CHAPTER I

PROBLEM AND PROCEDURES

Getting a start in business is not easy. Those who try encounter a multitude of problems which must be solved along the way. The novice quickly realizes that the market is functioning perfectly well without him and that no one in the market place is going to help him to compete with them. Quite on the contrary there is no space for him, and other traders will routinely, impersonally, do their best to squeeze him out. He must find a way of breaking into trade and claiming a niche, learn the workings of the market and how to mobilize his resources in the best possible way, while keeping this faith in the project and ability intact.


This research study is about the informal sector vis-à-vis urban economic development. Chennai city is taken as the locale for the study, with three types of vendors as sample frames of the informal sector. The vendors are the vegetable, fruit and flower vendors, with or without pucca (proper) structures for their establishments. Some of them are in fact stationary while others are mobile. In either case, the intent is to make a dignified living through hard work. The vendors are confined to specific city locations or follow a typical itinerary, and therefore are mobile, in their day-to-day effort at selling and making a surplus which could support their family.

The informal sector of the city absorbs them with the much needed employment. A 20-year old statistics indicates that the informal sector employment accounts for 79 per cent of unskilled employment for non-agricultural and normally unskilled labour force. Consequently, they are largely retail trades, although there may be a few who practice wholesale trades. Some make a regular, high income while others make not so regular and low income, which is often inadequate to protect the family. The vendors as a group represent a socio-economic milieu which can be described as either lower middle class or, ‘urban poor’ who are trying to get a permanent foothold in the city. They may be migrants, from rural backgrounds, pushed off the lands by the changing circumstances in agriculture and other occupations. They gravitated towards the slums and poor housing
areas of the city as newcomers and were establishing themselves as either squatter settlers, or pavement dwellers. Over time, however, they have established a 'foothold' and are making a living in the city McGee (1979). They have improved their standard of living, and that of their dependant rural kinsmen by their regular remittals.

This introductory chapter elaborates the background of the study. The discussion in the following pages is in three parts. The first defines and traces the process of industrialisation and urban economic development. The second speaks of the impact of urbanisation on individual or household income and how the economic life of these people shows up a relationship between urbanisation and economic development. The analytical procedures followed in the study are both qualitative and quantitative. The statistical methods used are multivariate regression analyses, including the multiple regression models and the stepwise of the regression scheme.

Urbanisation

Urbanisation, an integral process of human civilisation, continues unabated in every country of the world. Accelerated population growth in the post-Second World War era, especially in the Third World, has heralded in an equally accelerated urbanisation process. The paradox of urbanisation is that every ‘first world city’ today has within it a ‘third world city’ in which squalor unemployment, overcrowding, disease, malnutrition and high infant mortality rate are common. Likewise, every ‘third world city’ has within it a ‘first world city’ of international fashion, high technology, global communications, Trans-national Corporations and post-modern fashions, fads and tastes. The urbanisation policies imply strategies toward sustainable urbanisation, sustainable population management and enhanced quality of life for urban population (UNCHS, 1994).

Conceptual Issues : City / Urban Area : Definition.

It is a fact that, at the end of 1997, almost every third Indian lives in a habitat other than rural, defined as urban. Some would classify them 'urban', yet in terms
of urban services, amenities and facilities, except for crowded or congested high density living, overwhelming numbers of these towns seem more or overgrown, densely overcrowded villages – formless sans cohesion and form (Shafi, 1996: 1).

Urbanisation is defined also as the process of growth in the proportion of the population living in the urban areas. It is distinguishable from the term ‘urban growth’, which refers to the proportionate growth of urban areas themselves; that is, annual additions to urban population divided by the size of the urban population (Preston, 1982).

Urbanisation in developed countries has been supported by industrialisation, having a substantial manufacturing base. In the developing countries, it is supported by the service sector which compensates for the deficit of the manufacturing sector.

Trends in Urbanisation

Urbanisation trends may best be appreciated by examining the degree of urbanisation in terms of indices such as the ‘proportion urban’, the rate of urbanisation and the rate of urban population growth over a specified period of time. Third world cities currently absorb two-thirds of total population growth in the developing world. At this rate, close to 2 billion people will populate the urban areas of developing countries by the year 2000, with some 600 million of this number being added during the current decade alone. Another 2 billion people are expected to be added to the urban population of developing countries between 2000 and 2025. Moreover, majority of these new urban residents will be living in large cities (Table 1.1). Today, half of the population is located in some 360 cities of over half a million inhabitants each. In 1950, the world’s total population was 734 million, of whom 448 million were in the developed countries and 286 million in developing countries.

The share between the two changed in 1980 when the developing countries made up 958 million of the world’s total urban population is 1.8 billion. At the close of this century, this proportion is expected to gallop to 2.3 billion out of a world’s total of 3.2 billion and, by the year 2025, the developing countries will have 4.4 billion of the world’s total urban population of 5.5 billion (United Nations, 1990a).
Estimates and projections suggest that during the span of 75 years from 1950 to 2025, the proportion of world's urban population will have doubled, while the absolute world population will have increased nearly seven-fold, much of it happening in the South. It is evident, therefore, that the developing countries are urbanising faster than the developed countries. This is a result of rapid population growth in developing countries. Both Asia and Latin America are poised for the largest global share of urbanisation, followed by Europe.

Table 1.1 summarises the situation in urban growth from 1980 to 2005. In the period 1980-85, natural increase accounted for a large share of urban growth globally, in the more developed countries, like North America, the former USSR and Africa. It was overwhelming in Oceania. Only in the less developed countries of Europe and Asia was the combined contribution of migration and reclassification more significant. A similar pattern is obtained for 1990-95, but the contribution of migration and reclassification was expected to increase and the projections of the two components were perceived to dominate the developed countries, in the millennium 2000-2005 also.

<table>
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<td>Former USSR</td>
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<td>46</td>
<td>79</td>
<td>21</td>
<td>56</td>
<td>44</td>
</tr>
<tr>
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<td>-10</td>
<td>97</td>
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<td>61</td>
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<td>Asia</td>
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<td>60</td>
<td>44</td>
<td>56</td>
<td>46</td>
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</tr>
</tbody>
</table>


The main driving forces of urban growth are thus: (a) rural-urban migration (UN, 1977: World Population Trends and Policies, Monitoring Report), (b) natural increase in
population and (c) reclassification of urban areas. A study of the determinants of urban growth permits the identification of three successive stages (Oberoi, 1989: 4-5), namely:

1. First, an early stage characterised by low urbanisation when the rates of urban and rural natural increase are moderately high and when migration contributes to urban growth more than natural increase;

2. Second, an intermediate stage characterised by low migration and urban growth, which is largely determined by natural increase, and

3. Third, at later stages, whereby high levels of urbanisation and low rates of natural increase are experienced, and when migration takes over once again.

Urbanisation and Economic Development

There are two contrasting schools of thought regarding the relationship between urbanisation and economic development. Generally, urbanisation is a function of various ingredients of economic, social and political development processes spurred by a relatively resilient monetary economy. A shift from agricultural to non-agricultural employment, including that in industrial enterprises and services, the spread of social amenities, and drastic changes in socio-cultural systems have transformed urban environments and facilitating thereby the growth of informal sector (United Nations, 1969).

Historically, urbanisation has been found to be positively related to economic development in the developed countries (Lampard, 1955) and considered as an integral part of economic transformation, which can be guided into a socially desirable pattern (Jones, 1972). Apart from their political and intellectual functions, cities have a predominant economic function. They are centres in which new forms of economic activity and new types of economic organisations are involved. They are places in which not merely new commodities are traded and new markets and sources of supply explored
and conquered, but also in which the first signs of new close relations based on alternations in the social division of labour have also appeared (Hoselitz, 1969: 239).

In the developing countries, cities play a catalytic role in their national economic growth and development (Hoselitz, 1953). This explains why in the Philippines, urbanisation was at one time considered an asset that should be managed rather than stopped (Dotson and Teure, 1972). This fact is more widely accepted today. Economic activities tend to concentrate in urban centres, where 60 per cent of the gross national product is generated today by about one-third of the total population. Some regional planning and development analysts have advocated a policy of deliberate and accelerated urbanisation in order to enhance development, as cities in the developing world do play an important role in political and economic development (Friedman, 1968).

Urbanisation has traditionally been linked with industrialisation. This was the experience of the Western world, the former Socialist Block countries of Europe, Japan and the non-industrialised countries as well as the ASEAN member countries. The two processes, urbanisation and industrialisation, complement each other. In many circumstances, urbanisation has been a precursor of industrialisation, preparing the infrastructure and other factors of production for the latter to be realised. In less-industrialised countries, where agriculture predominates, the inter-dependence between urban and rural areas, as of their residents, sustains the exchange of commodities, thereby supporting urbanisation, while at the same time fostering rural development (Breese, 1978).

Urban centres constitute the nodal points of contact with the outside world. This is true in the case of capital cities. They not only dominate the national scene but also generate linkages with other cities of adjacent countries, by which they have evolved economic and other links. Cities are known as growth centres, service centres or trade production centres (entropots) and become centres of political and economic power at different levels. Urban areas are agents and points of diffusion of social change, especially in their immediate hinterlands. Cities are also the receptacle of talent and
constitute concentrated human resource bases. Cities attract educated, skilled persons from far and wide.

As cities provide economies of scale and agglomeration, they constitute havens of investment. Nationally, they present the requisite infrastructure for public investment that helps not only urban development but also rural development through established urban-rural interfacing. The economic and social investments improve the quality of life of the urban population and thereby enhance their capacity to participate in productive activities.

Classical, and structuralists' theories have been supported by empirical researches on the structural characteristics of the relationship between urbanisation and economic development. In concurrence with Kuznets (1971), for instance, empirical evidence has shown that initially manufacturing plays a leading role in economic development, being largely responsible for the highest percentage increase in GDP. Consequently, the expansion of manufacturing industry also increases the pace of technical change and helps rise in productivity growth in sectors other than agriculture (Singh, 1989: 19-20).

Urbanisation is a natural and inevitable consequence of economic development. Kelley and Williamson (1984) and Kelley, Williamson and Cheetham, have made major contributions to such a study in recent years (Kelley, Allen, Jeremy Williamson and Russell Cheetham, 1972). Urbanisation accompanies economic development because development entails a massive shift of labour and other inputs from sectors that are predominantly rural to sectors that are predominantly urban. Although the migration of people from rural to urban areas is an important accompaniment of urbanisation. Here the sectoral, and not the locational change, is the crucial phenomenon.

Food is the prime requirement of life, and in the poorest countries, therefore, most production effort is devoted to agriculture. As economies develop, inputs and outputs shift from agriculture to industry, especially manufacturing and to services. Industry includes not only manufacturing but also mining and construction, electricity, water and
gas being the infrastructures. In 1980, low income countries had a weighted average of 71 per cent of their labour force in agriculture. In middle income countries, it was 44 per cent while in the industrial market economies it was just 6 per cent. The proportion of labour force in industries and services was in the region of 15 in the low income countries, 22 and 34, respectively, in the middle income countries, and 38 and 56 in the industrial market economies.

Over the entire period of development, the proportion of labour force engaged in agriculture falls from 70 per cent in the poorest countries (that is, those with a per capita GNP of between US $ 80 and US $ 200) to 2-8 per cent in the richest countries (per capita GNP between $ 11,000 and $ 16,000).

The share of the labour force falls in agriculture and rises in industry and services during economic development. Two phenomena are involved: demand shifts and supply shifts, resulting from capital accumulation and technological change.

On the demand side, standard economic theory states that a large share of income is spent on food by low income households but that this percentage share falls as income increases. Income shares spent on industrial products and services rise with income. These are known loosely as the Engel's Law and they reflect low income elasticity of food demand and high income elasticity of industrial goods and services demands.

The effect of these demand shifts is to revise returns to labour and other inputs in industry and services, relative to those in agriculture so as to induce workers and other inputs to move from agriculture to the other sectors.

On the supply side, the costs and prices of industrial products may fall relative to those of agricultural products. Technical progress may be faster in industry than in agriculture, because industrial technology is often more directly transferable from developed to developing countries than agricultural technology. In addition, capital accumulation and scale economies may reduce industrial prices relative to agricultural
prices. Finally, a more highly educated labour force may be of more benefit in industry and services than in agriculture.

The supply side effects depend on international influences also. Most industrial products are tradable, whereas most services are not. If the economy is open, cost reductions cause large increases in output and employment and small decreases in the prices of tradable commodities. Thus, cost reductions in industry are likely to cause large inflows of labour into urban centres.

In conclusion, economic development causes a shift of labour from agriculture to industry because demand rises and costs fall in industry relative to agriculture. The shift to services is harder to be specific about. It certainly results from demand increases. It is doubtful that service costs fall relative to those in agriculture or industry.

In many respects, the most satisfactory way to study such shifts is with a large model that analyses and predicts changes in inputs and outputs as an economy develops. Such models are usually referred to as computable general equilibrium models. An urban modelling project for India has been undertaken by Kelley and others (1972).

The intent here is to provide factual background about the relationship between urbanisation and economic development first and then present statistical analysis of world-wide relationships between urbanisation and economic development and the statistical relationships to explain and predict Indian urbanisation.

Urbanisation and Employment Opportunities

The Classical economic thought on economic development during early 1960s was attributed to Sir Arthur Lewis (1954) and it was systematised by Fei and Ranis. Hence it is called the Lewis-Fei-Ranis (LFR) model. Rural-urban migration was a function of surplus labour in rural areas moving into labour deficit urban areas where full or nearly full employment opportunities are available. This influential view changed
radically when Todaro (1969, 1976) later found that the LFR model did not apply. He provided empirical evidence that rural-urban migration occurred because of the migrants' expectations of higher urban incomes, while in reality, most migrants actually moved into urban unemployment. He argued that the so-called urban labour shortage was, in fact, a surplus labour situation. ILO's studies, under the auspices of the World Employment Programme Research, have indicated that although urban areas provide much better employment opportunities than do rural areas, unemployment is rampant in the former. It has been found that the main cause of urban poverty is the severely limited income earned by the poor through gainful employment (Oberoi, 1989: 20) and the increasing elusiveness of the latter, pushing urban dwellers into self-employment in the informal sector.

For the developing countries, the rate of growth of the labour force itself is a result of rapid population growth, far surpassing that of employment creation. It is no wonder that the policy maker considers that the economic power of cities can generate employment opportunities through the urban informal sector. This in turn regards urbanisation as a vehicle for providing employment opportunities for the informal casual workers in the self-employment street economy.

Table 1.2 provides the industrial structure of urban employment in developing countries in respect of their cities/urban areas. There are four economic activity categories, namely, agriculture, industry, services and others. The share of labour force in each of the four categories is an indication of the functional nature of the metropolises and the countries. Most cities are service orientated and hence have high employment in the service sector. Next comes the industrial and last comes the agricultural sector, with low level of urban employment.

It has been observed that the metropolitan areas of the developed countries, including Singapore, have small proportions of labour in agriculture: from 0.8 per cent in Singapore to 4.0 per cent in Tunis. On the other hand, the urban areas of developing countries, including India employ greater proportions of people in agriculture. Nigeria
has registered a share of 22.6 per cent in 1984 and the Philippines 13.3 per cent in 1983. Sri Lanka 11.2 per cent and India 10.9 per cent. Industrial employment in the urban areas and metropolises range from 9.8 per cent in Nigerian urban centres (1984) to 38.1 per cent in Tunis metropolis. Indian urban areas have a share of 34.2 per cent in industrial employment. Employment in services sector exceed 50 per cent in all metropolises and urban areas, with 53.8 per cent in Tunis (1980) to 70.9 per cent in Manila (1988) among the metropolises and 54.9 per cent in Indian urban centres (1988) to 74.9 per cent in Kenya (1986). Other sectors have shown a share as low as 01 per cent in Bogoto (1988) to as high as 13.7 per cent in Indonesian urban areas (1986).

Table 1.2: Industrial Structure of Urban Employment

<table>
<thead>
<tr>
<th>Cities and Countries</th>
<th>Percentage of Labour Force</th>
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<tbody>
<tr>
<td></td>
<td>Agriculture</td>
<td>Industry</td>
<td>Services</td>
</tr>
<tr>
<td><strong>Metropolitan Areas</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manila 1988</td>
<td>1.5</td>
<td>27.8</td>
<td>70.9</td>
</tr>
<tr>
<td>Bogoto 1988</td>
<td>1.1</td>
<td>29.7</td>
<td>69.1</td>
</tr>
<tr>
<td>Taipei 1984</td>
<td>2.1</td>
<td>29.8</td>
<td>68.1</td>
</tr>
<tr>
<td>Bangkok 1986</td>
<td>2.8</td>
<td>32.0</td>
<td>64.5</td>
</tr>
<tr>
<td>Singapore 1986</td>
<td>0.8</td>
<td>34.7</td>
<td>64.3</td>
</tr>
<tr>
<td>Tunis 1980</td>
<td>4.0</td>
<td>38.1</td>
<td>53.8</td>
</tr>
<tr>
<td><strong>All Country Figures</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kenya 1986</td>
<td>8.6</td>
<td>15.6</td>
<td>74.9</td>
</tr>
<tr>
<td>Chile 1986</td>
<td>4.1</td>
<td>27.7</td>
<td>67.7</td>
</tr>
<tr>
<td>Thailand 1986</td>
<td>4.8</td>
<td>27.1</td>
<td>67.7</td>
</tr>
<tr>
<td>Mexico 1989</td>
<td>1.3</td>
<td>31.1</td>
<td>67.2</td>
</tr>
<tr>
<td>Malaysia 1986</td>
<td>4.1</td>
<td>29.4</td>
<td>66.5</td>
</tr>
<tr>
<td>Philippines 1983</td>
<td>13.3</td>
<td>21.5</td>
<td>65.1</td>
</tr>
<tr>
<td>Nigeria 1984</td>
<td>22.6</td>
<td>9.8</td>
<td>64.6</td>
</tr>
<tr>
<td>Indonesia 1986</td>
<td>9.3</td>
<td>13.6</td>
<td>63.5</td>
</tr>
<tr>
<td>Morocco 1986</td>
<td>4.7</td>
<td>35.6</td>
<td>59.0</td>
</tr>
<tr>
<td>Turkey 1990</td>
<td>5.4</td>
<td>35.6</td>
<td>59.1</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>11.2</td>
<td>27.9</td>
<td>58.0</td>
</tr>
<tr>
<td>India 1988</td>
<td>10.9</td>
<td>34.2</td>
<td>54.9</td>
</tr>
</tbody>
</table>


World Bank data make clear the strength and pervasiveness of the relationship between urbanisation and economic development. Tables 1.3 and 1.4 present some cross-sectional data. Table 1.3 shows the weighted average, GNP per capita for low income,
middle income and industrial market economies in 1980 and the weighted average percentage of the population that is urban. These averages show that high-income countries are much more urbanised than the low-income countries. This reveals the form of relationship between economic development and urbanisation.

The five-fold rise in income between the low and middle-income countries is accompanied by a three-fold increase in urban percentage. The additional seven-fold rise in income between the middle income and the industrial market economies is accompanied by only 70 per cent rise in per cent urban.

These data suggest that per cent urban increases much more rapidly with economic growth at high income levels rather than low levels. Given that the per cent urban is bounded from above by 100, GNP per capita is not bounded and the relationship can hardly be linear.

Table 1.3: Average Percent Urban and GNP Per Capita 1980

<table>
<thead>
<tr>
<th>Country Group</th>
<th>Per capita GNP (US $)</th>
<th>Percent Urban</th>
<th>Number of Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low Income</td>
<td>260</td>
<td>17</td>
<td>32</td>
</tr>
<tr>
<td>Middle Income</td>
<td>1,400</td>
<td>45</td>
<td>63</td>
</tr>
<tr>
<td>Industrial Market</td>
<td>10,320</td>
<td>78</td>
<td>19</td>
</tr>
</tbody>
</table>


A time series analysis tells much the same story. Rapidly growing countries urbanise more quickly than slowly growing countries. The elasticity of urban growth responds more rapidly to economic growth in low rather than high income countries. Table 1.4 shows the weighted averages of the per cent urban for 1960 and 1980 and the growth rate of real GNP per capita during the two decades for the countries classified as low income, middle income and industrial market economies in 1980.
Table 1.4: Urbanisation and Economic Growth 1960 and 1980

<table>
<thead>
<tr>
<th>Country Group</th>
<th>% Urban 1960</th>
<th>% Urban 1980</th>
<th>Average annual growth rate in Per capita GNP 1960-80</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low Income</td>
<td>13</td>
<td>17</td>
<td>1.2</td>
</tr>
<tr>
<td>Middle Income</td>
<td>33</td>
<td>45</td>
<td>3.8</td>
</tr>
<tr>
<td>Industrial Market</td>
<td>68</td>
<td>78</td>
<td>3.6</td>
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The low income countries increased their per cent urban only slightly, because their economies grew very slowly. The middle income countries urbanised rapidly and their GNP grew rapidly as well. The industrial market economies grew at almost the same rate as the middle income countries and they urbanised less rapidly since they were already at higher levels of urbanisation in 1960. Now, turning to the intra-sectoral linkages, in Table 1.5, rough estimates of the informal and formal sectors in urban areas some select groups of countries are shown (Figure 1.1). According to these estimates, 4 countries with 51 per cent of labour in informal and 49 per cent of labour in formal sector are in the GDP per capita category of under US $ 1,000 (low income). India falls in this category, along with Nigeria, Bangladesh and Cote d’Ivoire.

Table 1.5: Rough Estimates of Informal and Formal Sectors in Urban Areas

<table>
<thead>
<tr>
<th>Country Category</th>
<th>GDP Per capita 1985 Prices in US $</th>
<th>Number</th>
<th>Informal Sector %</th>
<th>Formal Sector %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low income</td>
<td>&lt; 1000</td>
<td>4</td>
<td>51</td>
<td>49</td>
</tr>
<tr>
<td>Middle range 1</td>
<td>1000-1500</td>
<td>5</td>
<td>47</td>
<td>53</td>
</tr>
<tr>
<td>Middle range 2</td>
<td>1500-2000</td>
<td>2</td>
<td>43</td>
<td>57</td>
</tr>
<tr>
<td>Middle range 3</td>
<td>2000-3000</td>
<td>4</td>
<td>35</td>
<td>65</td>
</tr>
<tr>
<td>High income</td>
<td>&gt; 3000</td>
<td>4</td>
<td>31</td>
<td>69</td>
</tr>
</tbody>
</table>


Note: Low income countries: Nigeria, Bangladesh, India, Cote d’Ivoire
Middle range 1: Pakistan, Bolivia, Indonesia, Philippines, Morocco
Middle range 2: Sri Lanka, Thailand
Middle range 3: Peru, Columbia, Turkey, Costa Rica
High income: Korea, Brazil, Chile, Venezuela.
Five countries (Pakistan, Bolivia, Indonesia, Philippines and Morocco) with 47 per cent in informal and 53 in formal sectors are in the GDP per capita category of $1,000 to $1,500 (mid-range (1)). Only 2 countries, namely, Sri Lanka and Thailand, are with 43 per cent in informal and 57 per cent in formal and are categorised as the GDP per capita $1,500 to $2,000 (mid-range (2)). Peru, Columbia, Turkey and Costa Rica are the countries with $2,000 to $3,000 as the GDP per capita and therefore are categorised as the mid-range (3) countries. Korea, Brazil, Chile and Venezuela are the countries branded as high income countries with > 3,000 as the GDP per capita and 31 per cent in informal and 69 per cent in formal employment.

Informal Sector Employment

The relationship that exists between economies of scale and optimum city size to be found largely in third world metropolises, and agglomeration economies takes several forms. They include the availability of infrastructure for modern industrial development, such as electricity, water, sewage, telecommunications, airports, specialised business services like well grown financial sector, legal offices, banks, trade associations, consulting services, laboratories, and professional institutions. The large-scale operation of firms lowers costs and provide better services. In turn, it improves the operation of other firms. The firms purchase these inputs and services, thereby expanding markets and facilitate growth of technical change. The large metropolises form the foci of interaction of intellectual, business, cultural, political and religious intercourses, which have the potential to overlap more in developing countries than in the developed countries (Singh, 1989:23).

The rise and the emergence of the informal sector are considered to be an integral part of urbanisation and its contribution to the formal sector is quite appreciable. Generally, informal sector refers to a relatively autonomous sector with unprotected jobs, outside the formal sector. This sector is not guided by such labour legislative measures such as minimum wages, health, safety and other welfare conditionalities protecting the workers.
Informal sector jobs are largely casual, insecure and irregular, though they permit a large number of urban dwellers to eke out a living in the economically rigid urban areas. The enterprises in which informal sector workers engage themselves are considered marginal; they include, among others, hawking, shoe shining, carpentry, and black-smithy, etc. The last two being particularly significant in cities where construction industry is thriving. Yet, the empirical evidence on the informal sector is inconclusive. A close scrutiny of available studies (Singh, 1989:27-28) leads to the following conclusions that are relevant for the present study.

a) That the informal sector reflects urban poverty is fallacious, given the fact that many households in this sector have, on an average, higher incomes than those in the formal sector. Some of those employed in the formal sector participate even more effectively in the informal sector after normal working hours, including the weekends and holidays, in order to augment their meagre income earned in the former.

b) The problem of open unemployment affects educated workers more than the uneducated. The informal sector offers a ready alternative to the uneducated but the educated prefer to remain unemployed. The ILO's multi-country study, attributed to Rodgers and reported by Singh (1989: 28), found that the levels of unemployment among the very poor (as a socio-economic class) were 11 per cent in Costa Rica (1982), 5 per cent in Guatamala city (1980) or 20.6 per cent including the underemployed, 14.8 per cent in Metropolitan Panama (1983), 50 per cent among household needs in Santiago de Chile (1982), declining to 23.7 per cent by 1985, 4.5 per cent of the households in Tunis (1975) and 9.5 per cent of the household members in urban West Bengal (1977-78).

c) Rampant segmentation and imperfection in the urban labour markets in the developing countries have resulted in large wage differentials within individual cities. Evidence abounds regarding the discriminatory remuneration on the basis of age, sex, ethnicity and other elusive considerations.
d) Economic fluctuations in the developing countries result in fluctuations of employment rates. Currently, with the world recession and drastic upheavals in the world economic order, unemployment has gripped most developing economies, crippling economic buoyancy and frustrating even the generally adaptable informal sector.

The various methods of measuring and estimating the contribution of the informal sector tends to conceal the existence of disguised unemployment in many cities of the developing countries. Cities in the developing world are providing an immensely resourceful safety net for millions of dispossessed and jobless rural migrants, as well as for their own settled and growing populations.

As for the most recent available estimates of informal sector employment as a share of non-agricultural labour force, Benin has shown the highest of 93 per cent (in 1993), Burkina Faso 70 per cent (1985), Chad 74 per cent (1993), Guinea and Mauritania 75 per cent each (1991 and 1988, respectively), and Senegal 76 per cent (1980). Algeria was the only one country in Africa with the smallest of share at 26 per cent (in 1985). India has registered a high share of 79 per cent in 1987/88, while all others in Asia have shown very small proportions as informal sector share (Charmes. 1996: 18-33).

Urbanisation and GNP Per Capita

As GNP per capita reflects the performance of national economies, it has a significant relationship with urbanisation. The net effect of urbanisation in all cases is an increase in average real income in urban areas. This increase also affects the non-urban regions located near the centres of urban development (Hoselitz. 1969: 241). Per capita GNP increases as urbanisation increases. By implication, urbanisation enhances individual / household incomes and it makes imperative economic activities that are concomitant with urban modes of production.
Migration: A Crucial Rural-Urban Relationship

Cities and towns grow partially due to natural increase and partly due to people who converge on them from areas outside their formally defined boundaries. People who come to settle down in towns or cities from outside are called 'migrants'. Normally, the cities and towns grow due to the influx of people coming to urban centres and very often the number of these migrants is considerably more than the town’s normal or natural increase. Moreover, in unused circumstances, several cities of India, especially in the post-independence period, have shown tremendous propensity of growth. Several cities doubled their population size within the brief span of a single decade. Compared to many developing countries, India’s urban population has not been as explosive as, for instance in Philippines, Pakistan, Iran or Iraq.

According to the 1991 census, only 25.72 per cent of India’s population is urban. This is found to be the second largest in the world. In between 1951-1991, the urban population rose from a level of 17.29 per cent in 1951 to 25.72 per cent in 1991. The Class I towns numbering 24 in 1901 have increased to as many as 296 in 1991.

Cities in the third world exhibit a scenario of dualistic socio-economic structure. It is estimated that employment in the informal sector constitutes around 60 to 70 per cent in Nairobi and Kumasi, 50 per cent in Jakarta, 45 per cent in Calcutta, Mumbai and Ahmedabad. In Valshad (Gujarat) 75 per cent, Vishakapatnam (Andhra Pradesh) 93 per cent and 82 per cent in Sambalpur (Orissa).

The Problem of the Study

Economic Development has generally been accompanied by both industrial development and urban development (Meier, 1990). Industrialisation has for long picked up in the third world countries (Sethuraman, 1985). India is no exception to the scenario. Industrialisation has led to rapid growth of urban centres / cities in the third world countries in the 1970’s and 1980’s (Gugler, 1988). Indian cities like Mumbai, Calcutta,
Delhi, Chennai and Hyderabad have grown rapidly. There are increasing difficulties in obtaining employment in the rural areas due to various factors, and the growth of cities has attracted surplus labour from the rural/agricultural sector (Joshi, H., 1976; Joshi, V., 1976). This surplus labour managed to find employment in the informal sectors. The disguised unemployment prevalent in rural India has found an alternative source of employment. Rural labour migrated to the urban centres due primarily to poverty, unemployment, under-employment, and with a hope to have better earnings/wages and living conditions.

Adoption of the term 'informal sector' by the ILO study group in the early 1970s and its policy recommendations for promoting this sector to generate employment opportunities for urban poor has been a target approach. This is how the 'informal sector' has acquired its importance and relevance in the study urban economic development. The formal sector in urban centres was not sufficient enough to accommodate the entire surplus rural labour force. The informal sector therefore fulfills the wishes of job seekers having low efficiency, low capital and low educational skills. The concept of informal sector (Sethuraman, 1976) owes much to its present popularity to various country and city studies carried out by the International Labour Organization (ILO) under its World Employment Programme.

The Employment Mission to Kenya (1972), identified the main characteristics of the informal sector as:

(1) ease of entry,
(2) reliance on indigenous resources,
(3) family ownership of enterprises,
(4) small scale operation,
(5) labour intensive and adapted technology,
(6) skills acquired outside the formal school system, and
(7) unregulated and competitive markets.
The informal activities are considered as less formalised economic activities falling outside the purview of the statutory provision of labour laws, government benefits and regulations, carried out in an outdated or simple hand tool or with simple modern technologies. They are tiny units with low capital, low labour ratio, often producing low quality and low cost goods and services, mainly catering to the needs of the low income groups amidst tough competition. This constitutes the bottom layer of economic activities and the employment of last resort, harbouring all residual labour force. The entry into this tiny sector by labour groups is to seek employment for their livelihood and subsistence.

The informal sector includes a wide range of economic activities participated by the self-employed casual workers, unpaid family workers and tiny units in manufacturing, construction, trade, transport and services. Typical informal workers include peddlers, platform vendors, coolies, artisans, construction workers, hair dressers, beauticians, launderers, electricians and electronic good repairers, automobile mechanics, milkmen, fishermen, shop assistants, hotel workers, shoe shine boys, animal/hand cart pullers, taxi/auto drivers and cycle rickshaw pullers. If in sectoral classification, the informal services play an important role as most of the activities such as domestic services, hair dressing, laundry, automobile, television, radio and other electrical repairs are not available in the formal sector or even if available, they are not accessible to all. Though the informal sector (Singh, 1994; Mazumdar, 1975; Samal, 1988) is considered less efficient and marginally productive, providing employment as a last resort has started attracting people from different socio-economic strata. In the last few decades, it has changed its nature and magnitude of operation as well.

The process of urban economic development is part of a comprehensive, phenomenon of societal change. Since urban growth in poor countries is linked integrally to rural transformation, development of the underdeveloped of the third world is linked to the development in the first world (Gilbert, 1982; Gugler, 1982). Urban economic development (Wiswakarma, 1988) is a process whereby an increase in real per capita income, employment, consumption, savings and investment occurs. Urban economic
development has paved the way for promoting the standards of living of the informal workers employed in the informal sector.

The mobile and stationary vegetable, fruit and flower vendors are included in this study to analyse the nature of employment generation, demand for consumption, savings and investments towards the socio-economic well-being of the people dependent on informal sector (Papola, 1978). In an urban setting, the above mentioned three types of informal employment have been chosen due to their:

(1) widespread in entire Chennai city;
(2) generation of employment visibility;
(3) tiny nature of the enterprises;
(4) low capital;
(5) low level capacities/efficiencies;
(6) easy operation;
(7) regular demand for the commodities and services;
(8) a good turnover in sales; and
(9) minimum of problems or constraints.

The constituents of informal sector are classified further into mobile and stationary. The mobile informal vendors operate within a radius of 3 to 4 km from their residential localities. The stationary informal vendors put up their shops on platforms or in almost rented katcha buildings, which attract customers/buyers in and around location. Mobile vendors go to the doorsteps of the customers in a regular pattern of visits, all days. The conveniences of the customers/buyers are taken care of and services are rendered without fail. Stationary vendors in turn maintain good quality commodities and attract customers/buyers by maintaining personal rapport with them. The scale of operation is related to the number of customers per day. The neighbourhood and the nearby streets are the areas of operation. The scale of operation increases / decreases depending upon the seasons, occasions, and festivals. Maximum facilities of consumption
are conferred on the buyers by these vegetable, fruit and flower vendors belonging to the informal sector.

While it would be difficult to exactly assess the extent of contribution of the informal sector to urban economic development, it would be possible to pinpoint areas and extent of contribution to the household economy. The savings may be relatively small. Over a relatively long time, housing improvements, education of children, acquisition of assets (like land and jewels) are acquired, which could be used to raise investments at a short notice. Contribution of the informal sector may thus be measured in terms of investments and the expected/anticipated outcomes in the home front.

The Objectives

The objectives of the study are:

1. to analyse growth and development of the urban informal sector in the last two decades in the city of Chennai;

2. to study in-depth the problems and issues facing the workers of the informal sector, in respect of opportunities for continuous employment, socio-economic improvement and expansion;

3. to identify the influence on/of the informal sector of the urban economy in the generation of income, demand for consumption, savings and investments; and

4. to develop and design strategies towards making informal sector a more significant contributor to urban economic development.

The Hypotheses

The following are the hypotheses formulated:

1. Informal sector generates not only employment for the unskilled poor but also new avenues of employment. There is a statistically significant contribution towards employment by the informal sector, in specific areas.
2. Informal sector provides increasing incomes and improve socio-economic welfare of its workers, and that they are significantly increasing their levels of consumption, savings and investments.

The Study Area

Chennai is chosen as the study area for this study. It is one of the popular, well known and leading cities of India as Mumbai, Calcutta, Delhi, Bangalore and Hyderabad. It is also the capital of Tamil Nadu State, which has its own advantages. It is spread over an area of 174 sq. km and houses a population of about 5 million. The growth of Chennai during the past 50 years has been enormous not only in the geographical sense but also in the changing demographic contexts.

Fast paced development of industrial estates and other industries in and around Chennai is enormous, which created employment in the formal sector as well as in the informal sector. The informal sector of Chennai city has attracted a large population from the rural areas of Tamil Nadu and other neighbouring States. Chennai is endowed with various basic and infrastructural facilities, which have increased the demand for various services and trade to be rendered by the informal workers in small/individual numbers without large capital investments, higher educational standards/qualifications. The sprawling sub-urban and fringes of the city offer conveniences for improving welfare measures and employment avenues for the informal workers. The informal employment of vegetable, fruit and flower vendors are rightly chosen for our research study.

Methodology and Sampling

The study mainly employs an empirical approach to the analysis of the employment generation, increased demand for consumption, savings and investments among the workers of the informal sector. Both primary and secondary data are used to describe and analyse. The state and national level aggregate data from the Census of India (1961, 1971, 1981 and 1991) are used to show growth of the urban area chosen for
the study. The hypotheses are empirically tested using individual data and econometric
techniques. The sampling method employed is the purposive, random area method. The
number of samples used is 250. For the purpose of the study, Chennai city has been
classified into five areas based on the density of population or workers and
buyers/customers found in each of the respective areas.

The study has adopted, for data analysis, the regression schemes of multivariate
structures. The usefulness of the regression scheme has been ascertained both from the
empirical analysis and from results obtained in the analysis. Libraries of the University of
Madras, Madras Institute of Development Studies, Chennai, Centre for Development
Studies, Thiruvananthapuram, Institute for Financial Management and Research,
Nungambakkam, Presidency College, Chennai, Connemara, Chennai, United States
Information Services (USIS), Chennai, Housing for Urban Development Corporation
(HUDCO) and Chennai Metropolitan Development Area (CMDA) were visited for
collection of data and assembling ideas from literature.

Limitations of the Study

The study is confined to only three categories of informal workers, namely,
vegetable vendors, fruit vendors and flower vendors in order to narrow down but analyse
in-depth the research problem. The time, energy and money to be spent and the amount
of work to be carried out have also been subject to limitations by the fact it is part-time
research. The data pertaining to informal workers seem to be inadequate due to low
attention given to collecting data on them by the government and local administrative
authorities. The informal workers for their part hesitate often to reveal their actual
earnings, savings and investments because of the fear that the commercial tax and income
tax authorities may take them to task. Though purposive, random sampling technique is
convenient and advantageous, the representation of the sample frame is not proportionate
to the universe. The sampling errors are inevitable due to a smaller sample, but are
minimal. The samples used could represent only three different strata of the society in the
selected areas of the study in Chennai. The low education of the respondents caused initially some problems in eliciting exact information and data.

The Organisation of the Study

The thesis is organised in seven chapters.

The introductory chapter provides a global as well as regional description of urbanisation vis-a-vis informal sector in economic development and also presents the problem and procedures of the study.

The second chapter is a review and appraisal of literature on urban informal sector. The study material relates to the world, but more especially to the developing countries, and India is given due consideration in the review.

The third chapter is an account of the study area, which is Chennai city. To provide for a backdrop, however, some data on Indian urban scene and informal sector employment are given due importance in the chapter.

The fourth chapter is an exposition on the growth of informal sector in Chennai in the last two decades.

The fifth chapter is a study of characteristics of the sample vendors, who are in the informal sector selling vegetables, fruits and flowers, as stationary and mobile vendors, in the city of Chennai.

The sixth chapter is analytical and statistically analyses the relationships using the multiple regression schemes, inclusive of stepwise regression. The idea here is to show how well off or poor are the vendors, socio-economically and in terms of welfare.
The seventh chapter is the summary and conclusion of the study, with implications of the findings related to strategies for the future. This chapter reconsiders some of the well-known ideas in the area of informal sector research in the country, past and present. The thesis has appendices of references cited and the schedule of questions used in the interview, some data and sample computer results.

Summary

The developing countries of the world have witnessed an unprecedented rate of increase in their urban population in recent years. This trend has shown mainly an increase in the total number of population as a result of influx of large number of rural migrants in search of employment in the urban centres of the developing countries. In spite of rapid industrialisation, and urbanisation, and expansion in the formal sector, and also continued governmental and municipal efforts, the urban areas of the developing countries have not been able to cope with increasing demand for employment. There is thus a high level of unemployment and under-employment, leading people to take to informal sector employment. It appears therefore that a large number of new entrants into the urban labour market have been able to find self-employment in a variety of small-scale activities that would require small capital and daily investments, in the informal sector. Informal sector has thus provided jobs for a large number of the labour force and paved the way for urban economic development, as the informal sector employment constitute the largest of employment and income from it the most, as well.

The following chapter is a review and appraisal of relevant literature and it provides for an understanding of the concepts, applications and consequences of informal sector activity in urban economic development the world over, but particularly in the developing countries, including India.