

# ‘India’s economy is the informal economy— the rest simply can’t work without it’



Barbara Harriss-White is professor emerita of development studies at Oxford University

**Barbara Harriss-White** is professor emerita of development studies at Oxford University. Sharing her insights with **Times Evoke**, she discusses changes in India’s informal economy:

The informal economy is the unregistered economy, small firms that are below thresholds for regulation, with unregistered labourers who have no rights to work, at work or to social

security. Currently, more than half the developing world’s jobs are thought to be informal. India tops the list with about 85% jobs being informal while China’s informal employment could be half its workforce. In OECD countries, about 15% of GDP is generated by informal activity. In China, this is about a quarter and growing. In India, it is about half of GDP.

## To work sustainably

Importantly, informal labour is not necessarily low-skilled — it’s low-paid or gains low returns. Small firms making some money tend to use this to establish more small firms, rarely expanding to become a big firm. It is unorganised but not disorganised. It is not necessarily de-professionalised either, being regulated through local chambers of trade and commerce. It is the lack of assets, capabilities, volatile earnings, poor income-smoothing activity and access to social protection that make this sector vulnerable. The pandemic has only accentuated this worldwide.

## ‘The informal economy gives us sustainability. We should strengthen the lives of its workers’

India’s informal economy was deliberately created by the late colonial and newly independent state which needed to minimise regulative obligations to labour and small firms. Now, India’s informal economy is the biggest in the world, supporting possibly 400 million livelihoods, with no sector or region exempt. The informal economy in fact is the Indian economy — the rest simply could not work without it.

Over the last half-century, I’ve seen changes reshaping the informal economy. The selective compliance with regulative law has become noticeable. Small firms often ignore building regulations, environmental laws, some poaching electricity, etc.

## ‘Self-employed women build India everyday’

Secondly, I see an era of flux for the family firm. When educated sons leave, paid labour replaces them. There is less haggling on price or the credit-debt relations that characterised the family-based knowhow of the bazaar. The family business owner may now yoke himself more passively to corporate capital. Third, the informal economy has emerged as highly innovative. Lastly, waste is one the fastest growing sectors in India now. Its disposal depends heavily on informal labour.

## ‘We must acknowledge the huge skills of India’s informal workers’

The sector’s environmental role is complicated. If labour substitutes for fossil energy, with lower emissions per unit of output, the informal economy could be more environmentally efficient. But if the informal economy doesn’t use frontier technology or aspire to scale economies, then it may be more damaging. The informal economy also weaves in and out of the formal one. Consider industries generating 60%-70% of India’s greenhouse gas emissions (GHGs) like chemicals, iron and steel, cement, agriculture, etc.. Informal labour and firms interweave with the supply chains for these industries in ways which have yet to be disentangled.



**QUITE A LOAD:** The formal economy depends heavily on the informal economy. Picture courtesy: iStock

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However, climate sustainability starts with clean infrastructure. This is easier said than done Just switching to renewable energy requires the re-skilling, redeployment and relocation of the coal workforce. There are 3.6 million people employed in coal and power, mostly informally. They need system-wide projects in last-mile infrastructural retrofitting, technological miniaturisation, waste treatment, municipal finance and vocational training for a truly just transition.