section discusses several policy prescriptions within the framework of developmental economics. Finally, the eighth section presents the conclusion, focusing on the stagnant productivity prevailing in Indian MSMEs and how the success 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 analysing labour productivity in India, and the inspiration arises from a few of these works. (Maiti, 2019) <https://www.adb.org/sites/default/files/publication/487696/adbi-wp926.pdf>. (Abraham, 2017) [http://www.isec.ac.in/WP%20386%20-%20Rosa%20Abraham\\_2%20-%20Final.pdf](http://www.isec.ac.in/WP%20386%20-%20Rosa%20Abraham_2%20-%20Final.pdf) [1]

Both papers focus on how labour productivity has deteriorated over the years and the factors responsible for the growth in the labour share and trade. Dibyendu Maiti has also highlighted the external sector of India, and the role of the informal sector has been 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 in various states



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of India [5][6].

Dougherty, Herd, and Chalaux (2009) attempt to encapsulate the essence of faltering labour productivity and the reasons why India cannot achieve its potential growth. It discusses the hindrances to migration, resource reallocation, state ownership, bureaucracy, and the lack of basic amenities, as well as the prevalence of abject poverty. (Bhuyan, 2016), [https://globaljournals.org/GJMBR\\_Volume16/5-A-Study-on-the-Performance-of-Micro.pdf](https://globaljournals.org/GJMBR_Volume16/5-A-Study-on-the-Performance-of-Micro.pdf) has beautifully outlined the contribution of MSMEs to India's Gross Value Added (GVA) and total output (GDP), explaining 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 significant portion to India's Gross Domestic Product (GDP), making it a source of lucrative earnings for the country with minimal or no formalities. 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 the Table, this percentage exceeds 50% across all years. However, if the quasi-corporate industry is not taken into consideration, the share reduces below 50%. The share of the unorganised sector is highest in agriculture, as 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 whic h HH*				Of whic h 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 [4]

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 follows [2][3]:

**“Self-Employed: Persons who operated their own farm or non-farm enterprises or were engaged independently in a profession or trade on their 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 person living in the same household in managing the 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 regularly (i.e., not based on daily or periodic renewal of work contract). This category included not only persons receiving time wages but also persons receiving piece wages or salaries, as well as 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 a casual labourer."

#### 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.

Table 1.2 provides evidence of the substantial working population employed in the informal sector, compared to the formal sector, thereby highlighting its importance in the Indian economy.

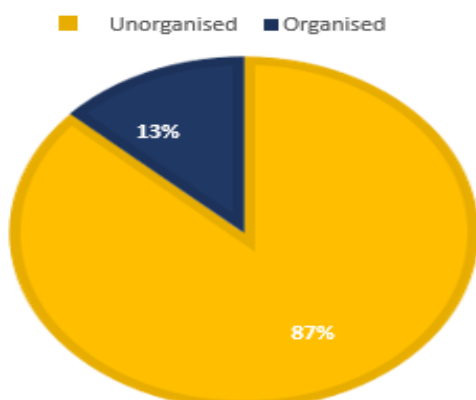
TABLE 1.2

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

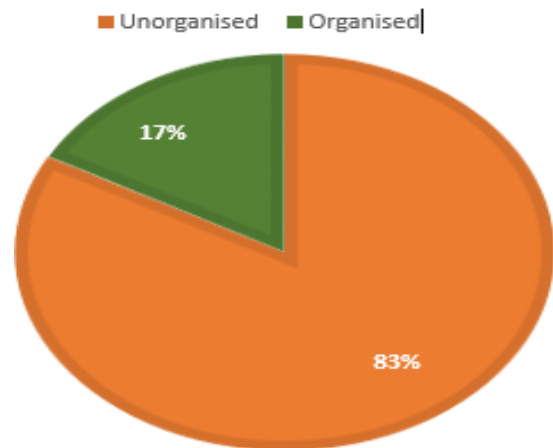
Source: Computed from NSS 68th Unit Level Data on Employment Unemployment, 2011- 12 and Periodic Labour Force Survey, 2017-18 [7]

In terms of employment, the unorganised sector employs 83% of the workforce, while the organised sector employs 17%. 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 increased by 3.6 percentage points, while on the other hand, the share of formal employment increased by 0.9 percentage points. There has been an increase in the share of formal employment. This also indicates the government's efforts to provide social security to workers in the unorganised sector. Let us now delve into the subject of Informality and examine how the variables have evolved over the years. At the same time, we have considered a plethora of reasons for informality and also the importance of Informality. Now let us turn our attention to examining why the Informal Sector is still under the shackles of underdevelopment. We would now consider three dimensions that exist in the Informal sector. Based on which we can compare the performance and analyse the reasons for the high informality in the industry despite its limited development. The Production, employment and Investment dimensions would be appropriate in elucidating the reasons for heavy informality and its underdevelopment.

DISTRIBUTION OF LABOUR  
FORCE (2011-12)

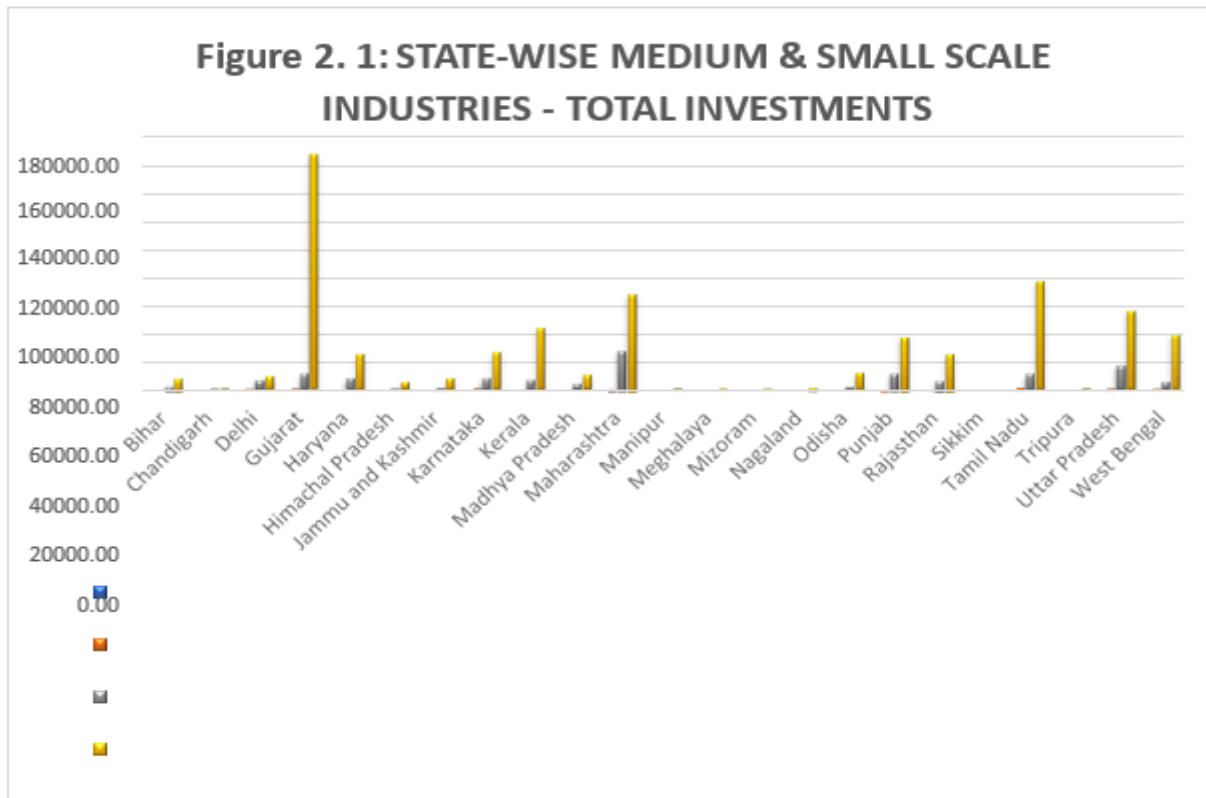


DISTRIBUTION OF LABOUR  
FORCE (2017-18)



#### IV. INVESTMENT INSIGNIA

To analyse the development of the informal sector, the lifeblood, "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 the Marginal Productivity of Labour was equated to the Wages. However, Wages presents a very narrow perspective for addressing the developmental aspects of the informal sector. Thus, we should examine "Investments", both public and private, in this case.



Source: Author's 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 Table 2.1 below, it is evident that a significant regional disparity exists in investment levels in medium and small-scale industries, where the majority of informal labour is employed. The States of Gujarat, Tamil Nadu and

Maharashtra top 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 and West Bengal. Bihar, Delhi (as the capital city), Madhya Pradesh, and Odisha lag in investments in the MSME domain. Figure 2.1 illustrates a diagrammatic representation of Table 2.1, which justifies the data by highlighting a regional disparity in investments.

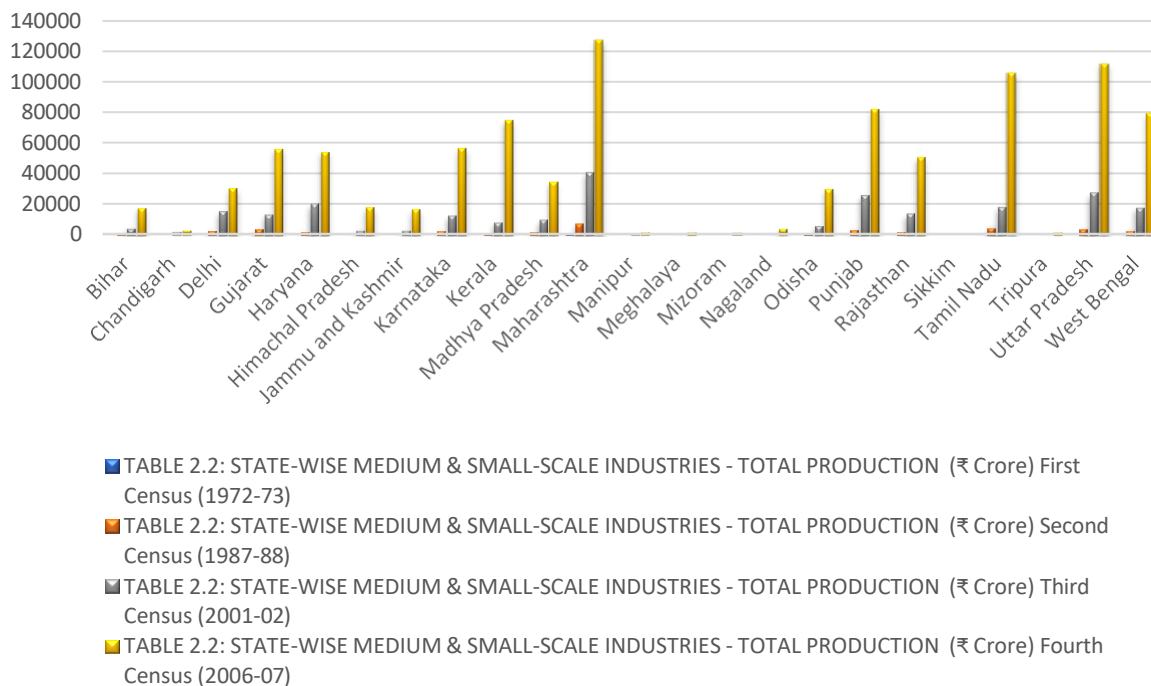
While the other states have entered the league of growing investments, the North-Eastern States of Mizoram have not. Manipur, Meghalaya, Nagaland and Tripura have grown on a minimalistic scale. Their current investment growth is too low compared to other States. The Northeastern States are home to several tribes and a rich cultural heritage of the country. Their forest resources and level of informal and low-cost labour are very high, but are kept untapped due to the lack of industries. Over the years, Investment has risen in all the States. The unorganised sector, employing informal labour, has undoubtedly received investment boosts, but stark

regional disparities have persisted throughout the decades and are still reflected in the data.

## V. PRODUCTION PUZZLE

In most cases, we usually try to equate investments with the production process. The higher the investment, the higher the production. But in the case of the Medium and Small-Scale Enterprises, a very unique revelation has come to light. If we examine the figures in Table 2.2 closely, 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 lower 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.

**Figure 2.2: TATE-WISE MEDIUM & SMALL-SCALE INDUSTRIES - TOTAL PRODUCTION**



Source: Author's 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
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

## Productivity Saga of The Indian Informal Sector

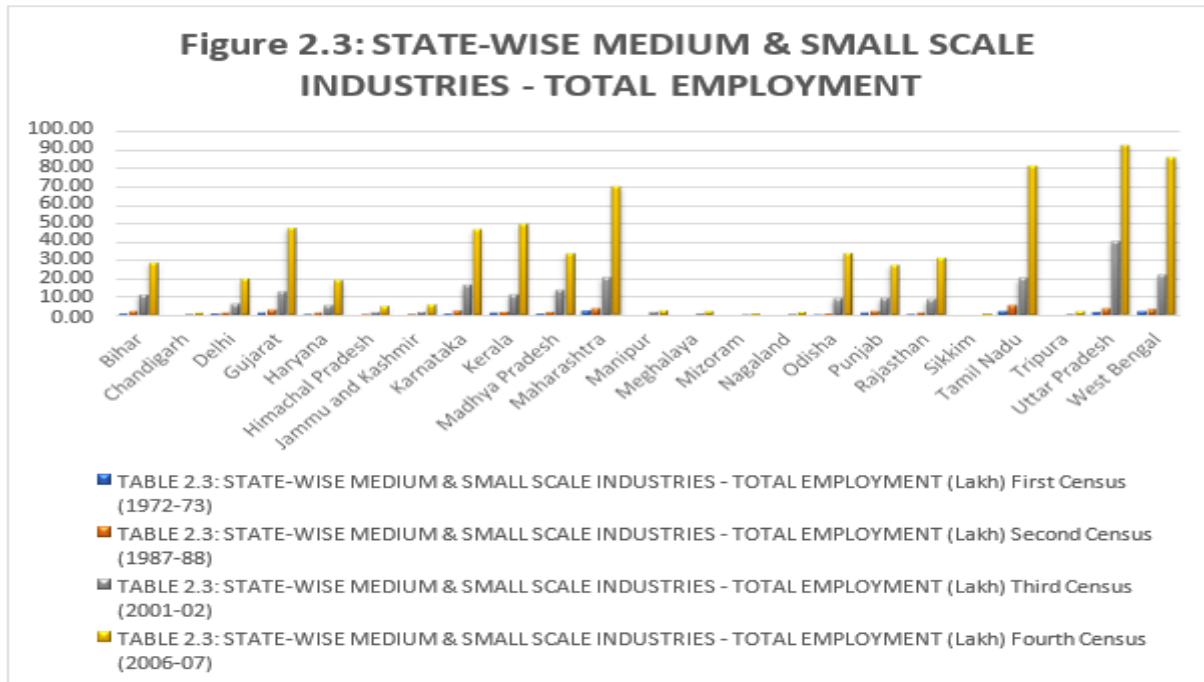
Maharashtra	529.47	7511.79	41014.51	126864.55
Manipur	3.32	29.88	480.90	1094.70
Meghalaya	1.20	27.00	322.87	1150.80
Mizoram	0.30	14.70	132.09	677.21
Nagaland	0.48	112.47	370.28	2845.03
Odisha	22.26	657.34	5266.97	29075.42
Punjab	243.37	2776.39	26017.69	81625.05
Rajasthan	56.38	1460.76	13672.51	50004.43
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. Still, it accounts for the second-highest production level, indicating high labour employment and the production of surplus output. Similarly, the State of Maharashtra has maximised its investment value and mobilised its resources efficiently, resulting in surplus production. Gujarat has underperformed significantly compared to its level of investment, but other states, such as West Bengal, Sikkim, Odisha, Punjab, and Delhi, have also produced returns higher than their investment. (Census 2006-07). States have performed well in terms of production compared to their investments, and the reasons can be

attributed to productivity or perhaps labour migration. The discrepancy between production and investment has guided the study's direction, providing insight into labour productivity across different Indian States under the jurisdiction of this paper.

## VI. REASONS FOR THE PARADOX

While we are still puzzled by the production paradox, let us examine a few reasons that can help us gain insight into the functionalities of the fundamental factors, as outlined in the Classical Dichotomy, such as Employment and Production.



Source: Author's Computation (Reference Table 2.3)

The foremost reason for this paradox can be attributed to the Productivity prevailing in these states in the Medium and Small-Scale Industries. Productivity is the key factor driving 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. To tabulate the productivity of the existing states within the scope of this paper, it is essential to examine 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 medium and Small-Scale industries again reveals a paradoxical relationship with Investment, as shown in Table 2.3. Gujarat and Maharashtra, being the states with the highest investments (Census 2006-07), do not employ the maximum number of people. Whereas, the State of Uttar Pradesh tops the employment table, followed by West Bengal and Tamil Nadu. The State of Tamil Nadu has, on average, done justice to its Investments, Production, and employment status in medium and small-scale industries, as it proves to be a state of Optimality where the factors are in synergy and synchronise 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 confirmed the hypothesis that the reason high investments have not led to higher production is due to the extremely low level of labour productivity prevailing in the States. Gujarat, being the state with the highest level of Investments (Census 2006-07), does not account for the highest level of production. Thus, the existing level of low productivity in the states accounts for the decline in output despite 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
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

## Productivity Saga of The Indian Informal Sector

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

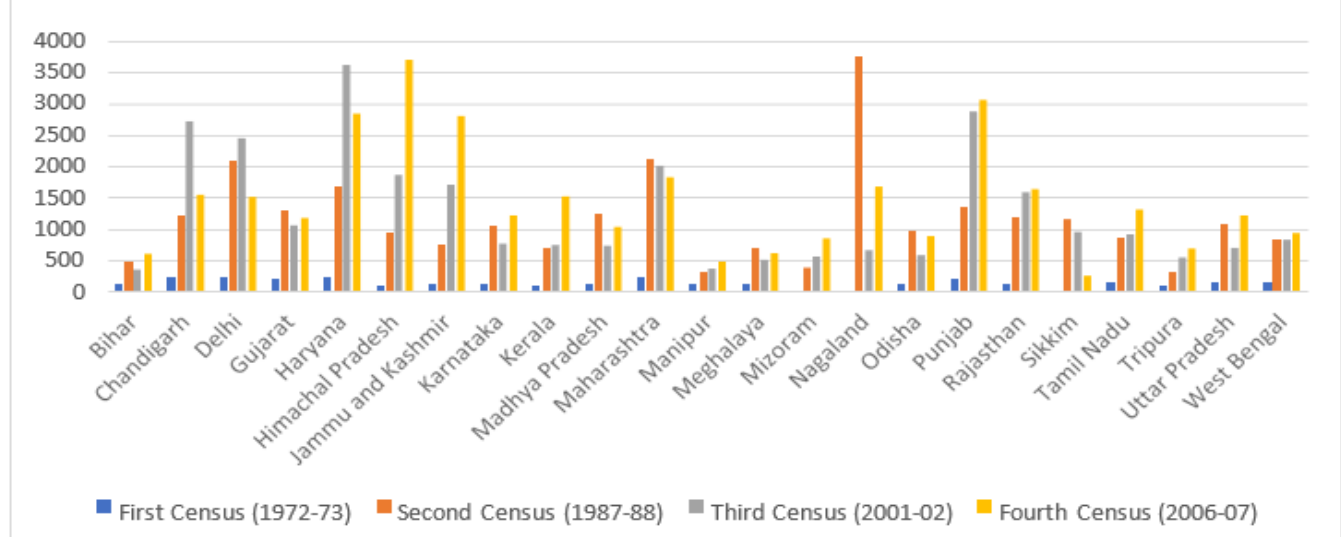
**Source: Author's Computation**

**(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)**

Productivity has been calculated using existing data on employment and production levels. The productivity of workers has long been a topic of debate, with numerous factors influencing it. The following results show that productivity is not only low in high-investment states, but the average productivity of medium and Small-Scale industries in some states has also drastically fallen since 1972-73. The Indian Economy has seen growth in all variables considered

since 1972-73, including employment, production, and investments. However, labour productivity has declined in some states over the years in the informal sector. Another revelation that emerges is that the states of Jammu and Kashmir and Himachal Pradesh, which have very low investments accompanied by low employment and production, have a considerably higher productivity rate during the 2006-07 period.

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



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

The states of Gujarat, Maharashtra, Chandigarh, Delhi, Madhya Pradesh, Nagaland, Meghalaya, Sikkim, and Odisha have shown signs of declining productivity in 2006-07 compared to previous years' censuses. The rest of the states have shown very minimal growth in average productivity over the years, except for 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 decline in productivity over the years can be attributed to several factors prevalent in the informal labour market. Catering to the market's needs, the government should initiate measures to raise labour productivity. The policy formulations would focus on how to improve the sick labour markets and address the problem of plummeting productivity in India's informal labour markets.

Informal labour forms a significant part of our national employment. Within the scope of this paper, we haven't focused on casual labourers or self-employed workers; however, considering the productivity in medium and Small-Scale industries, it is pretty reflective of the health of the informal labour market.

### VIII. POLICY PRODIGY

The Indian Informal sector is a prime example of what is better known as a termite-ridden structure. I would like to name it the "termite effect," which essentially means that the sector appears polished, masking the growing variables of Investment, Employment, and Production.



Still, the core structure, which is labour productivity, is eroding over 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. Still, 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 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 of Social Security Benefits and Job Security:

I assume one reason is 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 a lack of properly drafted written contracts, and thus, workers lack the ability or incentive to perform better, leading to a decline in productivity. Hence, the government should focus on providing adequate employment benefits, paid leaves, and proper working conditions throughout official working hours, as well as the required job security, to the informal sector of the Economy. Secure 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 lower wages compared to those of skilled workers. This cycle of being low-skilled and receiving low wages in turn reduces the productivity of the workers. They are consistently dissatisfied with their low wage rates, which leads to a decline in productivity and a lack of 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, offering vocational training, and conducting skill development programs to enhance the skills of workers, which would ultimately lead to a higher wage rate and, consequently, increased productivity. The VMPL of labourers would increase as both the wage and MPL rise with the provision of vocational training, skill development, and proper education among the lower ranks of the population.

#### C. Provision of Basic Amenities:

After discussing vocational training and proper education, let's examine the provision of necessities for survival. The low-skilled labourers also lack basic amenities, such as adequate 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 a 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 significant part of the Informal sector (though not the focus of this paper), and the prevalence of disguised unemployment highlights the problem of low productivity. The employment might yield swelling figures, but the land area might not require 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 observed in unorganised industries, where labourers who aren't productive are also employed to carry out menial tasks. This results in an increase in employment statistics but a decline in actual labour productivity, as there are 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 the rural and urban MPL are equal. The Urban Informal Sector is said to have absorbed these excess labourers. Still, 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 needs to generate more employment opportunities at a rate that matches or exceeds the rate of migration. The industries are mostly inefficient, except for a few, and the burden of excess employment exacerbates their problems.

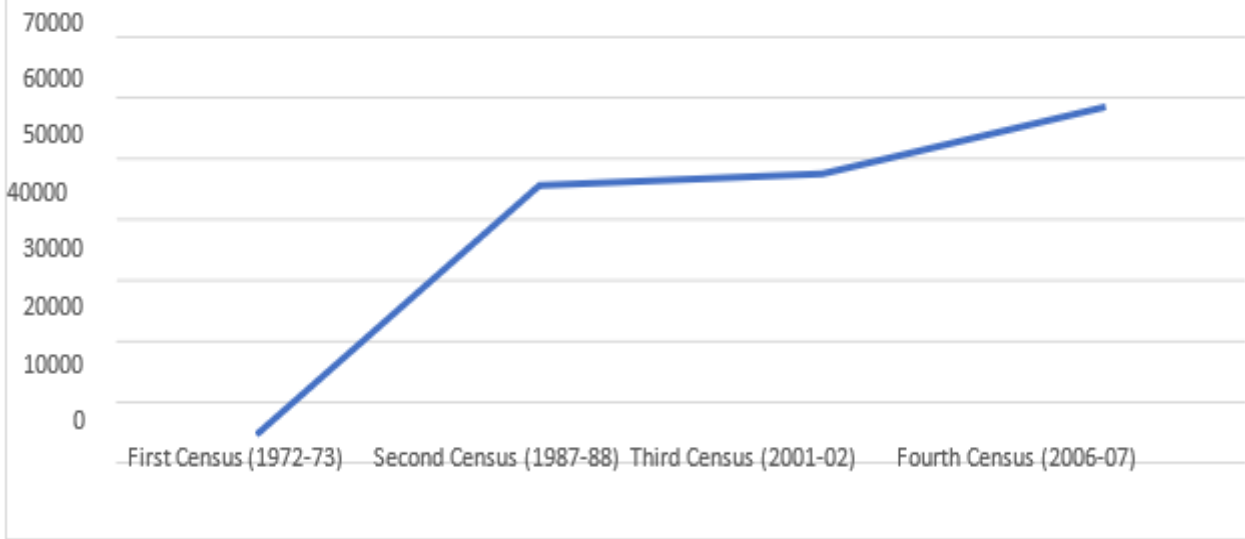
The use of labour-intensive techniques, the introduction of more cottage industries to prevent mass migration, and the establishment of various lines of production to enhance the manufacturing or secondary sector of India would serve the purpose. Higher investments should be undertaken in providing employment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

### IX. CONCLUSION

The problem of low productivity plagues the Indian Informal Sector due to a multitude of reasons. Not going into the political framework, the reforms needed are severe and immediate.



Figure 2. 4: Total Productivity (Aggregate of all States)



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

Increasing labour productivity should be the ultimate aim to make things run smoothly and develop the informal sector, which forms the pillar of Indian Employment. Focusing on the points mentioned above, such as employment guarantees, skill development, provision of basic amenities, and reducing the incidence of disguised unemployment, would serve to mitigate, if not eradicate, the problem. Productivity in India has gradually risen, but has been met with stagnancy. This stagnation is a complete sham in the growing variables of Production, Employment, and Investment in medium and Small-scale industries. Thus, the “Termite Effect” aptly defines how the Informal sector has suffered from low productivity over the years.

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