

# **Thesis title: Informality and Accumulation in India- From the Standpoint of Capital**

## **Abstract**

The thesis explores variations in the informal accumulation patterns in India. It locates informality within diverse agrarian and non-agrarian accumulation processes in the Indian context. The contribution of the thesis to the literature on informality is threefold. Firstly, it draws attention to the importance of the agrarian transition in studying the non-agrarian informal sector, particularly rural informal sector. Consequently, the thesis contributes to debates on partial-proletarianization. Secondly, it approaches informality from the standpoint of capital as opposed to the standpoint of labour which recognizes the role of informal sector merely as a site of surplus labour. Using the standpoint of capital, the thesis argues against the view that non-agrarian informal enterprises are necessarily incapable of growth and accumulation. The thesis argues that it depends on the nature of market growth which itself is contingent upon agricultural labour productivity growth. Thirdly, the informal accumulation processes studied in the thesis are located within the growth dynamics of the reform process initiated in the early 1990s and the corresponding switch in the investment and accumulation model towards urban-biased growth and consequently away from agriculture towards urban non-agriculture. The economic growth driven by urban services also manifested in the expansion of informal sector in this category in high per capita income (rich) and low per capita income (poor) states.

The thesis is divided into six chapters. The **First chapter, 'Locating informality within Accumulation Processes- An Introduction'** lays out the motivation for the thesis and critically discusses the existing approaches to informality. The chapter attempts to marry together the debates around structural change and informality with the literature on diverse paths of agrarian transition and accumulation. It argues that the existing duality frameworks, be it exogenous or endogenous, are not suitable to comprehensively understand the dynamics of informal accumulation atleast in the Indian case. The chapter highlights the limitations of the mainstream discourse on informality emphasizing on its urban bias and the neglect of rural sector, the standpoint of labour, and dislocating informality studies from agrarian accumulation processes. The thesis proposes that the lens of accumulation, and within that petty commodity production approach is more appropriate for the study of non-agrarian informal sector and its

relationship with the agrarian accumulation. This chapter attempts to provide a broader theoretical and analytical framework to understand the changing nature of agriculture and the emergence of partial proletarianization in India in the post-reforms period. It also extensively discusses the role of understanding historical diversity of agrarian transition paths and their implications for the differences in the political economy context of different regions.

The **second chapter, 'Structural Change and economic growth in India since the 1990s- A State-level Analysis'**, explores the structural changes in the composition of output and employment between agriculture and non-agriculture sectors comprising industry and services. The chapter mainly focuses on the nature of the output per worker gap, a proxy for the productivity gap, between the two sectors to study the patterns of economic growth and structural transformation across 21 major Indian states since the 1990s. The per capita income levels, agriculture and non-agriculture output per worker kicked off since the mid-2000s in India. The period of 2004-05 to 2011-12 registered a high growth phase followed by a slowdown during 2011-12 to 2017-18. The chapter identifies three broad trajectories of growth and transformation within India: a) economic growth with convergence, b) economic growth with divergence, and 3) relatively stagnant economic growth. It argues that differences in investment and capital formation between agriculture and non-agriculture on the one hand and across the states in both sectors, on the other hand, drives differential economic growth outcomes. These diverse trajectories also have implications for the absorption of surplus labour from agriculture. The economic growth trajectory with convergence between agriculture and non-agriculture output per worker resulted in higher per capita income levels with a declining share of agriculture employment. On the contrary, economic growth with divergence resulted in higher per capita income levels without a rapid transfer of surplus labour out of agriculture. The trajectory of stagnant economic growth due to stagnant or sluggish output growth in non-agriculture sectors and low levels of agriculture and non-agriculture output per worker constrained the transfer of surplus labour out of agriculture.

The **third chapter, 'Agrarian change and accumulation patterns in India since the 1990s: A state-level analysis'**, explores the nature of agrarian change and accumulation patterns across rich and poor states in the post-reform period. The chapter establishes that agricultural land productivity in poor states caught up with that of rich states due to the gradual adoption of Green revolution technologies backed by increased irrigation facilities and cropping intensity. However, labour productivity in the agriculture driven by higher capital formation is the distinguishing factor in the patterns of capitalist development in agriculture in rich states.

Rich states had higher public and private investment levels per hectare than poor states. The changing accumulation model at the all-India level with declining investment share and rates of growth in agriculture since the 1990s, volatile global prices in the primary commodity markets, and dismantling of price support and procurement mechanisms within the country generated a deep agrarian crisis. The costs of cultivation increased faster than the prices of output due to the commodification of inputs and global integration. The differential accumulation patterns between rich and poor states manifested in differential crisis outcomes. Agricultural households in rich states cannot generate adequate returns over the cost of inputs and finance higher input costs with higher debts. On the contrary, the demand for inputs itself is lower in agricultural households in poor states, thereby depressing agricultural incomes. Therefore, the chapter argues that the agrarian crisis in rich states is a profitability crisis, whereas it is a low productivity crisis in poor states.

The chapter also draws attention to worsening agriculture incomes in the country during the last decade. Therefore, agriculture households diversify the cropping pattern and income sources to improve household incomes. There is evidence of partial proletarianization in rich and poor states, albeit rooted in different land ownership and tenancy structures. Rich states have a higher degree of land ownership inequality driven by higher landlessness on the one hand and concentration of land in fewer households on the other. Greater land leasing-in among large and medium farmers in rich states and greater land leasing-out among large and medium farmers in poor states indicate differences in capitalist development in agriculture. The chapter also shows that the rise in depeasantization and urbanization in rich states has different outcomes to rural non-farm employment growth. This chapter lays the ground for discussing the relation between partial proletarianization rooted in agrarian transition and the non-agrarian informal sector in the subsequent chapters.

The **fourth chapter**, ' **Variations in the non-agrarian informal sector in India across major states**,' explores diverse accumulation patterns in India's informal sector. The chapter mainly focuses on variations in the enterprises, workers engaged in these enterprises, output generated in the sector, labour productivity and capital intensity between rich and poor states. The chapter uses unit-level data from 67<sup>th</sup> and 73<sup>rd</sup> rounds of NSSO unincorporated private enterprises surveys and focuses on two years 2010-11 and 2015-16. The chapter is organized in two parts. First part discusses variations at the aggregate level focusing mainly on the rural and urban areas in rich and poor states. Second part discusses variations at the disaggregated level of enterprise type and activity category i.e., variations across Own Account Enterprises Not on

Subcontract (OAE\_NSC), Own Account Enterprises on subcontract (OAE\_SC), and Establishments in manufacturing, trade, and services.

This chapter reveals that the non-agrarian informal sector in India has different patterns of accumulation in the following four regions: rural-poor, rural-rich, urban-poor, and urban-rich. The chapter mainly argues that two important structural changes taking place at the macro level impact informal sector in India. Firstly, the slowdown or sluggish rural informal sector output in rich and poor states between 2010-11 and 2015-16 is associated with the worsening agrarian crisis during this period. Secondly, slowdown in non-agriculture output growth during this phase, more so in poor states than rich states led to proliferation of urban informal sector enterprises, workers, and output. The chapter establishes that rich states have higher levels of labour productivity and capital intensity than poor states. It also establishes there is a positive and strong correlation between these two parameters. This correlation is higher in urban-rich due to high levels of both parameters and it is higher in rural-poor due to lower levels of both parameters. The chapter argues that there is a deeper regional divide in informal sector accumulation patterns in India. The chapter also highlights the divide in productivity and capital intensity between establishments, OAE\_NSC, and OAE\_SC. Between 2010-11 and 2015-16, the share of OAE\_NSC fell and the share of OAE\_SC rose in total manufacturing enterprises, while the share of OAE\_NSC fell and the share of Establishments increased in total trade and service enterprises, particularly in urban areas in poor and rich states. The chapter argues that these movements are in line with service-led growth dynamics. The chapter also highlights that the striking feature of rural manufacturing in rich states is the large share of rural Establishments unlike other rural segments of informal sector, indicating larger proliferation of wage labour in rural informal manufacturing sector in high agriculture productivity states. The chapter establishes that differences in agriculture labour productivity has crucial implications for accumulation in the rural informal sector.

The **fifth chapter**, '**Can informal enterprises become sites of capital accumulation?**' asks the question whether informal enterprises can become potential sites of capital accumulation. In addressing this question, this chapter draws attention to the centrality of domestic market growth and agricultural labour productivity to the study accumulation processes in India's non-agrarian informal sector. Using the unit-level data from 67<sup>th</sup> and 73<sup>rd</sup> rounds of NSSO unincorporated private enterprises surveys, we run the multiple linear OLS regression models

and binomial Logit regression models for each type of enterprise category (establishments, OAE\_NSC, and OAE\_SC) for 2010-11 and 2015-16. We repeat these exercises for the sample consisting of all non-agriculture economic activities and subsamples of manufacturing, trade, and services separately.

Based on the OLS model results, this chapter argues that establishments and OAE\_NSC form distinct 'regions' of accumulation in the non-agrarian informal sector. These distinct regions and types of accumulation exist in manufacturing, services, and trade. Further, OAE\_SC form a distinct accumulation region within manufacturing. The chapter establishes that there is a positive and significant relationship between capital intensity and labour productivity in informal sector in India. The chapter contributes to the literature on informal sector studies by establishing the importance of the informal enterprise location in a Higher Agriculture Labour Productivity (HAP) state to its labour productivity. The chapter establishes that an enterprise located in a HAP state has higher productivity than an enterprise located in a Lower Agriculture Labour Productivity (LAP) state in the categories of Establishments and OAE\_NSC. In contrast with Establishments and OAE\_NSC, LAP states caught up with HAP states in capital intensity and labour productivity levels in OAE\_SC in rural areas. Further, the chapter establishes that worsening agrarian crisis between 2010-11 and 2015-16 has adversely impacted the labour productivity of informal enterprises in both HAP and LAP states.

Based on the Logit model results, the chapter establishes that manufacturing enterprises are more likely to hire wage labour than services and trade enterprises. Across the three economic activities, urban enterprises are more likely to hire wage labour. However, enterprise location in HAP states does not have a unique relationship with the likelihood of hiring wage labour. Rural manufacturing enterprises in HAP states are significantly more likely to hire wage labour than LAP states. However, this result does not hold for urban manufacturing enterprises. On the contrary, rural and urban manufacturing own account enterprises in HAP states are significantly more likely to operate on subcontracting basis than in LAP states. Therefore, we argue that enterprise location in HAP states significantly impacts tendencies towards differentiation in informal enterprises in rural manufacturing sector. The empirical analysis also suggests that gender and caste significantly impact informal accumulation processes in India.

Lastly, the **sixth chapter**, ‘**Conclusion: Towards a Political Economy View**’, attempts to provide a Political Economy viewpoint to integrate the findings emerging from the above chapters in the thesis. This chapter mainly emphasizes on the impact of the changing growth and accumulation model in India since the 1990s on informal sector. It highlights the dual impact of liberalization policies in the form of delicensing in manufacturing on one hand, and the withdrawal of state support in agriculture on the other hand on the overall growth outcomes, particularly on the nature of informal sector and partial proletarianization in India. The chapter reminds that rising investment levels in the non-agriculture sector led to rising per capita income levels in the post-reform period. But, this happens alongside the falling share of investment in agriculture and worsening agrarian crisis during this period. The chapter agrees with the political economy viewpoint that these policies are a part of the accumulation strategy hinged upon cheapening wage labour. Therefore, the chapter also agrees with the argument that neglect of self-employment or own account enterprises in policymaking is a deliberate choice of the state in facilitating flexible production structures that can depress the wages. The rapid proliferation of subcontracting in manufacturing during the last decade in India can be understood in this context.

The chapter also engages with the argument Ashok Mitra makes in the 1970s where the constraint to economic growth releases once the coalition between industrial bourgeoisie and large landlords break down. In the post-reform period, a shift to an accumulation model based on global integration and the consequent fall in primary commodity prices and decline in agricultural profitability led to a breakdown of this alliance. The chapter argues that despite the breakdown in the alliance it has not been possible to sustain high rates of economic growth and this is at least in part because Mitra did not foresee partial proletarianization as an outcome that can emerge with rising investment levels in the economy. The chapter urges that we bring our attention back to Sukhamoy Chakravorty’s emphasis on domestic market and its relationship with the nature of the agrarian transition, the terms of trade in the economy and the class structure as formulated by Ashok Mitra to understand informal accumulation processes more comprehensively.

Therefore, this thesis is a humble attempt to draw the attention of political economy scholars to the role of agrarian change in the study of non-agrarian informal sector.