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Abstract

Despite the expected dissolution of the informal sector with growth, the ongoing emergence and expansion of this sector, especially in developing countries like India, has raised a vibrant theoretical and empirical discussion. This paper aims to survey the vast existing literature on the informal sector in India, focusing on sectoral and intra-sectoral aspects such as firm structure, market structure, and firm dynamics. From the literature, we could identify that competition, or lack of it, happens to be a crucial issue in analyzing the above-mentioned aspects. Contrary to this emphasis on the competition by both the orthodox and heterodox discourses, we try to identify the role of intra and extra-firm collaboration in the context of firm structure, market structure, and firm dynamics. However, the role of collaboration in these aspects is largely under-researched in the existing literature and thus could be a potential scope of future research in the informal sector.

JEL Classification: O17, L22, P12, P13

Keywords
I. INTRODUCTION

The informal sector has become a crucial issue from the perspective of the development of the Global South (ILO, 2018). Earlier it was thought that this sector would either wither away with growth or transform into a vibrant segment of the emerging capitalism in the Global South (La Porta and Shleifer 2014). But surprisingly, the empirical evidence has revealed that instead of withering away, the informal sector is expanding in size along with growth in developing countries like India (Raj, Schotte and Sen 2020, Bhattacharya and Kesar 2018). Hence, researchers and policymakers have taken a serious interest in the non-farm informal sector.

There is vast global literature on the informal sector (Portes, Castells & Benton 1989, Bangasser 2000). Lately, the informal sector of India is also being studied rigorously (Breman 2013, Chakrabarti 2016, Raj and Sen 2016). Major writings have emerged on the extent and processes of inclusion or exclusion of this sector, its relationship with other sectors, it’s potential for growth, possibilities of transformation, etc. (Sanyal 2007, Harris-white and Sinha 2007, Marjit and Kar 2011, Breman 2013, Chakrabarti 2016, Raj and Sen 2016). On the other hand, studies have focused on intra-sectoral issues such as firm structure, market structure, and firm dynamics (Khasnabis and Nag 2001, Kundu and Chakrabarti 2008). Although recently, many researchers have focused on the above-mentioned sectoral and intra-sectoral (including firm-specific) issues, most of the major studies have been conducted using secondary data. Research on informal firm and market-related aspects based on primary data is not very large (Mukherjee et al., 2019). Consequently, the issues pertaining to the firm structure, market structure, and firm dynamics in the informal sector focusing on primary data constitute an important area of research, especially in the context of India.

To conduct such a study, we need to have an in-depth understanding of the existing literature. And for that, a detailed review of the existing writings is a necessity. It could also add significantly to the contemporary discourse. We divide the following review across three sections for the three specific aspects: firm structure, market structure, and firm dynamics.

II. FIRM STRUCTURE IN THE INFORMAL SECTOR

A. The perceived position

In this section, we focus on the production process undertaken by the informal firms, and in analyzing this, we particularly highlight how the different agents participate and interact among themselves. Essentially we try to understand the labor process with a focus on the relationship between the owner, manager, skilled and unskilled labor, hired and household labor, etc.; we try to understand how the job is distributed among the above-mentioned agents, who take the decision regarding the production and labor processes, who appropriates the surplus and how this surplus is distributed. Thus, our fundamental question is whether there is competition among the different agents participating in the production process within the firm (as in the neoclassical and also institutional conception of a firm) (Alchian & Demsetz 1972) or there are elements of exploitation by the owner of a variety of labor (as per Marxian conception) (Bowles 1985, Phillips 1985-1986), or there is a significant presence of collaboration (Piore and Sabel 1984).

However, if we look at the literature, we find that most of the writings, especially the mainstream ones, are not very explicit about the above-mentioned questions. Still, if we read the literature carefully from our stated perspective, we could divide it into the following three groups – (i) Informal sector consisting of only micro-capitalistic firms, (ii) non-capitalistic enterprises, (iii) this sector consisting of both these types of firms.

(i) According to the mainstream economists, an informal firm acts as a micro-capitalist; the owner employs a variety of labor, purchases a variety of inputs, including machines from the market, and thereby maximizes profit for reinvestment. On the other hand, the input suppliers, especially the laborers, bargain for the
highest possible return. (Marjit and Kar 2011 ). Thus, all the agents try to maximize their self-interest through participation in a firm.

A variant of this structure could be found in the context of the global value chain. Here the micro-capitalists concerned, act as a subcontractor of a big capitalist firm and enjoy diminished bargaining power. However, in this context too, this subcontractor behaves like a micro-capitalist and pursues constrained profit maximization (Ranis and Stewart 1999, Chen 2006).

(ii) Contrarily, a group of Marxists and Structuralists considers an informal sector firm as a site of petty commodity production (PCP) or simple commodity reproduction operating within a market economy and feeding the process of modern capitalistic accumulation (Moser 1978, Gerry 1987, Breman 2013 ). These researchers differentiate between the employer and employee and also the other input suppliers, but it is argued that there is no intra-firm exploitation, hence surplus generation. However, they mostly consider these firms to be pre-capitalistic. It is in the sense that, in the course of time, there would be differentiation among the firms; some firms would evolve as capitalistic, while some others would experience involution, and their owners would transform into wage-workers (Moser 1978, Gerry 1987 ).

On the other hand, a new brand of political economy criticizes this historicist approach (Sanyal 2007, Chatterjee 2008, Sanyal and Bhattacharya 2009 ). Their argument is as follows; the proposition (of the above-mentioned school) that an informal firm is a pre-capitalistic remnant and would either wither away or evolve as a capitalist firm is not a contemporary developing country phenomenon. On the contrary, these researchers opine that informal firms persist, proliferate, and emerge despite capitalistic expansion. In fact, according to them, the emergence of the new informal sector is an outcome of a process called accumulation by dispossession (Harvey, 2003 ) by the modern capitalist firms. A large section of these new informal firms and also that of the traditional ones constitute a need economy where the firms undertake cycles of production (through participation in the market) for the satisfaction of need – the survival. This section mostly consisted of self-employment. Even if a smaller section of firms hire labor, there is almost no capital-labor separation, despite the fact that the owner owns the means of production and the worker does not. For most of the firms, there is no surplus, while for some, there is surplus, and it is distributed among the owners and the workers appropriately, both having the objective of satisfying needs. Distinguishing between the formal and informal sectors in terms of corporate and non-corporate capital, Chatterjee (2008 ) also pointed out that profit is not irrelevant in the informal sector but dominated by the logic of need, which he termed as the operations of non-corporate capital. Besides, according to this school, a very large section of the informal sector (traditional & new), although participating in the market, is not functionally related to the circuits of modern capital and feeding the process of capitalistic accumulation.

(iii) Diverging from this extreme polarization, researchers have unveiled that the informal sector could be distinguished between a capitalistic part and a dominant non-capitalistic segment. While the few capitalistic informal firms act like micro-capitalist, using hired labor, the majority of the firms, the other segment, have non-capitalistic production structures and mostly depend on household labor, with the absence of capital-labor dichotomy (Khasnabis and Nag 2001, Kundu and Chakraborti 2008 , Chakraborti 2016, Raj and Sen 2016, Chakraborti, Dhar & Dasgupta (2016) , Bhattacharya 2017, Bhattacharya, and Kesar 2018, Mukherjee et al. 2019 ). The predominance of "non-capitalist enterprises" within the informal sector is highlighted throughout this literature but does not refute the capitalist other. The capitalistic part produces surplus and is supposed to reinvest this surplus and thereby accumulate. On the other hand, the sizeable non-capitalistic segment behaves like either the need economy or the PCP, as discussed earlier.

B. A Critique

In all the above-received positions, it has been found that an informal sector firm is either a site of competition/bargain among a variety of self-interest seeking agents (owner, manager, input supplier, hired laborer, etc.). It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. (Adam Smith in “An Inquiry into the Nature and Causes of the
Wealth of Nations”, 1776 AD) or a site of exploitation by the owners/managers of the hired labor. Marx (1867), Capital, ch. 9, section 1, pp. 152-153 or even a site of self-exploitation by the self-employed and/or family-owned firms. Gabriel (1990), pp. 87. However, an important aspect that has not been discussed much is the issue of intra-firm collaboration dominating over the pursuit of self-interest (be it within the family or the clan or between the owner and the hired laborer). Sometimes intra-family and intra-clan collaboration have been identified (Banerjee and Muni 2004, Kundu and Chakrabarti 2008, Nagraj 2021), but collaboration even between the owner and the hired laborer, both having the objective of survival, has not been discussed much. This issue could be an important area of research.

III. MARKET STRUCTURE IN THE INFORMAL SECTOR

A. The received position

By market structure, we mean the interaction of the informal sector firms among themselves, with the input and output markets, and thereby with the rest of the economy. The literature exhibits varying inter-firm relationships and market linkages for the informal sector.

1. Some economists view that informal firms can freely interact (among themselves) in the market competitively. By freely linking with the circuit of global capital, they can reap the benefit of the global market and grow (Maiti 2008, Bardhan 2009, Marjit and Kar 2011). The inter-firm competition is the most crucial driver for intra-firm innovations and extra-firm market interactions. Stated otherwise, the intra-firm dynamism and extra-firm endeavors to tap the benefits of global value chains fundamentally arise from cut-throat competition among the firms.

Contrary to this mainstream view, projecting a win-win scenario for the informal sector as well as for the formal economy, there is literature that argues that there are, in fact, demand and supply-side conflicts between the informal sector and the rest of the economy, especially the big capital (Bhaduri, 2017).

2. Breman (2013), in his analyses, discusses the processes of extraction of surplus through the market from the informal sector firms by the rest of the economy, especially by the profit-mongering formal sector (big capital). The informal sector firms (due to intense inter-firm competition through the market) are compelled to supply a variety of inputs, including labor services, to the big capital at cheap rates.

A separate group of researchers has revealed that informal sector firms interact with the market mostly through intermediaries. It mainly consists of local traders and/or moneylenders, commonly known as Mahajan, and other local upper-caste elite, local state/political party officials. In this market structure, informal sector firms can avoid market volatility and access the global market, which benefits them to some extent (Khasnabis and Nag 2001, Nag 2015). However, the market is controlled and regulated by intermediaries. Literature also reveals that informal sector firms face severe extraction of surplus in this market structure due to hierarchical relations with the intermediaries and because of other non-market factors (discussed as the social structure of accumulation (SSA) by Harris-White, 2003) such as race, caste, religion, gender, etc. (Khasnabis and Nag 2001, Basole and Basu 2011, Basile 2013, Nag 2015, Mukherjee et al. 2019).

3. In the context of post-colonial economy, it is argued that the informal sector has a distinct space outside the circuit of capital. This view has overruled any association between the informal sector and the big capital (Sanyal 2007, Sanyal and Bhattacharya 2009).

4. Another strand of literature first dichotomizes the informal sector into capitalistic and non-capitalistic segments (as mentioned earlier) and maps the input-output linkages of these two segments with the rest of the economy. They have explained how the capitalistic informal segment enjoys a benign relationship with the rest of the economy due to productivity advantages and pull from other sectors. However, the non-capitalistic informal part faces resource conflict with the formal sector and even with the capitalistic informal segment (Chakrabarti 2013, Bhaduri 2017, Sadhu and Chakrabarti 2021).

5. Besides, some writings have focused on how community collaboration plays a significant role in deter-
mining prices and wages in the informal sector (Kundu and Chakrabarti 2008). The significance of community identity is also discussed in the literature (Banerjee and Muni 2004).

**B. A critique**

In all the above strands of literature, a variety of competition, exploitative and exclusionary processes have been discussed. In the analysis of inter-firm relationships and a variety of market linkages, especially in the context of India, the role of collaboration is under-researched. Although during the ’80s and ’90s, there were quite a no. of studies on the cluster form of development of the informal firms (Nadvi and Schimtz 1994, Cowthorne 1995), recently, there seems to be a lack of awareness in this regard11The lack of research on cluster in Indian context is mentioned inPlanning Commission (2012) report: “However, adopting the international models in India presents certain challenges. These include the lack of theoretical research on the discipline of cluster management in the Indian context, relatively less participation by academic institutions in cluster development research…” . However, given the widespread expansion of the circuits of modern capital threatening the very existence of the informal sector firms, a variety of collaborative arrangements could provide some breathing space. This is especially true in the post-Covid scenario (Kundu et al., 2021).

Consequently, inter-firm collaboration (in the context of their participation in the input and output markets) assumes enormous importance, and this should be studied widely and deeply not only as a theoretical exercise but also as a potential policy matter. Thus studies on firm-firm collaboration (horizontal as well as vertical) could add significantly to the theoretical literature that is overwhelmed by the possibilities of competition-exploitation-exclusion. Further, this research could be a significant contribution to the policy-oriented literature as well.

**IV. FIRM DYNAMICS**

**A. The received position**

1. The mainstream literature considers that informal sector firms are predominantly dynamic, and those which are not, wither away through competition. Thus, those firms that can survive cut-throat competition through intra and extra-firm innovations accumulate capital and thereby grow over time. And those which cannot finally become the labor supplier for the former group of firms. According to the researchers, there is a tortuous process of transition for the informal sector through which it emerges as a capitalistic segment of the macroeconomy; (Bardhan 2009, Marjit and Kar 2011)

2. On the other hand, a group of Marxists, structuralists, and political economy researchers highlight that the informal sector firms are constrained by a variety of hierarchies. While the modern capitalist firms are supposed to extract surplus from the informal sector firms through direct and indirect linkages (e.g., via subcontracting / open market interaction), a variety of intermediaries too play a similar role. Be it big capitalist or capitalist/ non-capitalist intermediaries, a large part of the surplus produced by the informal sector firms is siphoned off. Consequently, the informal sector firms lose their dynamism and get trapped in a vicious cycle of stagnation and persistence (Breman, 2013). Contrarily, a new school of political economy that considers the informal sector as a need economy opines that, as the driving factor of the informal sector firms is the satisfaction of need, inherently, these firms are stagnant. Stated otherwise, these firms generally do not accumulate capital and try to transform into capitalistic firm and hence remains a major site of stagnation. This stagnation is not necessarily a voluntary choice; it is rather an outcome of a variety of compulsions (Sanyal 2007, Sanyal and Bhattacharya 2009).

3. There is an extensive literature that actually considers the informal sector as a complex economic space where there is a continuous process of churning and thereby simultaneous occurrence of emergence, progression, persistence, and involution of firms (Chakrabarti 2016, Bhattacharya 2017, Bhaduri 2017, Mukherjee et al. 2019, Kesar 2020). According to this literature, only a section of the firms experiences the transition from petty commodity production or simple commodity reproduction to capitalistic firms (Raj and Sen 2016); a much larger part remains trapped in the cycles of stagnancy, and another
section, not quite small, experiences involution. This strand of literature tries to identify the factors that are responsible for the transition of the petty firms or the lack of it.

B. A Critique

In all the above stands of literature, among other factors, the competitive environment of the firms or the lack of it has been identified as one of the prime factors responsible for the extent of dynamism shown by the firms. The mainstream argues that inter-firm competition could be a prime mover in this context. On the other hand, a variety of Marxists and structuralists discourses consider hierarchical market relations, and/or intermediary intervention, and lack of free competition as a prime constraint for firm transition. Although inter-firm collaboration and various collaborative arrangements in the input-output market have been identified as strategies for survival (Kundu and Chakrabarti 2008, Kundu et al. 2021, Nagraj 2021), generally, these have not been considered as the first best option for firm growth. The mainstream regards the divergence between social and private benefits as a source of market failure: it leads to under investment. In Economics, the world’s most successful textbook the concept of external economies is introduced as a ‘type of inefficiency’ (Samuelson and Nordhaus, 1995, p.32). According to the mainstream, this issue of inefficiency is obvious in cluster. “Radical technical change tends to require large investment which may not be forthcoming because in a cluster it is extra hard to appropriate the benefits.” (Schmitz 1999, pp. 474-475). It is true that, in the past, in the context of analyses of clusters, a variety of collaborative arrangements were identified as essential elements of the survival and growth of clusters (Marshall 1919, Schmitz 1999, Van Dijk & Sverrisson 2003). However, this emphasis on collaboration as an important driver of firm and sectoral growth is not so dominant in recent times. Inter-firm collaborations are being viewed as a survival strategy for micro-firms but not a very reliable strategy for growth. This apprehension of the orthodox as well as heterodox schools needs to be evaluated carefully.

V. CONCLUSION

While analyzing the literature on firm structure, market structure, and firm dynamics, one common feature that we could identify is that intra & extra firm competition or lack of it happens to be one of the most crucial issues. Competition has been identified as an essential factor determining the intra-firm allocation of resources and distribution of benefits, inter-firm relationships, market interactions, and firm dynamics. When the heterodox discourse talks about intra-firm exploitation, extraction of surplus through the exertion of market power, and accumulation of capital and firm dynamics, essentially, it tries to understand the pattern of intra and extra firm competition (class struggle) among different agents. Contrary to this emphasis on the competition by both the orthodox and heterodox discourses, we try to identify the role of intra and extra-firm collaboration in the context of the organization of production, organization of the market, and the possibilities of firm transition. A large part of the literature misses out on the potential arising from collaboration among different agents and most fundamentally ignores the fact that production and creation of value is ultimately a social phenomenon. All the handicraft trades perform useful services. They provide food, clothing and other things for daily use. They also produce arts and crafts, ... Mind you, don’t let our fine handicraft products be discarded. Pock-marked no, not even ten thousand years from now. Anything good and characteristically Chinese that has been discarded must be restored and even improved.” (Mao-Tse-tung in “Speed up the Socialist Transformation of Handicrafts”, 1956). After all, the firm has to operate in the general social environment where it participates in a variety of social processes. Thus economic production is shaped by the contemporary social milieu, and it shapes the social dynamics as well. One cannot fully understand the problems and prospects of firms, especially of micro-firm, abstracting it from contemporary social dynamics. There is a well-knit social arrangement within which production by micro-firms has to take place, and there is a continuous process of exchange between the economic and socio-cultural spaces. A micro-producer not only produces for personal living and/or self-interest maximization but also to participate meaningfully in the socio-cultural environment – to live a social life as a social being. Contrary to what Smith had opined (footnote no. 6) we have an almost opposite version about the meaning of economic production – “When a child only belongs to the mother’s lap, s/he is fed by the mother’s milk. Today as s/he arrives in the society as a named individual, the human race feeds her the
first grain of rice... The act of offering the rice to him/her has an immense significance. Through this, the society conveys that whatever belongs to them, they recognize that the child has a share in those too." (in the article, ‘Namkaran ’ by Rabindranath Tagore, 1916 ) – Source: Dutta and Chakrabarti (2021)

Identification of this grand exchange relation could be an important element of research.

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