Introduction

The topic of my dissertation is based on the question of factor productivity in Indian informal units in urban industrial area.

The term informal sector was first coined by Keith Hart while he was conducting his study in Kenya in 1971. The study was part of the large multidisciplinary “employment missions” to various countries arranged by the International Labour Organisation (ILO) as a response to the fact that the active labour force in many countries were growing at a much faster rate than the availability of jobs in the organized sector and economic growth was not percolating down to the masses fast enough.

It was, however, argued that the persistence of the informal sector in Kenya and other developing countries was due to the fact that these countries were yet to achieve sufficient levels of economic growth. It was predicted that the informal part of the economy would decline or disappear with modern industrialized growth.

But the informal economy continued to expand, particularly in countries undergoing economic transition - so much so that it came to be recognized as a feature of economic transition. The growth of the informal sector was unbriddled not only across the developing world, but also grew or appeared in unlikely places: notably, in economies with growing and established industrial sectors.

The Indian informal sector registered a steady growth during the 1984-85 — 2000-01 period, both in terms of number of units and labour employed therein (Parthasarathy, 1998). The manufacturing part of the Indian informal sector or the urban unorganised manufacturing system, as it is known as in the country, generated work for 130.9 lakh people in 2000-01 (National Sample Survey, 56th round).

This provoked us to question the underlying economic logic and find out whether or not the informal sector absorbed surplus labor in a devolutionary manner without increase in its efficiency, or if it contained autonomous dynamism for growth.

We treated this as the basis of our discussion and proceeded to empirically estimate the efficiency or factor productivity of units embedded in the system, keeping in mind the not so clear position assumed by the literature in this regard.

However, in absence of detailed data on the Indian informal system or the unorganised manufacturing part of it, we could only apply the production function approach in
measuring total factor productivity to our study. The non-stochastic approach was complemented by the stochastic approach, thereby exploiting the relative simplicity and transparency of the non-parametric estimates to serve as a benchmark for interpreting the more complicated results of the parametric approach.

We then aimed to correlate the rates of growth in number of units of a particular industry category with the rates of growth in total factor productivity in that class with an aim to check the nature of the relationship between the two indicators.

The thesis has been structured as follows. Chapter 2 deals with a survey of literature and the problem generated thereof. Chapter 3 deals with the definitional aspects of the informal sector citing evidences in support of the proposition that the informal sector worldwide is growing over time. Chapter 4 looks into the labour absorption potential of the system identifying the industry classes with a growing labour absorption potential. Chapter 5 presents a discussion on the literature on total factor productivity and reasons behind our choice for the production function approach. It estimates the total factor productivity of different industry classes in the urban unorganised manufacturing system and groups the results on the basis of a growing or falling factor productivity trend. Chapter 6 implements the stochastic approach for fine-tuning of results. A concluding section and a chapter on policy description (Chapter 8) rounds up the discussion. Data, detailed factor productivity results, regression estimates are presented in the technical appendix at the end.