The Modi Sarkar’s Project for India’s Informal Economy

From demonetisation to GST and now the lockdown, the government's policies towards the 'unorganised sector' has spelt nothing but rack and ruin.

A woman worker in the construction sector. Photo: Reuters/Adnan Abidi

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What has the BJP-led government of Narendra Modi done since 2014 that does not suggest it wishes to destroy the informal economy, also known as the unorganised sector?

While the 'unorganised' informal economy now accounts for roughly half of India's GDP – and is shrinking relative to the share of the private and public corporate sector – it accounts for 80-90 % of the workforce. It includes agriculture, despite the fact that land titles are registered, except for plantations, which are regarded as 'organised' despite their unravelling workforces. But it also includes most of the rural non-farm economy and the vast services sector, from high-end to low-end, the manufacturing labour force, workshop industry and trade.

While there is no comprehensive data, and we have to extrapolate from surveys and case studies which involve a multitude of inconsistent concepts and terms, we do know it is very large, absolutely and relatively, compared with other low-middle income countries. Its size is distinctively Indian.

The informal economy drives growth and livelihoods. It supplies labour-intensive exports. It provides the goods and services that COVID-19 reminds us are essential. Its costs and returns provide the structure of costs and prices for the rest of the economy. India's comparative advantage relies on it. Labelled 'unorganised', it is far from disorganised: it is organised through business associations, unions and the identities of caste, ethnicity, religion and gender. The founding fathers thought these distinctions would gradually disappear but over time they have mutated and actually strengthened. Some sectors and regions are also ordered through mafia clans.

These days, the informal economy doesn't only consist of small unregistered firms and their labour – although 95% of all Indian firms have fewer than five paid workers (and a recent estimate put the average size at two – the microscopic end of MSMEs, tapering into disguised wage work). While it is where poverty is concentrated, it is also the site of considerable wealth. These days, most firms engage selectively with regulatory laws. They are selectively informal. You may need to have a licence and a bank account, but the laws surrounding building construction, the environment and working conditions aren't enforced, and while you may pay local taxes, you do not pay income and business taxes. For several decades, corporate India has shifted the costs and risks of labour onto private subcontractors whose relations with workers range from incomplete verbal contracts, or scraps of paper with discretionary perks for loyalty, to bondage – relying on the lack of alternatives for the casual labour 'employed'.

Bureaucracies have followed suit. Whenever organisations grind to a halt when 'working to rule', they expose the need for informal interpretations of the rules of operation. Informal practices happen inside the state even when standard operating practice involves non-enforcement of regulations. In fact, the informal state is penetrated by corrupt, rent-seeking, cost-skimming and diverting, fraudulent and criminal behaviour. In parts of India, it's readily accepted as Mafia Raj. In its current condition the state can hardly be used to reform the informal activity it tolerates, encourages and depends on.

Although almost every citizen of India knows how it works, mentioning this pervasive informality is taboo in the world of policy-makers. Yet all policy – even, it has been said, policy for ensuring military security – is implemented through this tangled skein of relations.

Management consultants, however, want the informal economy out of India's picture because, wherever they meet head-on, the 'unorganised sector' outcompetes the corporate economy even though the latter is supposedly working at the frontier of efficiency with economies of scale. The informal sector is messy. It is not 'development'. It is 'low productivity'. It doesn't 'shine'.

The National Democratic Alliance (NDA) in power, while relying on the informal economy, and having no alternative to it, has consistently attacked it.

Fresh from the 2014 election, in the first budget, the minister of finance promised a report on the informal economy. It never appeared.

Demonetisation, the first shock

Fast forward two years and more. Demonetisation (November 8, 2016) came as a surprise to all but the elect. Its four stated objectives – all of which failed – did not include weakening the informal economy. Demonetisation was reframed as one means amongst others to introduce a cashless economy which would allow the tax base to be widened. But with 98% of transactions made in cash before demonetisation, the removal of currency notes dealt a massive shock to the informal economy. Unfamiliar with e-tech, unwilling to pay hefty commissions on e-transactions, or to depend on mobile bankers they didn't trust (and whose equipment wasn't trustworthy either) or to face physical discrimination in banks, the informal workforce reverted to old forms of exchange: barter, payments in kind, long-term credit promises, gifts, reciprocal social support. And some family firms only retained working capital by becoming retail agents of corporations relying on their credit lines, accelerating an ongoing process of transformation in which family labour was replaced by (casual) wage labour.

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In the period that followed, India's real economy took a beating. Production and consumption contracted. Agricultural seasons were delayed. Starved of cash, supply lines in all sectors without exception were disrupted: prices went haywire, job losses and chaotic flows of migrant workers grew to unprecedented levels. In the criminal economy there was a deep intake of breath – after which it resumed business as usual. Growth in the tax base also has been mediocre. Investment in registered MSMEs has shrunk. Despite some re-employment, the unemployment rate rose and unemployment of more educated workers is at levels not seen for over four decades. The growth rate declined, albeit by an amount that is fiercely debated. Pre-COVID, it even may even have descended below the now much-derided Hindu rate of growth. And cash transactions have almost returned to pre-'Demon' levels.

The GST blow

The Goods and Services Tax reform (July 1, 2017) was not such a shock, having been cogitated in the entrails of the state ever since 1986. Arcanely complex state and central taxes on commodities were to be replaced by a simplified '5-slab' tax on value added, to be gathered by state and Central governments within state borders and by the Central government on cross-state transactions.

GST was widely predicted to reduce the economic share of unregistered firms – a cause for rejoicing in sectors like garments and footwear, building equipment, plywood, electrical goods, plastics and packaging, where unregistered firms competed too successfully with corporates.

The costs of compliance of GST were expected to put these firms out of competition. The necessary 'paper trail' and document-matching for purchases and sales (in fact regular e-returns) would force them to make hefty investments in IT and increase their skilled labour and materials costs – reducing profits that are attributed by management consultants not to *jugaad* or frugal 'Indovation', but to tax evasion. Disregarding the reports of chaos in implementation caused by many fought-over amendments, GST further penalised small firms through delays in refunds. It generated a perverse redistribution from small to large firms, just as it has penalised states in relation to the Centre.

GST had the outcomes expected by the big management consultancies: sharp hits in profits in firms with recorded turnovers above the threshold of Rs 20 lakhs, especially in trading firms, service-providers and micro enterprises (general stores, tailors, cobblers, barbers, plumbers, masons, electricians etc), led to reports of job losses in the informal economy of between 35 and 45%. We know from household savings trends that the informal economy has indeed been battered to the point where growth is depressed and that capital formation in the corporate sector has finally started to exceed that in the informal sector.

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But GST also shows us that the apparently compliant organised sector – strengthened by this 'weeding of the weak' – is comprehensively implicated in transactions with unregistered firms that are essential to its operation. It turns out that it is not tax evasion but the capacity to organise and control cheap and compliant labour that earns contractors profit in the informal economy – a profit being ever more readily exploited by the formal one it serves.

Coronavirus and lockdown

Now we have COVID-19 (first reported in Thrissur on Jan 30) and Lockdown (March 24, 2020) – undertaken, as everywhere it has been imposed worldwide, in the name of public health. If policy is what it does, policy must also be what it doesn't do. India is now in a new era of policy inaction which matches and responds to the informal economy it does not officially recognise as existing. By what it didn't do, by how it didn't mobilise, lockdown was a declaration of war on casual or bonded migrant labour, and a return to the shock tactics of demonetisation.

Many migrant labourers and their families have been left to walk to their places of origin deprived of work, lodging and shelter, food, water and transport, except through acts of charity and occasional action by states (which have been promptly punished by the Central government for doing so). And on arrival, stigmatised, they have not always been welcome. Other migrant workers have not been allowed to move but instead have been imprisoned in factory compounds and quarters, unpaid, poorly fed and prevented from returning home. This pauperising and punishing of the migrant workforce – estimated as at least 20 million in urban areas alone – has been assisted by acts of police brutality.

But a much larger segment of India's workforce hit by the lockdown comprises non-migrant self-employed, small family businesses and casual labour – perhaps as many as 350 million throughout the country. Deprived of work by contractions in demand and supplies, by logistical disruptions, labour blockages and physically inaccessible credit, and frequently stranded without flexible assets to buffer them, they have only the state and citizens' entitlements for economic and social protection. And now the records needed to ensure entitlements are found to be leaky and years out of date. The PDS is the measure that seems to be getting through to households plunged into food-insecurity but an estimated 8 crores of households without ration cards fall through the wide meshes of this net. At the time of writing, other government relief schemes, cash transfers and income support for vulnerable people are widely reported as inadequate and inaccessible. It is as though relief were deliberately intended to push households towards famine.

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And then there is India's vast unpaid workforce engaged in household production as well as domestic activity – perhaps in the region of 200 million – who are mostly women. The burden of maintaining the health of their households through this unprecedented income shock – redolent of triggers to famine processes falls – mostly on their backs.

So much for policies of apparently deliberate state inaction. When we turn to active policies, the direction of travel is obvious: states seizing opportunities to fast-track reforms to formalise de jure punitive practices that have operated de facto for years. Labour Law reforms in some states enable the working day to be formally lengthened to 12 hours, and overtime pay to be made unnecessary. Elsewhere they have been waived for three years. Minimum wages have been reduced. Reforms to Agriculture are being enacted at speed to incentivise contract farming by agri-business and to enable reverse tenancies, in which small landholdings are consolidated by large tenant enterprises expected to benefit from economies of scale. As the transport of marketable surpluses is dislocated by the lockdown, reforms relaxing the states' Agricultural Produce Markets Acts are pushed through to incentivise the use of 'e-NAM' (*National* Agricultural Markets) – just as though e-markets can substitute for real markets for more or less perishable material supplies. A new wave of environmental assaults is also being reported. Hard-won citizens' rights such as those to food and livelihood are being denied. The newly announced relief package is mostly an exercise in re-labelling allocations already made. The autonomy of bankrupt state governments is under attack as they reel under the weight of responsibility for 'disposable people': the country's federal structure is being weakened.

There's a vast literature on India's informal economy. It is hardly taught, not well understood and its role is not appreciated. In 2004, UPA-2 created the National Commission for Enterprises in the Unorganised Sector (NCEUS) and provided an e-platform for the informal economy, on which much rich research and policy material was to be found. In 2013 it dissolved it.

Informal activity is dynamic and innovative. It is undeniable that parts of the informal economy are formalising, finding benefit from registration and regulatory compliance incentivised by new technology. New sectors start life fully formal – think of Uber-Ola replacing the rickshaw. Credit is transformed, with registered small firms taking bank loans and reducing what used to be abject dependence on private moneylenders. Yes, municipalities and panchayats register small family businesses. Some even start to pay GST.

Most of the informal economy however remains beyond the regulative reach of the state as the backbone of India's economy and the mainstay of its livelihoods. It is a cruel paradox that the state's actions have had a destructive effect on it through reforms and policies which steer clear of mentioning it.

The NDA embodies the management consultant/ business school view of India. Has enough time elapsed to conclude that this catastrophe for livelihoods is not an unintended outcome, and not carried out through ignorance? Is it deliberate, wilful and negligent? Isn't the taboo we see on mentioning the informal sector in government policy a technology of power?

Even if eco-socialism is not for this world, why is there yet no vision for development of a kind needing labour-intensive growth, small business, self-employment and decent conditions for wage work? Respecting their contribution to Indian society? Supporting them in times of need? Making their health central to development?

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