

**Book Review**

**Out of the Shadows?  
The Informal Sector in Post-Reforms India**

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The manufacturing sector in India has been the focus of development strategy with import substitution at the centre-stage of policy making. Despite theoretical conjectures on economic growth driving a rise in large manufacturing enterprises and a corresponding decline in self-employment and small informal manufacturing enterprises, the evidence shows some kind of manufacturing dualism in India with simultaneous existence of informal manufacturing alongside formal manufacturing. Even with removal of barriers to formal sector growth during post liberalization, the informal sector persists being the dominant sector in Indian manufacturing. Such a pattern of manufacturing growth has obvious implications for both efficiency an

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equity in the economy. As the book correctly points out, there are two views on informality: while one focuses on the existence of the informal sector as a source of exploitation, the other views the informal sector as dynamic with households and entrepreneurs make the necessary transition from small to large enterprises with maturity in capitalism. This book investigates into the appropriateness of either of the above-mentioned views by empirically analyzing the evidence of informal manufacturing firms in India. The policy focus that emerges from such an analysis is expected to give a clear indication whether it should be in terms of reducing informality in India, or taking necessary steps towards removal of constraints to the growth of informal firms while promoting their inherent dynamism. The book further approaches informality in India from the 'production' lens rather than informality from 'labour' or 'consumption' lens in an attempt to study the determinants of enterprise performance using unit level data on informal firms undertaken by NSSO.

The book provides a very comprehensive definition of informal firms in India in terms of unregistered firms under the Factories Act, 1948 and the NSSO classification of informal firms (namely OAMEs, NDMEs and DMEs) and provides a discussion on the database used in the main content of the book as well as in the appendix. In so doing, Chapter 1 provides an overview of the different theoretical strands of thought on the informal sector namely the Neo Marxian, the legalist and the institutionalist views apart from the traditional view of economic dualism. While the dualism and the neo-Marxian approaches underline informality as a means of exploitation, the legalist and institutionalist views perceive informality as a means of accumulation having inherent dynamism. Chapter 2 delineates the evolution of economic policies in India which have a direct or indirect bearing on the informal manufacturing sector in the country. This chapter emphasizes that even if constraints on formal production were removed following economic reforms in India, increasing trade openness has led to informalization of work and increased wage differentials across formal and informal manufacturing. Further there are views that trade liberalization has led to rise in real wage and real assets of informal manufacturing firms.

Against the backdrop of the evolution of policies in India, Chapter 3 provides certain stylized facts on the informal sector in India in terms of the overall patterns and trends in number enterprises, employment and gross valued added both aggregate

and disaggregated levels by sector, industry and region for the period since the beginning of trade reforms in India in the mid-1980s. It is found that informal manufacturing sector has witnessed a significant change in its composition, output and performance in the post reform period with little sectoral variation in the growth of informal sector over time.. A typical informal firm has a greater likelihood of being located in the urban region now than 20 years back. Mostly importantly, the number of family firms (comprising mainly of OAMEs) have decreased over time.

Chapter 4 explores facts on Indian informal manufacturing sector using unit level records of NSSO surveys of unorganized enterprises from 2000-01 to 2010-11. Data analysis shows that the average size of informal firms in the Indian manufacturing sector has declined over time, especially for OAMEs and NDMEs in contrast to that of DMEs. There is evidence of an inverted U shaped relationship between firm productivity and performance, productivity increases till a certain point before stagnating or declining. Further, OAMEs seemed to be the least productive followed by NDMEs and DMEs. Firm size, gender, social group of firm owner and location of firms are important determinants in understanding the association between wages and labour productivity. The chapter further shows that both home grown enterprises and larger firms in the informal sector are likely to subcontract more, with firms entering into a subcontracting relationship being less productive than those which do not enter into any agreement. Further, the results suggest that lack of investment from the formal sector firms to the informal firms which supply inputs and raw materials to the formal counterparts along with asymmetric bargaining power of the formal sector firms in negotiation of contract with the informal sector firm, have not necessarily benefitted the informal sector firms as far as a subcontracting relationship with the formal sector firms is concerned.

Having laid down the basic empirical evidence on informal sector in the earlier two chapters, the following chapters have investigated the impact of economic reforms on different dimensions of performance of informal manufacturing firms in India. Chapter 5 measures efficiency level (productivity performance) of formal and informal firms for the period 1984 to 2000, and find that both formal and informal firms witnessed an increase in the level of productivity but the productivity gap between the formal and informal firms increased during the reference period. The largest firms in the sector are found to be four times more productive than the smallest firms in the sector. Even at the regional level, the reforms seemed to have

increased the level of productivity for all the firms with the only exception of rubber. Further, economic reforms seemed to have also triggered an increase in the level of technical efficiency for the formal as well as the informal firms, but the increase has been more for the formal firms thereby creating a wedge between the groups.

Thus, despite improvements in productivity and technical efficiency, economic reforms seemed to have contributed to persistence and even increase in dualism in the manufacturing sector in the post reform period. Such a situation often puts the informal firms at a disadvantage to compete in an increasingly integrated domestic and international market, not to mention about the obstacles to poverty and inequality reduction and employment creation during post reforms.

Chapter 6 looks into the economic dynamism within the informal sector in terms of firm transition from smaller to larger enterprises. Based on a logit regression, the authors claim that firm capabilities are important determinants of firm transition. Among the variables capturing firm capabilities, registration status and accounts maintenance status are pivotal in nature. It has been observed that the change in registration status from “not registered” to “registered” increases the chances of being in the NDME and DME category; the same results hold if a firm changes its status from “non-maintenance of accounts” to “maintaining accounts”. Also firms tied in by sub-contracting agreement are less likely to be in the OAME category and more likely to be in the NDME and DME category.

Further, the chapter reveals that a firm in the urban area is more likely to be in the larger size type in the informal sector. The size of the market and the relative skill of the work force are thus important determinants of firm transition. In addition, availability of physical infrastructure facilities and human capital has a significant positive effect in increasing the likelihood of firms for being in the NDME and DME category. It is surprising to note that financial constraints do not contribute significantly to a firm’s expansion in the informal sector as compared to firm capabilities, locational and infrastructural variables, and human capital, indicating availability of alternate source of finance to the small firm along with constraints arising from lending by formal financial institutions.

The effect of international trade on the manufacturing employment, informal vis-à-vis formal, is analysed in Chapter 7 using the factor content and the growth

accounting approaches. Results using the factor content approach show that the share of unskilled labour intensive goods in India has increased over time, but that the employment coefficients of exports and imports have fallen consistently. Further, the employment intensity of production for all the major exports of the Indian Economy has been steadily declining and this result is not limited to the formal sector alone. The growth accounting approach suggests that the employment growth in 1990s can be linked to exports, whereas the feeble increase in employment growth over a longer reference period (1978-2005) can be attributed more to changes in domestic demand than trade. Globalisation, thus, has not been able to contribute to employment generation in manufacturing in a very significant way. The results have significant implications especially when the world over is moving towards fourth industrial revolution and policy making in India has its course towards “Make in India”.

This empirical treatise on informal manufacturing is a feast for researchers working on economic development and persistence of dualism in the context of manufacturing in an emerging market economy. I have thoroughly enjoyed reading this book. This reviewer does not hesitate to compliment the authors for the deft execution of this work using unit level records along with aggregate statistical information on a very important sector. It is a must read for all researchers working in this area. However, this reviewer would have been happier if the book had contained in somewhat details on aspects of theoretical modeling with regards to the sector apart from an empirical treatment on wage inequality between formal and informal manufacturing. The last issue is especially important the context of reduction in inequality as perceived in the SDGs.