1 Introduction: the character of the Indian economy

Development, however it is defined, requires the production and distribution of a surplus. The character of capital, its conflicts and collaborations, shape the way this surplus is accumulated, distributed, saved and invested, and the way different parts of society respond to these processes. To understand the economy we have to understand how accumulating classes are able to exploit others and to 'induce other classes to accept as in their interests the requirements for continued capital accumulation'.[1] In this book we explore the process of accumulation in rural and small-town India. From the 1991 Census we know that fewer than 12 per cent of the population lived in metropolitan cities, the headquarters of corporate capital, the 'habitus' of the globalised economic, technological and political elites (see Figure 1.1 and Table 1.1). Over 74 per cent of the population were rural, and a further 14 per cent lived in towns with populations under 200,000: a total of 88 per cent.

This is the India faced day to day by the vast mass of the population, and our aim is to describe how it works. We will pass through the corrugated iron gates set in the high walls that conceal the industrial compounds with their mills, looms, lathes, stores, drying yards, parboiling tanks and hoppers, dyeing vats, ginning hangars and yarn-twisting

Table 1.1 *India: population and settlement size (1991 Census)*

	Total population	%
Urban class I	139 226 559	16.6
Other urban	76 806 225	9.1
Total urban	216 032 784	25.7
Rural	623 968 414	74.3
Total	840 001 198	

Source: G.P. Chapman

[1] Leys 1996, p. 183.

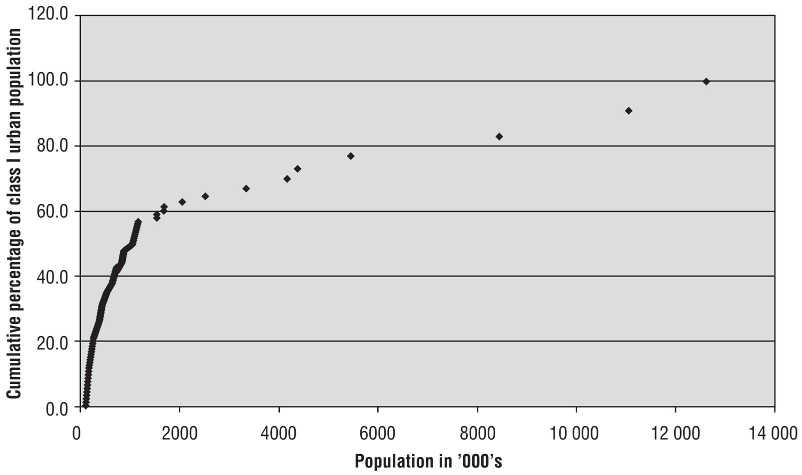

Figure 1.1 Dispersion of class 1 urban population, 1991

factories. We will stoop under low-thatch awnings and adjust our eyes to the gloom of traders' and money-lenders' offices, with their large safes, banks of phones, gaudy calendars and pictures of the gods. We will see local businessmen stuffing rolls of banknotes into the hands of election candidates, visit an agricultural extension officer moonlighting in his pickle firm, see the leader of a business association fingering the automatic rifle always close to hand in his reception room, and hear the grossly overladen buses lumbering through the dust over molten and pitted tarmac, taking workers home. The bus and factory owners, traders, officials and politicians are key players in India's accumulation process – together with the workers and other people engaged in a vast range of small-scale production and trade.

Of course, some of the goods sold by local traders are the products of 'big' business, located in the cities far away (although the well-known corporate brands of toothpaste and shampoo sold in remote tribal villages are quite often counterfeit and locally produced). But corporate, 'metropolitan' India, the India of the 12 per cent, lies outside the scope of this book, for reasons that must be made clear at the outset. First, although metropolitan India features so centrally in much of the literature on Indian development, its true significance is impossible to grasp unless the economy of the 88 per cent in which it is embedded is adequately understood. Second, an adequate analysis of the economic relationships between 'metropolitan/corporate' India and the India of small towns and villages, grounded in detailed empirical work, has yet to be undertaken.

The India of the 88 per cent – its many labels

Field researchers have given various labels to the economy we will explore. Each of them has specific purposes and strengths and we will use them whenever they seem appropriate, but most of them also have weaknesses and their very proliferation indicates that there is no good theory around which to build a consensus.

The India of the 88 per cent is sometimes called 'local', as opposed to national, or state-provincial; but 'local' is often also used to refer to the detail of activity carried on in cities. It has been called 'real', 'actually existing', and even 'authentic', to distinguish it from the imagined economy that is so often inferred from official data in a selective way to support orthodox economic theories. However, 'real' is also a term used to distinguish productive activity from financial capital; and the implication of 'authentic' – that the top of the economy is *in*authentic – is unacceptable.[2] Its markets have been called 'mud-floored' and indeed many are, but this does not mean that none are marble-floored.[3] Its economy is sometimes called 'unorganised' – to distinguish it from the 'organised' and registered economy; and this is useful, so long as it is clear that 'unorganised' does not mean 'unregulated'.[4] Sometimes it is called the 'bazaar' economy, but this term tends to play down the scale of capitalist accumulation involved. Elsewhere, the terms 'lower' or 'bharat' are used to distinguish it from the modern, planned political society of 'India' – but we will see in this book how crucial 'India' is to the economic functioning of 'bharat'.[5] It could well be called 'mofussil' ('upcountry'), but this is a Tamil word not widely used elsewhere. It certainly includes 'Malgudi', the Tamil town in which the novels of R.K. Narayan are set, but although Narayan's 'painters of signs' and 'vendors of sweets' are to be found in it (not to mention one or two 'financial experts'), it involves larger scale activities as well as petty production. Two other labels, however, are particularly influential, and must be considered in slightly more detail: the 'informal economy' and the 'black economy'.

[2] See de Alcantara (1992) and the discussion of terms in Jeffrey (2001, p. 222).
[3] Crow 2001, p. 4.
[4] Though this has no implications for the organisation of labour, or for the regulation of governance or contracts in the informal economy.
[5] Kaviraj 1991.

The informal economy

The informal economy is the economy not covered by official data on registered enterprises. It is useful to think of it as having two different though related meanings.

The first meaning of 'informal economy' is the economic activity of firms and individuals that is not registered for the purpose of taxation and/or regulation by the State.[6] The fact that it is not regulated by the State does not mean that it is not regulated at all, for there are many non-state means of regulation, which we shall be exploring in this book. There are four main reasons why an economic activity is not registered or regulated by the State:

1 it involves production or exchange that does not take the form of market transactions (for example, non-capitalist production, household production, reproductive work; non-monetised market exchange such as barter or payments in kind; and non-market exchanges such as those of clientelage and patronage, and some kinds of collective action)[7]
2 it consists of market transactions by units or firms that fall below the size threshold for direct taxation or licensing – generally where the revenue collectable would be less than the administrative costs of collecting it. In this respect virtually the entire agricultural sector is informal, being untaxed and neither accounted for nor accountable; but because we shall argue – perhaps controversially – that local *accumulation* takes place in towns, not on farms, agriculture itself will largely be the backdrop to most of the economic activity examined in this book. In the untaxed, small-town sector, the State may conceivably keep some records – for example, of residential and commercial sites – or may auction a marketplace to a manager who, in turn, keeps records of site fees, but the State has no further records. And most of the labour 'market', including the entire domestic service sector, hardly enters the State's records at all
3 it involves various kinds of mobile exchange and production – from rag-picking and recycling (much of which is either below all tax thresholds or concerns untaxed products) to rural 'home-working' financed from towns (in this case it is capital and commodities rather than people which are constantly moving)

[6] Breman 1976 was an early dissenter, arguing that India's informal economy included production and exchange of a substantial scale and was capitalist in nature, but under conditions where the social relations of the labour process were highly personalised. The activity might indeed be registered, but its key defining characteristics were the informality of its social relations.
[7] These are the kinds of exchange that Offer 1996 has called the 'economy of regard'.

Table 1.2 *Share of the formal and informal sector (%)*

	Informal			Formal			
	Rural	Urban	All	Rural	Urban	All	Source
Employment							NSS 93–94
Female			92			8	
Male			80			20	
Population	68	14	83	6	11	17	NCAER
Income	48	20	68	7	25	32	(94–95)
Savings	41	18	60	9	31	40	
Exports							IIFT
Agricultural			31			69	(96–97)
Manufacturing			41			59	
NDP			60			40	CSO (95–96)

For abbreviations, see p. xix
Source: Sinha et al. 1999

4 it is criminal business activity (for example, adulteration, forged brands and labels, and so on).

By definition it is not possible to know the size of the informal economy, and estimates vary considerably according to their differing methodologies and databases. One may work in both the formal and informal sectors in different seasons or times of day, and households cannot be neatly classified as 'formal' and informal' on the basis of occupations. One influential estimate of the 'unorganised' sector, published in 1996, was that it accounted for 90.3 per cent of all livelihoods.[8] In 1999, the National Council for Applied Economic Research, using a process of plausible inferences from data on a survey of households, also estimated that the registered, formal, 'organised' economy accounts for the major component of the livelihoods of less than 9 per cent of rural households, and only half of urban ones.[9] Approximately 83 per cent of the population work wholly in the informal sector (in the sense we are discussing here): 92 per cent of women workers, 80 per cent of men. Accounting for an estimated 60 per cent of net domestic product, 68 per cent of income and 60 per cent of savings, the informal economy is thus anything but marginal (see Table 1.2). On the contrary, it is predominant. It is also far from being unsophisticated. It does not consist mainly of the urban equivalent of peasant households (though household production and domestic reproductive work are surely much more significant, in terms of

[8] Breman 1996, p. 4, Table 1.1.
[9] Sinha, Sangeeta and Siddiqui 1999.

the numbers of people involved and livelihoods they provide, than they appear to be in India's GDP as it is currently calculated). And it is certainly *not* outside the ambit of market exchange or capitalist accumulation; it is an intrinsic part of both.[10]

The second meaning of 'the informal economy' is a particular type of behaviour *within* the 'formal economy' as defined above, a kind of activity whose significance has been seriously neglected in social and economic theory. It refers to economic activity practised by firms in the formal economy, and even in the interstices of the State itself, which is itself not covered by state regulation or record-keeping. Some of it is needed to make complex organisations work efficiently – the kind of activity whose cessation gums up any organisation on the rare occasions when people decide to 'work to rule'. These informal practices – and the informal rules that govern them – are therefore accepted as legitimate. But they also commonly create rents – rents extracted from corruption, which are typically devoted to unproductive purposes, but also rents essential for productive accumulation; for instance, rents obtained from the exclusive informal links that exist between state banks and industrial companies.[11]

So informal economic activity in this second sense also escapes state regulation (particularly taxation, but also health and safety, labour and land-use regulations). It includes fraud and theft from the State, the corrupt abuse of public office, the illegal privatisation of public property rights, the theft or privatisation of public time (moonlighting). The social legitimacy of corrupt and fraudulent activity is less secure than informal economic activity, and it is increasingly contested.[12]

Neither of the two ways of distinguishing between a 'formal' and an 'informal' economy yields clear boundaries between the one and the other. Laws and policies regulating the economic exchanges between the State, the formal sector and the informal economy are continuously changing. Further, while institutions may exist to enforce such regula-

[10] In the Indian literature, the informal economy tends to be defined as *urban*. Much effort has been devoted to isolating and quantifying it and to examining the relationship between the informal and formal, the unorganised and organised, and the unregulated and regulated sectors of the economy (Breman 1996; Sanghera and Harriss-White 1995). This academic work has been prompted by the political problems of rural–urban migration, and its resulting pressure on urban infrastructure and utilities, and by conspicuous urban poverty. Initially preoccupied with the classification of what was rapidly realised to be a highly complex sector, scholars conducting urban surveys and ethnographic research have exposed the reductionism of dualistic models of formal and informal labour market behaviour. Their work has also forced us to recognise the extreme diversity and segmentation that marks relations of production, employment, technology and of product markets in sectors outside agriculture.

[11] Khan and Jomo 2000b, pp. 1–3; Khan 2000a, pp. 66–8; Banaji and Mody 2001.

[12] See Guhan and Paul 1997; Visvanathan and Sethi 1998.

tions, they are often ineffective, lacking suitable agents with adequate material resources. While the informal economy in the first sense is typically the domain of the politically weak, the second can be the domain of the powerful. In the latter case, their exercise of power will be almost by definition 'quiet' and to the best of their ability 'not visible'.

The black economy

As we have seen, elements of both kinds of informal economy are 'black';[13] but the size of the black economy is unknown.[14] Arun Kumar, after an exhaustive review of concepts, arrives at a definition that copes with the problems of legality, taxable thresholds and unaccounted data: the black economy is all factor incomes other than labour (profit, interest and rent) that should be but are not reported (Kumar 1999, p. 54). Erring on the side of caution, and going sector by sector, he arrives at an estimate that in 1990–91, 30 per cent of the economy was 'black' and that by 1995–96 it was 40 per cent.[15] If 60 per cent of the economy is informal (according to NCAER's estimates for 1999), and if at the very least 40 per cent of the economy is black, then it is possible that over half of the informal economy might be black. So the second definition of the informal economy given above, to which far less attention has been paid, may point to a larger sector than the first.

A sector of this magnitude cannot be strictly 'invisible'. The causes of the ballooning black economy lie in an increasingly illegal and criminalised political process, in the service of private accumulation: a nexus in which politicians, officials, criminals, and businessmen and their (often poor and dependent) 'runners' and fixers are bound together in a mutually protective embrace. These, in fact, are the real forms of 'collective action' that dominate much of the economy, a development catalysed by the liberalising economic reforms of the 1990s.

The impact of the black economy on the macro-economy is serious. Economic policy levers have been abandoned in order to entice capital out of the black economy into productive – and taxable – activity. But this 'deregulation' also makes capital flight much easier. At the same time, the

[13] In the West, at least, the word 'black' may no longer be quite politically correct but it is the adjective commonly used and understood, and its dictionary definitions stress aspects of wickedness as much as colour. While formerly it may have taken place in the depths of darkness, now it goes on in broad daylight.

[14] Arun Kumar's deconstruction of Indian national accounts in order to build an estimate of the black economy shows as a by-product that official data consists of many gross estimates (Kumar 1999).

[15] Roy's estimate (1996) is of a similar order of magnitude. A simple extrapolation would make the black economy 53 per cent of NDP by 2000.

closing of certain legal loopholes and the creation of incentives to repatriate capital from abroad have resulted in a fictitious spurt to growth rates caused by the reporting of previously undeclared production. Yet foreign exchange losses and corruption intensify.[16] Lack of demand leaves an excess capacity, a capacity that is in any case based on uncompetitive technology. The foreign element in many joint ventures beats a retreat, and foreign capital seeps back instead in relatively small quantities through the capital markets.[17] International capital invests in big Indian companies only gingerly,[18] with the result that speculative activity proliferates (for example, in real estate and the stock market), and new opportunities are created for concealing profits. Budget and trade deficits are exaggerated as a result, as is the interest burden in the budget. Regular 'formal' interest rates have to attract savings back from the black sector, so profits have to rise to cover the resulting higher interest component in costs. They tend to do so at the expense of labour. Kumar therefore sees unorganised – non-unionised – labour as a separate 'shock-absorbing' class, one that is comprehensively subjugated, such that the politics of accumulation hinges *not* on the conflict between capital and labour so much as on one between different elements within the propertied classes: the black and the not-so-black. These competing fractions of capital are further split in a multiplicity of ways between different sectors, regions and nexuses of co-operation and interest at the political centre in New Delhi and Mumbai and in the States.

While Rathin Roy has found that 'black' assets are dispersed all over India in real estate, plant and machines, inventory and trade stock, films, precious metals and criminal kinds of commerce and illegal commodities,[19] Kumar reckons that black *incomes* are highly concentrated in the top 3 per cent of households – some 10 million – distributed 60:40 between the private informal sector and the public sector, although this estimate relies heavily on assumptions rather than evidence.[20] We will not contribute to the debate on quantities, but we shall encounter the question of black incomes and assets again when we examine fractions of capital in Chapters 3 and 4.

[16] See Harriss-White and White (eds) 1996.
[17] Total portfolio investment between 1991–92 and 1997–98 stood at $15 billion and foreign direct investment at $10 billion, about one-fifth of planned goals (Athreya 1999, *Frontline*, 26 November, p. 109).
[18] Banaji and Mody 2001.
[19] Roy 1996, p. 26.
[20] Kumar 1999, pp. 80–104; 135–40. According to official statistics, in 1994–95 out of 6.7 million income tax assessees, only 5543 individuals (from a population of well over 950 million) declared incomes in excess of Rs 1 million (then about £18k equivalent). The modal class of income taxpayers was Rs 50 000–100 000 (£900–1800). In and under this class were 90 per cent of all taxpayers, owning 86 per cent of all taxable income and paying 72 per cent of all tax (Government of India 1997, p. 73).

Unlike the informal economy, which can be studied by sustained fieldwork, the black economy cannot be directly researched. Evidence of it is usually encountered as the accidental by-product of fieldwork devoted to other purposes, and all such evidence is heavily problematical. But Arun Kumar's deconstruction of the national accounts shows that even the most fundamental of official data may be false, and false in unknowable ways, too.

Fieldwork

A great deal of the evidence used in this book is drawn from *field economics*. The working of the Indian economy is pieced together from remarkable studies undertaken on a small scale, at a micro level, with long field exposure; from results that are by their nature difficult to aggregate for a scaled-up interpretation.[21] Although, as we will argue below, alternative approaches present other problems, some words of warning are in order about the one used here. The impact on accumulation of the social institutions revealed by fieldwork is likely to vary with the local and historical context. Some of the material used here comes from one town in south India whose business economy has been studied at first hand in every decade since 1973,[22] and from three villages in its environs, similarly studied in detail, from a set of 11 in the region of northern Tamil Nadu.[23] Chapters 5 to 7 rely most on this pinpoint of evidence, though supplemented by data from elsewhere whenever possible. The other chapters draw on a much wider range of literature also grounded in fieldwork.

The case for relying on field economics, however, is strong. First, the huge territory and the high proportion of the population (see Table 1.1) cannot be generalised about without a reliable basis in local research. Field economics is an indispensable starting point for studying the India in which four-fifths of Indians live. Second, the structure of demand and supply cannot easily be got hold of any other way. The goods and services consumed by the vast bulk of the '88 per cent' are income-inelastic basic wage goods, among which the only conspicuous product of corporate capital is clothing. Household budgets are dominated, even in the upper deciles of the 'rurban' (rural and small town) population, by food, though the shares of meat, dairy and horticultural products, vegetable oils and spices have increased in recent years. The budget items that have

21 The problem is discussed in Chapter 3.
22 See Harriss and Harriss (1984); Harriss (1991a); and Basile and Harriss-White (2000) for previous analyses.
23 See Farmer 1977 and Hazell and Ramasamy 1991.

increased most rapidly are consumer durables (but from minuscule percentages), health expenditure, transport, cinema and social-cum-religious functions.[24] In 1984 in northern Tamil Nadu, such items formed 9.3 per cent of the total expenditure of rural elite households, 12 per cent of the budget of small farmers and 11 per cent of the spending of landless agricultural labourers. Similarly, in Punjab – one of the most developed states – in the late 1980s, the proportion of total expenditure very likely to have been on goods that are *not* basic wage goods was 11 per cent for rural people and 14 per cent for those in towns.[25] It is impossible to identify how much of total expenditure was for the products of the corporate sector, or metropolitan India, and therefore it is also impossible to track the extent to which the India of the 88 per cent is implicated in the economy of the 12 per cent, though there is no doubt that it is. In 1989 the all-Indian average share of total expenditure that went on all non-food items was 36 per cent in rural areas and 43 per cent in urban ones.[26] Table 1.3 ranks Indian states according to the proportion of rural household expenditure on goods likely to have been produced in the corporate sector. Though dated, the evidence here shows that most expenditure, even in the richest rural areas, is on basic wage goods that are distributed through regional markets. Since official statistics for local trade are extremely poor there is no alternative to field research to find out how it works.

The third point about relying on field economics is the question of defining the appropriate level at which to study accumulation. Although much analytical energy has been spent on examining the concentration of assets (that is, the class structure) in villages, and the degree of asset mobility (that is, class formation) within them, the concentration of assets held in local *towns* is incomparably greater. Table 1.4 shows that in one region of northern Tamil Nadu in 1993–94, the coefficients of concentration of *land* vary between 0.53 and 0.61 and of total rural assets between 0.62 and 0.75.[27] (These indicate high inequality in the control of land; they have also been on the increase over the last two decades). But the coefficient of concentration for businesses in the *town* (not including the small stocks of assets of wage-working households) is *0.89*. Rural assets are very rarely as unequally distributed as this. Furthermore, as Table 1.5 reveals, the average incomes of urban labour were double that of rural labour and the aver-

[24] Hazell and Ramasamy 1991, pp. 45–9.
[25] We identified beverages, tobacco and all consumer durables as being in such a category. ‘Miscellaneous goods and services’ add a further 18 and 19 per cent.
[26] These data are from the Centre for Monitoring the Indian Economy, 1997.
[27] The Gini coefficient ranges from 0 (perfectly equal distribution) to 1.0 (perfectly unequal distribution). Values of over 0.5 for economic distributions are not common.