

Dualism, Informality and Social Inequality
**An Informal Economy Perspective of the Challenge of
Inclusive Development in India**

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by**

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At the outset, let me say how grateful I am to the Indian Society of Labour Economics for conferring on me the honour of being the President of its Golden Jubilee Conference being held here in Lucknow – the place where it was born. On this occasion, I would like to join you all in remembering the founders of the Society led by an erstwhile trade union leader, Shri V.V. Giri, who later became the President of India. The team, as you all know, included such scholars of public standing as Radha Kamal Mukherjee, Gyan Chand, C.N. Vakil, V.B. Singh, P.S. Lokanathan and G.P. Sinha. The eminence, erudition and public standing of the long list of my predecessors, a number of whom were also my teachers, make me humble on this occasion when the Society is celebrating the completion of its half-a-century of existence and functioning. I have chosen for my address today a theme with which I have been closely associated for the past four years and which, I believe, has opened up a whole range of issues reminding the country of its backlog of underdevelopment and poverty.

India's high and sustained rate of growth of over six percent per annum over the last quarter century has understandably attracted the attention of the world and certainly raised its profile from one of widespread poverty and underdevelopment to that of an emerging market driving, along with China, world economic growth. This has created a sense of euphoria within India that is often so embarrassingly palpable in sections of the Indian media. For a brief period it was a 'Shining India' all over. That this 'shining India' hides a massive underbelly of suffering India became obvious only when the overwhelming majority of the poor and vulnerable people, the *Aam Aadmi*, rejected that notion through their electoral vote of no confidence.

The Common Minimum Programme that was offered as an alternative to the euphoria of a shining India followed by a five year plan with 'inclusive growth' as its overarching objective seemed to provide a ray of hope to the vast majority of labouring poor for a better life. However the adoption of 'inclusive growth'¹ instead of 'inclusive development' seems to convey a continuation of the faith in the 'trickle down' theory of growth as opposed to a strategy of development that would not only bring about economic transformation but also enhance the conditions of work as well as human capabilities for a dignified and qualitatively better life. This could best be summed up as an agenda for human development.

What I want to argue here is that India has no option but to follow a human development centred approach to economic and social development given the massive nature of poverty and underdevelopment that are reflected in the conditions of work of those who eke out a living in what may be called the informal economy. An informal economy perspective, as articulated by the National Commission for Enterprises in the Unorganised Sector (NCEUS for short), a body that was constituted by the government to study the problems (and to recommend solutions) being faced by India's vast informal economy, provides a framework, in my opinion, for such an approach, because it can capture almost all dimensions of underdevelopment. This is a perspective that addresses the challenge of development from the point of view of work and livelihood and through that an understanding of human capabilities and their social correlates such as gender and social identity. The problem of labour here is not reduced to 'man-hours' or 'man-days' and its productivity, but to one of actually living people with specific economic, social and gender characteristics often trapped in a larger social structure that, despite many changes, remains largely hierarchical and segmented.

The challenge of development in the post-colonial poor countries was sought to be addressed by development planning. The analytical concept of dualism, as formulated by Arthur Lewis (1954), proved to be a powerful one that held sway in development literature. It was also a stylised way to reduce the complexities of an underdeveloped economy into a dual sector system consisting of agriculture and industry or traditional and modern. Basically it divided the economy into a subsistence sector and a surplus generating sector. The main focus, by definition, was on low labour productivity in the subsistence sector. It was posited that a process of development entails the expansion of the high productivity sector absorbing more and more labour from the subsistence sector, i.e., from agriculture.

While this concept of dualism implied inequality, the focus was on the sectoral characteristics and only indirectly between people working and depending on it. The arrival of the notion of informal employment did indeed help to focus on the characteristics of the people in the subsistence sector but in the process it also went beyond the sectoral notion of dualism, which we shall discuss later. But the expectation of a continuously expanding surplus generating sector, often associated with industry, receded considerably.

Neoliberalism's denial of dualism and development economics

The *raison d'être* of development economics, it seems to me, is the concept of dualism and the need to engineer development by expanding the surplus generating sector often associated with industry. This also gave rise to the legitimization of planning for development in developing economies especially those with a mixed one like that of India. Various models of dualism helped to chalk out the planning process through active intervention of the state in investment in infrastructure as well as in industry and services. It also sought to generate savings for investment through fiscal means. Investment by private sector often complimented the public sector investment that was largely in physical and social infrastructure and in capital goods industry. One of the instruments for financing development in general and investment in particular was through the monetisation of deficits that was viewed as a policy variable and not as a self-imposed binding constraint as in the latter day neoliberal regime. India was indeed a typical case in this type of mixed economy.

The Keynesian paradigm lent legitimacy to such state interventions. It was, in a manner of speaking, developmental Keynesianism in a capitalist alternative emulation of certain socialist virtues. State also acquired some legitimacy reinforced by the euphoria of political liberation from colonialism.

In the Indian situation, despite many shortcomings, significant achievements were made especially in economic infrastructure, access to schooling, health care as well as in the expansion of higher education and a public sector industry that complemented each other. The gradual expansion of a rent-seeking culture, bureaucratization and micro management of public sector enterprises and consequent inefficiencies prevented to a large extent the full realisation of the developmental potential. But a bigger problem was the external environment. The fall of the Soviet bloc, the success of the export-led model of growth in a few countries especially in Asia, and the sustained political onslaught in discrediting the Keynesian macro economic management in Europe on the plank of a TINA (there is no alternative) assertion prepared the external context for the emergence of neo-liberalism. The oil price hike, the Viet Nam war, and the delinking of the dollar from gold paved the way for the death of the Bretton Woods agreement in international financial system. The final onslaught came from the political victories of neoliberalism personified by Margaret Thatcher in UK and Ronald Reagan in USA that effectively put an end to the Keynesian legacies in both capitalist and developing countries.

The arguments for downsizing the state, especially its withdrawal from public investment, reduced the role for fiscal policies and led to an argument for market-led economic growth. Of direct consequence to the dualism and its concomitant policy of planning for development was undermined by the advocacy of factor market flexibility that ignored the social and other structural rigidities in such markets. In the case of capital it was freedom for cross border movements and in the case of labour it was dismantling of labour legislations that were seen as hindrances to labour market flexibility. Such an agenda was enforced by a variety of means but most importantly through the control of IMF and World Bank by the US and its allies. This was made possible by conditionalities imposed upon developing countries when they sought financial assistance for meeting balance of payments crisis and/or development assistance. Structural Adjustment Programme became a byword for liberalisation. This led to a process summed up by the term globalisation but the same logic was applied within a country across economic sectors and activities. Although India was forced to seek financial assistance from the IMF only for a brief period in the early 1990s, the spirit of Washington Consensus has been in force, with some adjustments to accommodate political exigencies, in its pursuit of neoliberal economic policies since then.

In such a scenario the original conceptualisation of dualism in developing countries got undermined. Market forces would determine where it is profitable to invest and labour could move freely according to such investments, or so it was argued. The argument of labour market flexibility implicitly meant that there is no need to distinguish labour as between subsistence and surplus generating sectors. This meant that there is no need for 'protecting' labour in the formal (surplus) sector and the labour market would equalise conditions in the formal and informal sectors. This is the theoretical argument and message of those advocating labour market flexibility. In this process the role of trade unions was also questioned for protecting the interests of a small segment of the workforce. In a queer way, the advocates of labour market flexibility accused the formal sector workers and their organisations for creating barriers to entry of the informal sector workers. And hence the vehement argument, repeated *ad nauseam*, for dismantling of the legal protection to the formal workers without regard to the insecurity that would follow. In India this has taken the form of a single issue, i.e., eliminating a clause in Chapter VB in the Industrial Disputes Act that mandates enterprises above a certain size of employment (100 or more) to seek prior government approval for retrenchment as well as laying down a certain procedure for such retrenchment. It is well known in this country that this is a proxy argument for unfettered hiring and firing of workers. The near zero employment elasticity

in the formal (organised) manufacturing sector for the past two decades or more has been blamed on this single ‘constraint’ to labour market flexibility disregarding the more substantive issues such as changes in the composition of output to cater to high income markets, the pace of labour saving technological change, and dependence on exports².

Despite wishing away dualism, the fact of dualism continues, but we would argue below that it could be captured more meaningfully in terms of formality and informality especially in the Indian context as we discuss below. This is for two reasons. One is that the pervasive presence of a subsistence sector in terms of a rural agrarian economy has transformed into a mix of agriculture, rural industries as well as the emergence of an urban underclass catering to a whole range of industrial and service requirements at the bottom of the economy. Second, with the ascendancy of neoliberal policies and resultant globalisation, a new class of informal workers in the formal sector has come to stay. The result is a process of a kind of structural transformation with a pervasive presence of an informal economy across economic sectors and in rural and urban areas.

Informality

While the concept of informality certainly carries the idea of dualism in an economy, it has been an evolutionary one since it was first used by the ILO. It has undergone different connotations ranging from such economic activities as that of family-operated tiny enterprises in the urban economy, unregistered, illegal, and so on. From the point of the developmental process, the urban informal economy was posited as a ‘waiting shed’ before entry into the formal sector *a la* Harris and Todaro (1970). Despite its overwhelming presence in developing countries, emergence and expansion in transition economies as well as in developed economies, there are still doubts as to the usefulness of this as an analytical concept³.

But the reality of informality is too obvious to be ignored. It also challenged the primacy of macroeconomic policies focusing on the relatively small formal economy, brought into the fore the plight of a large ‘enterprising’ but ‘labouring’ segment of the workforce in addition to the absence of any legal/social protection to the enterprises *qua* enterprises or workers *qua* workers. The ILO has come to recognise it and has been primarily responsible for initiating studies on measurement, characteristics and its working and set in motion a discourse on policies and programmes for what it calls ‘decent work deficit’ “along the entire continuum from the informal to the formal end of the economy, and in development-oriented, poverty reduction-focused and

gender-equitable ways” (ILO 2002:4)⁴. It is a sign of the imperative of coming to grips with the reality of the world of work as distinct from a normative objective for setting standards for labour and employment in the formal sector.

International attempts to give an operationally meaningful definition have now come a long way. First the expansion was from self employment to include unprotected work such as casual work; then from urban to rural; and finally from non-farm to all forms of work. Here the concept is one of sector, i.e., informal sector. Then the realization has appeared that unprotected work has started appearing in the formal sector itself. Hence the need to go beyond a sectoral conceptualisation of informality. This has resulted in the identification of informal workers in the formal sector as part of the informal economy.

The NCEUS has defined informality in the Indian economy in two dimensions. One, consisting of enterprises⁵ and the other consisting of workers. The definition of informal sector gives pre-eminence to its organisational and institutional characteristics of the economic units. The core characteristic is one of vulnerability arising from the absence of any form of institutional protection either. Thus the definition recommended by NCEUS is:

“The informal sector consists of all unincorporated private enterprises owned by individuals or households engaged in the same and production of goods and services operated on a proprietary or partnership basis and with less than ten workers.” (NCEUS 2008b: Ch.2)

This means these units have no legal personality as distinct from that of the owner or owners highlighting the absence of any institutional protection to such units. And this means that the risks are solely on the owner in his/her individual capacity. This underlines the inherent vulnerability of these units to any kind of shocks. The additional dimension here is that of employment size. Such a size has been in vogue in the case of manufacturing but this has been extended to all economic units irrespective of the economic sector. As such the informal sector consists of unprotected small units.

The informal economy concept, as distinct from informal sector, is wider in which the sector is subsumed. Here the focus is on the vulnerable status of the workers. These are workers without employment or social security that comes to them by virtue of their employment in the given enterprise. This includes workers in the informal sector as well as those in the formal sector. The NCEUS definition has therefore formulated its definition as follows:

“Unorganized/informal workers consist of those working in the informal sector or households, excluding regular workers with social security benefits provided by the employers and the workers in the formal sector without any employment and social security benefits provided by the employers.” (NCEUS 2008b: Ch.2)

Table 1: Enterprises in the Informal and Formal Sectors in the Indian economy: An illustration based on Economic Census of 2005

‘Enterprises’	Informal Sector	Formal Sector	Total economy
Total Non-farm (million)	37.25	4.58	41.83
Total Non-farm (%)	89.05	10.95	100.00

Note: Total non-farm enterprises include 5.87 million units in agriculture in the informal sector and 0.21 million units in the formal sector which are largely, if not only, small and big plantations. *Source:* Computed from the Economic Census of 2005 conducted by the Central Statistical Organisation.

Table 2: Percentage distribution of workers in the informal economy and formal economy at three different levels, 2004-05

	Informal employment	Formal employment	Total
Level 1 (Urban Non-Agriculture)			
Informal Sector	84.4 (98.6)	4.1 (1.4)	67.6 (100)
Formal Sector	13.6 (38.1)	95.9 (61.9)	32.4 (100)
Total	100 (78.9)	100 (21.1)	100 (100)
Level 2 (Total Non-Agriculture)			
Informal Sector	84.5 (99.0)	95.6 (1.0)	71.6 (100)
Formal Sector	15.5 (45.8)	4.4 (54.2)	38.4 (100)
Total	100 (83.9)	100 (16.1)	100 (100)
Level 3 (Total economy incl. agriculture)			
Informal Sector	93.1 (99.6)	95.7 (0.4)	86.3 (100)
Formal Sector	6.9 (46.5)	4.3 (53.5)	13.7 (100)
Total	100 (92.3)	100 (7.7)	100 (100)

Note: Figures without brackets refer to column total (sector concept) and figures within brackets refer to row total (employment concept). *Source:* Computed from data from NSS 61st Round.

The focus on workers in the earlier dualistic concept is on low productivity or zero marginal productivity which gives rise to the notion of surplus labour. Why such modes of production continue has been debated and economists have pointed out that households in the

subsistence sector maximise average productivity and not marginal productivity. It is indeed driven by livelihood and the need to maintain all working members engaged. The informal worker concept on the other hand emphasises his/her vulnerability and as such it is also focused on livelihood but in the tradition of understanding his state of poverty/deprivation and absence of security. There the human dimension, as distinct from a focus on low labour productivity dimension, is more prominent. I would therefore argue that the informality of workers is closer to the tradition and concern of human development in general and human development driven economic growth in particular. Given the very low level of human capabilities reinforced by conditions of income poverty and a whole range of human deprivation, the task here is immense but one that has to be faced if the challenge is one of inclusive development and not maximisation of aggregate growth per se. An illustrative picture of the dimensions of the challenge in terms of the size and a few other selected characteristics of the informal economy can be seen from Tables 1 to 3.

The dynamics of development in the dualistic paradigm is one of transition. Given the experience of the last four decades, if not more, the concern with the informal/formal dichotomy is with the persistence of the informal sector and then the increase in the informal economy arising out of informality of work in the formal sector. This question is a critical one in the Indian context despite the impressive growth performance of the economy and the transformation of the formal sector into a modern segment capable of withstanding competition in a globalising world. In the place of the expected transition or movement of workers from the subsistence sector to the surplus sector (industrial/urban) the transition has been a horizontal one whereby workers are pushed to move out of the rural (largely informal) economy to the urban informal economy. It is indeed a matter of serious concern from a long term development point of view that the formal manufacturing sector has hardly contributed to any perceptible increase in employment, despite an impressive annual growth rate of around 7 percent for nearly a quarter of a century (see, e.g. Kannan and Raveendran 2008). As such the informal sector is now a feature of all the three major sectors of the economy viz., agriculture, industry and services both in rural and urban areas in varying degrees and traverses these sectors depending on season and want. Such workers are often at the bottom of the social hierarchy and their plight has been provocatively, yet graphically, presented in a sociological frame of analysis by scholars such as Jan Breman as one

Table 3: The sharp divide between informality and formality as revealed by sectoral statistics, 2004-05

Category	Informal Sector	Formal Sector
A. Distribution Economic units (enterprises)		
Total Non-Farm Enterprises (excluding crop cultivation)	89.1	10.1
Agriculture (other than cultivation)	96.2	7.8
Industry	93.7	6.3
Services	85.8	14.2
B. Distribution of workers by male and female		
Total workers	86.3	13.7
Total male workers	84.0	16.0
Total female workers	91.3	8.7
C. Distribution of workers by labour status		
Casual workers	89.1	10.9
Regular workers	37.9	62.1
Self employed	98.0	2.0
D. Distribution of workes by sector		
Agriculture	97.7	2.3
Industry	70.4	29.6
Services	72.4	27.6
E. Distribution of GDP		
Total GDP	50.0	50.0
GDP from agriculture	94.5	5.5
GDP from industry	28.9	71.1
GDP from services	45.3	54.7
F. Sectoral product per worker		
Total	0.58	3.65
Agriculture	0.98	2.39
Industry	0.41	2.40
Services	0.63	1.90
F. Wages of casual workers (Rs.per day)		
Male workers	51.3	73.0
Female workers	32.4	47.4
G. Incidence of Poverty		
All worker hhs	20.5	11.3
All rural workers	19.3	12.0
All urban workers	25.5	10.7
H. Level of education		
Mean years of schooling of non-agr workers(Rural Male)	5.1	7.6
Mean years of schooling of non-agr workers(Rural Female)	2.9	5.7
Mean years of schooling of non-agr workers(Urban Male)	7.0	10.1
Mean years of schooling of non-agr workers(Urban Female)	4.7	10.1

Note: Figures for item A computed from data from Economic Census 2005 conducted by the Central Statistical Organisation. Figures for E are based on a NCEUS methodology using its definition of informal sector and reported in NCEUS (2008b). All other figures computed from data from NSS 61st Round.

of 'wage hunters and gatherers', 'footloose labour' or 'crushing of cane and of labour' (Breman 1985, 1994 and 1996). Despite many studies by sociologists and social anthropologists, evaluating the informal workers and their livelihood struggles, macro level analysis of socio-economic correlates and inequality has not been their main interest. Economists have largely, but not exclusively, been concerned with inequality other than social identity.

Therefore the important differences between the earlier and current dualism that seem to be relevant to an understanding of the challenge of development in India and countries like India are:

- a) The concept of informality focuses on small scale economic units that have no legal protection in their own right. Therefore the emphasis is on the absence of institutional protection and hence their vulnerability. The low productivity characteristic is more of a revealed fact than a starting point. The livelihood nature of the activities focuses attention on all types of economic activities and not on a particular sector. A sectoral view of agriculture (subsistence) being low productivity conceals the existence of 'efficient' large farms and estates just as much as a surplus generating industrial sector conceals a significant segment of small and vulnerable economic units with low productivity.
- b) By focusing on workers in addition to economic units of production, attention is drawn to the vulnerable status of workers arising out of absence of any institutional protection of employment or availability of social security associated with such employment. This highlights the need to investigate the endowments of these workers and their dependents, both inherited (social identity, gender, property) as well as acquired (such as education and skill).

One may argue that the reality is one of continuum from most vulnerable to the least vulnerable. By extension the concept of formality and informality could also be viewed in the framework of a continuum in a long chain of exploitation within the modern capitalist production system regardless of spatial location or economic sector, as has been argued by some scholars (e.g. Breman 1976 or 2008, 1985, and 2003). However, for purposes of analytical convenience, some stylisation and aggregation is called for. It would appear the absence of a legal personality to economic units, smallness of operations and absence of protection to workers help to separate

all those in the category of informality that provides a meaningful dichotomy between those unprotected-cum-vulnerable and protected-cum-less vulnerable. In the Indian context, the fact that an overwhelming proportion of economic units as well as workers belong to the informal sector and informal economy respectively underscores the massive nature and magnitude of the problem of underdevelopment in an otherwise growing economy at an historically unprecedented rate. From a developmental point of view, such a dichotomy reveals the seriousness of the duality in both economy and society although there are gradations within the two economies that reveal a pattern consistent with this dichotomy.

An examination of the economic and social characteristics of workers in the informal economy (as represented by informal sector workers) reveals a systematic pattern of underdevelopment of large segments of economic sectors and of people working and living under appalling conditions of poverty and vulnerability. These have already been analysed and documented along with an analysis of crucial issues for the Indian economy as a whole (NCEUS 2007a and Sengupta, et.al. 2008). Given the size of the country and population, not to speak of the regional variations, there is considerable scope for extending the research to individual states and economic activities and their comparison.

What then is the objective from the point of inclusive development? Is it one of including the informal economy within a framework of inclusive growth? To give it some special attention and let this large segment cater to the needs of a small segment (formal economy) and its process of accumulation at the cost of the former? Or, is it an objective of ‘transformation’ of the informal economy so that a process of ‘levelling up’ can be initiated by ensuring conditions of work that are considered fair and decent, guaranteeing opportunities for enhancing human capabilities and access to enterprises for a variety of services to enhance productivity, thereby income and surplus that will not only enhance their human development but also create a larger domestic market? If it is the latter, this would then feedback into a virtuous cycle of growth and human development. This may or may not entail transition to the formal economy. Most likely not, given the capital intensive and technology driven growth in the formal sector, the overwhelming share of informal workers in the economy, the absence of any meaningful opportunities for migration unlike the historical experience of Western Europe, widespread deprivation and social discrimination as well as exclusion, lack of access to infrastructure, basic social services and other resources. Thus a meaningful agenda will have to be one of socio-economic transformation of the informal workers and promotional support to the informal enterprises within a larger agenda as well as a

perspective of human development. Such an agenda will have to confront the existing social inequalities, especially the one rooted in the social structure of Indian society.

Why social?

The Primacy of Social Inequality?

Inequality has always been an area of concern and enquiry in social sciences. However discussions on inequality in economics often revolve around income (or its proxy) through a Gini ratio or similar measures. In discussions on development the notion of inequality has been extended to regions and increasingly to gender and to indicators beyond income especially on such dimensions of human development as education and health. If income is taken as a proxy for class, then the dimensions often discussed are class, region and gender inequality. No one will doubt the relevance of these dimensions in the Indian context and each of them independently and jointly calls for focused attention if the agenda is one of inclusive development. However, a relatively less researched area in economics, if not in some other social science disciplines as sociology, is that of social inequality based on social identity. While social structure that has a systematic relationship with social identity (such as caste and caste-like groups) has been a concern of sociology it is, in my view, insufficiently linked, let alone weaved, into the domain of the economic correlates so as to delineate the interface between economic and social dimensions of development that has a special appeal in the Indian context⁶. However, the process of democratic politics in the country has been consistently pushing and pulling this agenda in varying degrees in different points in time. Social movements since the middle of the nineteenth century have been the main inspirational source at the core of this agenda of social assertion for equality for a long time. This assertion was given formal recognition when independent India gave itself a constitution in 1950 in the form of special treatment (in the form of affirmative action) for people who were hitherto considered either 'untouchable' or excluded from the mainstream, i.e., those classified as Scheduled Castes and Scheduled Tribes. Subsequently, political mobilisations of those belonging to the intermediate segment of the Indian social hierarchy, officially designated as Other Backward Castes (OBC), led to certain affirmative action in public service employment and higher education throughout the country. Such a system was already in vogue in some States, especially in the south, for quite sometime. In such States certain segments of Muslims were also considered as part of the OBC group or its equivalent. With the appointment of a High Level Group and publication of a report on Muslim population (popularly known as the Sachar Committee), the condition of the majority of the Muslim

population was also highlighted in the public domain. But our main focus here is not to seek a rationale for affirmative action but to point out to the macro evidence on the overwhelming nature of social inequality arising out of the Indian social structure even on the basic human capabilities needed for a life of dignity without poverty.

The increasing social and political assertion of the absolutely and relatively disadvantaged social groups underlined the need to highlight the economic condition of the people in a new light. It was this social dimension that was consciously factored in the *Report on Conditions of Work and Promotion of Livelihoods* prepared by the National Commission on Enterprises in the Unorganised Sector (NCEUS 2007a).

The various reports of the NCEUS (2006, 2007a and b and 2008), and subsequent work arising out of it, point to the fact that the entire Indian economy is fundamentally divided between a formal i.e., protected and less vulnerable segment and an informal i.e., unprotected and more vulnerable one. The vast informal economy indeed emerges as the unprotected and vulnerable segment, both in the legal and social sense. In fact, it would not be an exaggeration to characterise the Indian economy as one with a large number of small economic units. While half the income is generated within this informal economy, an overwhelming proportion of workers - 92 percent - and their families are dependent on it for work and livelihood sustenance. This gives one dimension of the inequality as between formal and informal economies.

Underlying this overall inequality is what may be called the entrenched social inequality arising out of the hierarchical social structure of the Indian society. Some sociologists have argued that the Indian social structure is characterised by both hierarchy and difference (e.g. Gupta 2003: 502-531). While I would not be able to question such a formulation, I believe that the notion of hierarchy is the dominant and the most relevant one to the issue of inequality. However some aggregation of the myriad of social groups is called for to make some 'order out of this chaos' especially if one is interested, as I am, to understand the macro level picture of social inequality. So I would follow a broad classification that places one group (SC/ST) at the bottom of the social pyramid, another group at the top (called 'Others' including upper caste Hindus, Sikhs, Christians and other small religious groups), and those at the middle (OBC and Muslims). The middle is given separately because one group belongs to a religion with the second highest population share.

As discussed elsewhere in much detail (NCEUS 2007a) and summed up in Tables 4 and 5 those who are at the lower layers of social inequality are also the ones, as a group, who are disproportionately represented in the informal economy and are poor and vulnerable. I wish to elaborate this point by highlighting certain issues and dimensions.

One way of summing up the condition of existence of social groups is by examining their state of poverty. Abstracting from the multiple dimensions of poverty, I would invite you to look at the state of income (consumption) poverty in India as given in Table 4. The first thing that is striking is the layering of poverty along social groups that reveals a pattern. Second, if one clubs all the poor and vulnerable in one group and the better off (middle and high Income) in another group, the same pattern is repeated. Third, the association with informal work status, which is of special concern to us here, is also very close. Nearly 80 percent of India's informal workers are poor and vulnerable as against around 77 percent in the population. Elsewhere we have analysed this in some detail wherein it has been shown that this pattern of social inequality is revealed even within the class of poor and vulnerable differentiated by education, consumption and informal work status. This led us to characterize the situation as one of 'systemic and hierarchical segmentation' from a macro-social point of view. (see Sengupta, Kannan and Raveendran 2008).

Does Social Inequality overwhelm Regional Inequality?

My preliminary foray into the interface between social inequality and regional inequality suggests that the former overwhelms the latter. This is something that has been missing in the development literature in this country with some exceptions on the condition of the bottom group (SC/ST) or when issues of affirmative action for the intermediate groups attract political attention. Here let me start with the findings on income poverty followed by some 'robust' data on other deprivational indicators that are now available through large scale national surveys.

I feel that the findings of this exercise reported in Table 6 should be an eye-opener. This we do by taking the poor and vulnerable population in the country as a group whose maximum consumption expenditure does not exceed twice the officially determined poverty line. The classification is along a relative ranking of States into three groups. Top level States are those

Table 4: Percentage Distribution of Population and Informal Workers by Poverty Status and Social Groups

Poverty Status	Population					Informal workers
	Total	SC/ST	Muslim	OBC	Others	
1. Extreme Poor	6.4	10.9	8.2	5.2	2.1	5.8
2. Poor	15.4	21.5	19.2	15.1	6.4	15.0
3. Marginal	19.0	22.4	22.3	20.4	11.1	19.6
4. Vulnerable	36.0	33.0	34.8	39.2	35.3	38.4
5. Middle Income	19.3	11.2	13.3	17.8	34.2	18.7
6. Higher Income	4.0	1.0	2.2	2.4	11.0	2.7
9. Poor & Vulnerable (7+8)	76.7	87.8	84.5	79.9	54.8	78.7
10. Middle & High Income (5+6)	23.3	12.2	15.5	20.2	45.2	21.3
11. All	100.0	100.0	100.0	100.0	100.0	100.0

Note: The official poverty line (PL) is the benchmark used for determined different poverty status. Extreme poverty means those below 0.75PL, Poor means 1PL, Marginal means between 1 and 1.25PL, Vulnerable means between 1.25 and 2PL, Middle Income means between 2 and 4PL and High Income means above 4PL. For details see the Appendix in Sengupta, Kannan and Raveendran 2008. The data on consumer expenditure computed for determining poverty status are from the consumer expenditure schedule attached to the Employment and Unemployment Survey of NSS 61st Round. This a slightly abridged version of the detailed consumer expenditure survey conducted separately. The incidence of poor and vulnerable by using the detailed survey works out to 75.3 as against 76.7 by using the abridged schedule.

Table 5: Percentage distribution of informal workers by socio-religious within different poverty status (2004-05)

Poverty Status	Socio religious Category				
	SC/ST	Muslim	OBC	Others	Total
Shares of workers in each social group					
Poor & Vulnerable	88.5	84.7	80.1	58.8	78.7
Middle & High income	11.5	15.3	19.9	41.2	21.3
Total	100.0	100.0	100.0	100.0	100.0
Shares of social groups in total informal workers					
Poor & Vulnerable	34.3	11.3	38.7	15.6	100.0
Middle & High income	16.5	7.6	35.6	40.4	100.0
Total	30.5	10.5	38.1	20.9	100.0

whose incidence of poor and vulnerable does not exceed that of the State with the least incidence plus one-third of the difference between the least and the most poor and vulnerable State; the Middle Level includes those States whose incidence do not exceed that of the least poor and vulnerable State plus two-thirds of the difference between the least and the most poor and vulnerable State; and the Low Level includes the rest. When the whole population as well as the four social groups in the selected 21 major States are classified according to their poverty and

vulnerability status, there is very little correspondence between the two. Four States which come to the top level are conspicuous by their absence, along with others, when only SC/ST or Muslims are considered. That is to say, there is no State in India where the incidence of poor and vulnerable among all the population is the lowest and gets classified as Top Level showing the same level for two social groups i.e. the one at the bottom (SC/ST) and one in the middle (Muslims). On the other hand, for the socially advantaged group called 'Others' as high as 14 States occupy the top level position. For this group, regional location is less of a constraint, if not irrelevant. Regional dimension is indeed instructive and important for policy making but if it is blind to the deeply embedded social disadvantage, the results could be disappointing. On the other hand, 16 out of 21 States are at the Low Level when it comes to the poverty and vulnerability status of the bottom social group (SC/ST). The social disadvantage seems to be still relevant as a summation of other disadvantages for a large segment of the three out of four broad social groups presented here. For this bottom layer regional location is equally less important, if not irrelevant.

Given the controversies over the adequacy of India's official poverty line as a representation of human deprivation⁷, its low level⁸ and the mismatch between consumer expenditure norm and the calorie norm⁹, there is indeed a case for a multidimensional measure of poverty/human deprivation and its distribution across regions and social groups. However, the absence of an agreed multidimensional measure should not blind us to manifest social inequality such as revealed by Table 5. At the same time, we do have a more robust measure of poverty in the form of Chronic Energy Deficiency (CED) which is considered a long term indicator of malnutrition. This should dispel any doubt that might be there in using the income (consumption expenditure) poverty for a given point in time that might conceal the transient nature of poverty among some groups. These estimates, computed from the latest National Family and Health Survey of 2005, are presented in Tables 6 and 7.

**Table 6: Socio-spatial inequality in poverty and vulnerability:
States by incidence of poor and vulnerable among social groups, 2004-05**

Total Population	SC/ST	OBC	Muslim	Others
Top Level States				
Punjab (47.5) Haryana (60.1) Kerala (61.0) HP (62.7)	Nil	Punjab (50.7) J&K 54.9 HP (58.0) Kerala (60.9)	Nil	Tamil Nadu (23.3) Punjab (26.5) Gujarat (37.8) AP (39.4) Haryana (40.5) Kerala (45.6) J& K (51.8) HP (55.3) Jharkhand (57.3) Karnataka (59.0) WB (59.7), Chhattisgarh(60.4) Maharashtra(62.2) UP (63.0)
Middle Level States				
AP (64.5) Gujarat (67.4) NEexcl.Assam(71.7) J & K (72.7) TN (72.7) Karnataka (74.9) Maharashtra (75.5) WB (76.6)	Jammu & Kashmir NEexcl.Assam(68.9) Punjab (71.1) HP (75.4) AP (76.7)	Haryana (64.9) AP (68.4) TN (72.3) WB (75.1) Karnataka (75.4) Assam (76.7) Gujarat 76.7)	Punjab (64.3) Kerala (68.8) Chhattisgarh(72.3) TN (74.5) AP (74.6)	NEexAssam(63.5) MP (63.7) Rajasthan 63.8) Assam (63.9) Bihar (76.6)
Lower Level States				
Assam (80.3) Rajasthan (81.0) UP (84.3) Chhattisgarh (85.9) MP (86.0) Uttarakhand (86.9) Jharkhand (87.5) Orissa (89.7) Bihar (92.5)	Kerala (78.8) TN (84.5) Gujarat (84.7), Assam (86.1) WB (86.4), Maharashtra (87.3) Haryana (87.4) Karnataka (87.7) Chhattisgarh (90.8) Rajasthan (92.3) UP (93.1), Jharkhand (93.8) Uttarakhand (95.2) MP (96.1) Orissa (96.4) Bihar (97.3)	Rajasthan (78.3) Maharashtra (78.6) NEexcl.Assam(82.4) UP (86.3) MP 86.8) Chhattisgarh (87.4) Orissa (88.6) Jharkhand (89.2) Uttarakhand (89.4) Bihar (93.0)	HP Gujarat (80.2) J&K Orissa (83.7) Maharashtra(84.2) Karnataka (84.7) Rajasthan (85.6) UP (87.9) Assam (88.7) NEexAssam(88.8) WB 89.2) Haryana (89.9) MP (90.9) Uttarakhand 93.8) Jharkhand (94.4) Bihar (95.5)	Orissa (78.2) Uttarakhand (81.1)
India (76.7)	India (88.2)	India (79.9)	India (84.5)	India (54.8)

Notes: i) Top level States are those in which the percentage of poor and vulnerable is less than or equal to 63%.
(ii) Middle level States are those in which the percentage of poor and vulnerable is greater than 63% but does not exceed 78%. (iii) Low level States are those in which the percentage of poor and vulnerable is more than 78%.

**Table 7: Socio-spatial inequality in long term poverty:
Incidence of malnutrition (Chronic Energy Deficiency) among social groups (Women/Men)
across Indian States, 2005-06**

Total	SC/ST	OBC	Muslim	Others
Top Level States				
Kerala (18.0/21.8) Punjab (18.9/20.5)	Kerala (24.1/*) Assam (@/26.5) Punjab (26.7/25.9)	Punjab (18.0/24.9) Kerala (18.6/22.6) WB (+/23.8) TN (26.8/26.9)	Kerala (15.6/21.2) TN (20.7/22.8) Punjab (22.5/24.0) Mahshtra (23.8/#) Karnataka (26.9/#)	TN (8.3/11.1) Punjab (14.4/16.0) Kerala (18.0/18.5) AP (22.2/22.1) Gujarat (22.9/26.3) Chgarh 26.2/%) Jhkhhand (26.5/23.8) Haryana (26.6/25.6) Ukhand (26.8/25.6) Bihar (\$/25.7)
Middle Level States				
TN (28.4/27.1) Ukhand (30.0/28.4) Haryana (31.3/30.9) AP (33.5/30.9) Karnataka (35.5/33.4) UP (36.4/38.4)	Kerala (*28.7) Assam (34.5/@) TN (36.1/29.8)	Ukhand (27.2/33.3) Assam (30.4/27.3) Haryana (33.1/29.5) Rjsthan (33.3/38.5) Karnataka (34.9/31.5) UPradesh(35.4/38.1) Mahshtra (36.1/34.9)	AP (27.6/31.1) Mahshtra (#/28.4) Chgarh(28.9/28.6) Ukhand (29.6/27.5) Karnataka (#/30.9) Rjsthan (36.1/35.1)	MP (27.7/27.7) U P (28.3/30.0) Chgarh (%/29.4) Orissa (30.7/28.8) Assam (31.4/&) Bihar (31.4/\$) WB (31.5/29.7) Kntaka (31.7/35.9) Rjsthan (32.3/31.1) Mahshtra (34.5/29.0)
Lower Level States				
Mahshtra (36.2/36.2) Gujarat (36.3/36.2) Assam (36.5/34.4) Rajasthan (36.7/41.4) WB (39.1/35.2) Orissa (41.4/35.6) MP (41.7/41.6) Jhkhhand (43.0/38.5) Chgarh (43.4/38.5) Bihar (45.1/35.3)	Haryana (36.4/41.8) AP (38.4/34.9) Ukhand (39.3/31.9) Karnataka (41.8/37.5) UP (43.6/43.9) Mahshtra (43.6/41.1) Rjsthan (44.1/50.9) Jhkhhand (44.6/41.8) WB (45.2/40.5) Chgarh (46.6/41.3) Gujarat (48.0/44.4) MP (48.7/45.5) Orissa (50.6/41.3) Bihar (58.4/45.8)	AP (37.0/32.5) WB (39.2/+) Orissa (39.6/33.6) Gujarat (40.5/41.9) MP (42.2/45.1) Bihar (43.3/33.6) Chgarh (44.8/38.9) Jharkhand (45.3/38.9)	UP (36.4/40.6) Gujarat (37.0/30.4) MP (37.4/35.2) WB (42.7/39.1) Assam (46.0/43.1) Jhkhhand (47.3/40.6) Haryana (49.0/38.3) Bihar (49.6/37.5) Orissa (63.5/45.5)	Assam (&/42.1)
India (35.6 /34.2)	India (42.7/39.9)	India (36.0/34.8)	India (35.1/34.5)	India (27.5 /27.0)

Notes: (1) Figures within brackets represent women and men respectively. (2) The classification in terms of Top, Middle and Low Levels are based on the incidence of CED among women. (a) Top level States are those in which the incidence of malnutrition is less than or equal to 27%. (b) Middle level States are those in which the incidence of malnutrition is greater than 27% but does not exceed 36%. (c) Low level States are those in which the incidence of malnutrition is more than 36%. (3) Body Mass Index below 18.5 is usually referred to as Chronic Energy Dependency (CED). Since undernutrition, especially CED, is both a manifestation and outcome of poverty, CED can be considered as an indicator of long-term malnutrition. By contrast, iron-deficiency anaemia can be a measure of present or short-term malnutrition. *shows that Kerala SC/ST men are worse off than their women and slips into the Middle Level. + shows that WB's OBC men are at the Top Level while women are in the Low Level. # In Maharashtra and Karnataka, Muslim women find themselves at the Top while their men are in the Middle Level. \$ In Bihar, men in 'Other' group are at the Top while their women are in the Middle Level while in Assam women in this group are in the Middle and men are in the Low Level.

Source: Computed from NFHS-3 data

In addition, we have also examined two other ‘robust’ measures that could be considered as proxies for human dignity and by implication human poverty with a deep psycho-social meaning. These are poor quality of housing known as ‘*katcha*’ (denoting poor quality of materials used) and the absence of toilet facility within the household (see Annexure 1 and 2). The picture that emerges is the same as the above indicators with the middle groups interchanging places.

Between income poverty and long term poverty (indicated by CED), the results moderate the profile of socio-spatial inequality somewhat but the overall picture remains the same. The number of Top level States reduces from four to two and they (Kerala and Punjab) remain at the same position for all the four social groups. However this need not mean that they have reduced inter-group inequality within the State, especially between the bottom group (SC/ST) and the top group (Others) (see, for example, Kannan 2007). What is interesting in this ‘more robust’ measure is the relatively better performance of Muslims compared to the OBCs in five States. But the striking feature of this measure is that the upper social group – Others – are distributed either at the Top level or the Middle level while 78 percent (14 out of 18) are in the Low level when SC/ST population are considered. This is a confirmation of the earlier finding that in so far as the socially privileged group is concerned regional location is less critical to their state of well being. And this reinforces our argument that social inequality overwhelms regional inequality. Given the fact that an overwhelming proportion of the informal workers are poor and vulnerable, these results reinforce the nexus between informality, social identity and economic vulnerability.

Does Social Inequality overwhelm Gender Inequality?

If one goes by what we call a ‘robust measure’ of long term poverty, one can clearly discern the dominance of social inequality over gender inequality from Table 7 where we present the incidence of CED for women and men separately. Women along with their men from the upper social group experience the least incidence of poverty while women from the bottom layer experience the most. In fact the disparity between women is much higher ranging from 8 percent for women from the upper social group in Tamil Nadu to 63 percent for Muslim women in Orissa (1:7.7) than for men ranging from 11 percent for those in upper social group in Tamil Nadu to 51 percent for SC/ST men in Rajasthan (1: 4.6). There are several aspects of inequality that one can read from this Table. For SC/ST population, most States are in the Low level while for ‘Others’ they are equally divided between the Top and the Middle levels. The intermediate groups of OBCs and Muslims are present at all levels but the single largest group is at the bottom level.

Their poverty status is more or less at the same level both in terms of regional and gender differentiation. In an otherwise dismal scenario, two States stand out clearly, i.e., Kerala and Punjab, where the poverty outcomes for all groups are well ahead of almost all states in the country. It is interesting to note that Muslim women in Kerala have the best outcome not only among Muslims in all States but also vis-à-vis other social groups within Kerala as well as all other States except for the upper social group in Tamil Nadu and Punjab. The inter-group inequality is also the lowest in Kerala compared to Punjab, the other best performing State. It is also instructive to note that the CED outcome for women in half of the Top level States is better than that of men but worse in most other States.

The nexus between social inequality, informal economy and economic vulnerability could be many and that is something that would warrant an interdisciplinary approach especially between development economics and sociology. But one may posit that an important acquired endowment - human capability - that could moderate the nexus would be education. If the acquisition of such a capability is hampered or made difficult due to social group identity that would indeed pose a formidable challenge for an agenda of inclusive development. The picture that we have, after close to six decades of planning for development, is something that would demand serious attention. Here again the inequality between the formal and informal sectors of the economy is quite revealing, but more importantly, it can now be seen as a manifestation of the low educational levels associated with social hierarchy, much more so than the gender dimension. Table 8 gives a picture of this situation. In both informal and formal sectors of the economy, separately by rural and urban, the hierarchical social structure remains the same with the proviso that Muslims group emerges as the second layer from the bottom.

**Table 8: The dominance of ‘social gap’ over gender and spatial gaps:
Mean years of schooling of workers by social groups, 2004-05, Male and Female**

	Informal Sector		Formal Sector	
	Rural	Urban	Rural	Urban
Others	6.2 (3.2)	9.5 (8.1)	9.5 (6.6)	11.9 (13.1)
OBC	4.3 (1.7)	6.6 (3.5)	7.2 (5.0)	9.5 (8.8)
Muslims	3.1 (1.4)	4.9 (2.9)	5.9 (4.9)	8.2 (8.4)
SC/ST	3.0 (1.2)	4.9 (2.4)	5.5 (2.9)	7.4 (5.6)

Note: Figures in brackets refer to women. Source: Computed from NSS 61st Round.

The figures in Table 8 go to confirm the social gap over gender gap in educational levels. The hierarchical order in education is the same as the social hierarchy for all workers as well as female members in each sector and location. At the same time, in each segment women’s

educational attainment is lower than that of men except for those in the urban formal sector. However if we take the different segments in one set, the gender hierarchy gets subordinated to the social hierarchy. For example, the top position goes to those in the urban formal sector women while the bottom position goes to SC/ST women. The women in rural formal sector have educational attainments much higher than men in rural informal sector.

Social inequality among women is sharper than among men. For example, women from upper social group in the urban formal sector have 11 times the level of education as compared to those at the bottom, i.e., SC/ST women in rural informal sector; for men, it is 4. Of course, there is also a significant difference between rural and urban for workers in all social groups. But such a difference is usually a consequence of better educated leaving rural areas, besides better public provisioning for education in urban areas. That the highest gap is between urban female workers from the upper social group and the rural female workers belonging to SC/ST is also a telling reality of the Indian social space.

There is also some evidence that is crucial to determining condition of poverty of the workers especially in the informal economy. A comparison of the wage rate of casual workers, 90 percent of whom work in the informal economy, is quite revealing. The evidence presented in Table 9 shows a systematic pattern of social inequality, as in the earlier cases except for women in the informal sector. The change in the pattern of social inequality for this group should be, in my view, contextualised as to the nature of jobs that women workers from the upper social group, even if poor and casual labour in status, are willing to perform. Most would prefer not to work that have a social stigma or under employers who are considered socially low or too low. Often they work from home (home-based workers) or in households of similar social groups as domestic servants. Such practices have been reported by sociologists and this could explain why they do not command a higher wage than the 'lower' social status groups who find themselves in all kinds of work considered low and menial often of a hazardous nature . While gender inequality is restricted to the respective sectors of the economy, women casual workers in the formal sector receive a higher wage than SC/ST men workers in the informal sector as well as women in both informal and formal sectors.

Table 9: Average daily earnings of casual workers (Rs.per day), 2004-05

	Informal Sector		Formal Sector	
Inequality by sector and gender				
	Male	Female	Male	Female
Other	54.7 (100)	30.9 (100)	83.1 (100)	49.7 (100)
OBC	53.7 (98)	31.9 (103)	75.2 (90)	47.5 (96)
Muslim	53.5 (98)	36.7 (119)	76.9 (93)	39.9 (80)
SC/ST	48.8 (89)	32.7 (106)	66.0 (79)	47.8 (96)

Source: computed from NSS 61st Round.

Social inequality among the poor and vulnerable: A case of double disadvantage?

While our macro analysis of social inequality reveals a systematic pattern that is in broad conformity with the traditional hierarchical social structure of Indian society that abstracts from the myriad of castes and communities but groups them into top, middle and bottom, the same inter-group inequality is also revealed within a given economic segment, region or gender. That is to say, even when one moves up or down in an economic sense, the macro level picture seems to suggest that the social inequality along the broad hierarchical structure prevails. This, of course, abstracts from the experience of particular social groups within a broad social group and as such a generalisation may not be applicable to each and every sub-group within the larger social group. For example, the Meenas of Rajasthan (belonging to the ST group) are often cited in casual discussions as a case of successful economic mobility that might be the envy of some erstwhile ‘superior’ social groups. As a matter of illustration, we cite here a few indicators for the economically disadvantaged groups of poor and vulnerable and informal workers or a combination of the two.

**Table 10: All are poor and/or informal workers but some are more so:
Social inequality among the poor and vulnerable workers, 2004-05**

Social Group	Average MPCE of EP and P	Mean years of education of women workers in the informal sector		Incidence of EP and P Informal workers	Incidence of P&V Informal workers	Low education among P&V Informal workers
		Rural	Urban			
Others	100	100	100	100	100	100
OBC	93	53	43	213	136	124
Muslim	100	44	36	296	144	129
SC/ST	87	38	30	356	151	136

Note: EP and P stands for Extremely Poor and Poor and P&V stands for Poor and Vulnerable. See Table 4.

Implications for policy: Some observations

Given India's political democracy, it is not that issues of inequality, especially social inequality, are not articulated. The democratic space has indeed witnessed the political articulation of the demands of disadvantaged social groups through political mobilisation in and out of the electoral process. By and large the demands are far removed from the ground reality of poverty and vulnerability of the majority of the members of the disadvantaged groups. For example, the priority assigned to affirmative action in higher education and public employment is in sharp contrast to the issues of livelihood insecurity and opportunities for securing basic human capabilities through such means as education, health, housing, employment and minimum wages. This is despite the fact that the impact of affirmative action is so limited because of the extremely limited opportunities, but more importantly, by the entry qualifications it entails restricting the universe of potential beneficiaries to a tiny minority with the relevant social groups. As we have shown here, majority of the socially disadvantaged are poor and vulnerable, with very low levels of educational as well as health capabilities not to speak of the associated physical conditions of existence bordering on indignity that are carried on to their world of work resulting in low earnings and insecurity. There is no denying the fact that policies such as affirmative action have symbolic value and it should be respected in their own merit. But the fundamental task seems to be the challenge of human development by building human capabilities of the labouring poor and their families.

Here again, there is no dearth of schemes and projects sponsored and implemented by the state, but their plethora, lack of effectiveness in coverage and quality and, above all, a singular absence of political will are reflected in the outcomes, some of which are presented here. The recent initiative in establishing the right to manual employment in rural areas that largely benefits the poor and vulnerable, albeit limited in its quantum, is perhaps an exception to this general rule. But it can, at best, be only a part of a larger policy framework that will have to anchor itself in a human development centred framework that would generate growth and that cannot but be inclusive. It will have to include the currently excluded three-fourths of the population, 80 percent of whom are informal or unprotected and hence vulnerable workers.

Towards a Policy Framework

Is it possible to articulate a policy framework for such an approach to development that would be inclusive? There have been considerable discussion and debate on several alternative perspectives that share the goals of human development and human development centred growth¹⁰. Perhaps the crisis in the current model of financial capitalism and the consequent economic crisis threatening the standard of living in the rich countries might provide a more receptive political environment for such a policy framework. In any case, it would be foolhardy to think that the massive underdevelopment of the Indian economy characterised by entrenched social inequality can be successfully faced by a reliance on the neoliberal economic orthodoxy and its expected trickle down effect to the poor and excluded. I believe there ought to be much more public debate and discussion on an alternative policy framework to which social scientists in general and development economists in particular could contribute. It is my case that such a policy framework has to address the twin challenges of poverty and vulnerability as well as entrenched social inequality, both of which are coupled with informality in employment. At the minimum, the following agenda will have to form a *sin qua non* of such a policy framework.

Foundational requirements

The first task is to identify the foundational requirements that should create institutions and mechanisms to ensure, for want of a better term, social security in the sense of addressing capability deficiencies and adversities arising out of contingencies. This may be viewed in terms of three concentric circles. The broadest circle would consist of a universal system for securing basic human capabilities; the second inner circle could, and should in my view, focus on the informal workers and their families; and the third circle should focus on the poor and vulnerable who need direct public assistance.

These foundational requirements to address capability deficiency may be referred to as Basic Social Security that is promotional in nature. It should ensure the creation of public institutions assuring access to literacy and basic education, basic health care services, housing, drinking water and sanitation and minimum income (for example, via employment). Although dependence on agriculture for employment is slowly but steadily declining, the land question remains an extremely relevant one in the rural society especially those who have been experiencing a continuous process of land alienation such as the Scheduled Tribes and those who have historically been denied access to some land such as the Scheduled Castes. This will have to be addressed separately as some of the fiercest points of social conflicts are on this question.

The creation of such basic capabilities should be through the establishment of legal entitlements that would be fitting in a democratic state. Given the basic nature of this foundational requirement, a universal approach is perhaps the best way to implement them so that a process of self selection would ensure that those who are in need are the ones who access them the most.

The link to the informal economy comes through the second and inner concentric circle. Here the need is to provide Protective Social Security in two ways. One is the creation of a 'social floor' to the wage workers in the informal economy. At the minimum, such a social floor should include the three elements advocated by the NCEUS (2007a) viz., minimum conditions of work, a minimum wage and the provision of a package of Contingent Social Security to meet such contingencies as sickness and disability arising out of accidents and eventualities such as old age and death.

Along with the creation of such a 'social floor', a necessary complement that would also ensure its realisation should be the right to employment backed by the payment of minimum wages along the lines now in vogue i.e., the NREG Programme. The economic feasibility of a full employment programme in our context of massive poverty and underdevelopment that would lead to 'development with dignity' has been put forward that, I think, demands a wider debate and deliberation (see Bhaduri 2007).

A third element in the informal economy-focused policy would be the creation of opportunities for acquisition and development of skills of workers that will not only enhance their productivity but also ensure a fair share of that. This is a critical constraint given the overwhelming initial condition of poverty and vulnerability of the households of informal workers, more so in rural areas.

While the above policies would largely focus on wage workers, we also know that the self-employed constitute the larger of the two segments in the informal economy. This segment includes those ranging from the Own Account Workers – the street vendors, rag pickers, rickshaw pullers, auto and taxi drivers, most home-based women workers and so on – to those 'employers' hiring less than ten workers to run their 'micro' enterprises. Since they work under conditions of what may be called 'self exploitation' the public policy interventions here should take the form of measures to develop the workers' capabilities that have a direct bearing to their productivity and strengthening the capability of the units to enhance efficiency. These would include

promotion of skills, access to credit, technology and a variety of related services that are now largely available only to the formal sector of the economy. A good part of the single-person self employed mentioned above is nothing but the ‘disguisedly unemployed’ since they are unable to access opportunities for regular employment with reasonable wages. A public employment programme of the kind mentioned above could be an answer to such workers thereby strengthening, indirectly though, the capacity and market for the output of the micro enterprises.

Just as the foundational requirements for basic human development warrant a collective approach to delivery, a similar approach is also warranted in the case of promotional services to the self employed and the micro enterprises. One such approach has been articulated in what is called the development of ‘Growth Poles’ in the existing industrial/business clusters (see NCEUS 2007a and elaborated in Sengupta, et.al. 2007).

The third and last concentric circle should focus, in my view, on those who cannot make a living out of work nor have other sources of livelihood such as destitutes and the poor disabled in a variety of ways and for a variety of reasons. Some may have been informal workers at some point in time. They need direct public assistance. This should also be the bottom line of any public policy on development in a democratic polity.

Factoring Social Inequality

The biggest challenge before the Indian State and society is how to factor the overwhelming presence of social inequality. As we have seen, the informal economy approach encompasses all the dimensions of inequality. Given a threshold of income or its proxy, it then focuses on the poor and vulnerable in the society. However, what we have argued here is the presence of the persistence of social inequality even among the poor. This calls for a coherent social policy at the macro (national) and meso (state) levels. The present administrative approaches such as sub-plans (as for example, for STs) have not really been effective. A combination of targeted programmes, incentives and creation of institutions of a ‘hand-holding’ nature will have to be thought through. In addition, a system of incentives could be designed for public, collective and private, especially non-profit, *institutions* that provide a variety of basic social and developmental services for greater inclusion of the currently disadvantaged social groups. Surely, employment and wages as well as creation of opportunities for accessing health and education will go a long way in enabling the socially discriminated/excluded groups to enhance their capabilities in

accessing other services but a system of incentives to institutions that deliver these services could accelerate the process of inclusion.

But participation in local level institutions of governance is, in my view, a critical factor for inclusion. With the creation of Panchayat Raj Institutions (PRIs), there is a window of opportunity for the system to proceed along a path of sustained inclusion. But here again, the process seems to be long given the weak administrative structure, inadequate resources and a general lack of political commitment - with some exceptions at the level of State governments – to strengthening these institutions. Earlier, reservation for women in the PRIs was viewed with scepticism with regard to their ability to function but that seems to have receded with experience. I think the agenda of strengthening PRIs is an unfinished one in substantial measure and a firm direction could go a long way in partially, if not wholly, mitigating the problem of social inequality. Whether the complex electoral politics will see this as a priority agenda and whether the forces striving for equitable development will be able to muster the required strength or not are matters that the unfolding Indian political process is yet to give a firm signal. Ultimately, the onus for such an agenda will fall in the realm of the larger civil society and its dynamics. In any case, the ‘social’ dimension of politics and economics will continue to be a live subject.

The lesson that I would like to draw from such an approach is the imperative to reclaim the role of the ‘developmental state’, which alone can address the basic problems of underdevelopment and the challenge of creating the foundations for an inclusive development. The neoliberal argument is often couched in terms of ‘reducing the role of the state’ or ‘downsizing the state’ in economic activities even in countries where the state alone has the capacity to create opportunities for basic human capabilities for the vast mass of the poor and vulnerable. However, the reality is not one of withdrawal of the state in economic activities but a repositioning of the state in favour of capital¹¹. In the Indian case this has often resulted, as for example, in the creation of what may be called ‘special playing fields’ for large capital (e.g. the creation of Special Economic Zones) or large infusion of institutional credit in times of liquidity crunch that has almost turned a blind eye to the near absence of any access to credit and some other services to the overwhelming majority of small units in the economy (see, e.g. NCEUS 2007b).

The Cost of Neglect and Pressure From Below

It is not that the Indian State has turned a blind eye to the basic developmental issues. In fact there is a proliferation of projects, schemes and programmes that address issue of capability deprivation or deficiency if not any meaningful social security cover to meet adversities. It is rather the increasing subordination and marginalisation of such policies seeing them as subsidies or necessary dole outs – in effect wasteful expenditure – to the public exchequer. Riding on the back of high aggregate growth, the neoliberal agenda offers the 'market solution' as a panacea for the underdevelopment of the economy. The result has been not only increasing inequality across class and region but above all social as I have attempted to portray here. The problem is also rooted in the functioning of the state at different levels in a large and diverse federal polity like India. The three crucial levels where tensions are generated may briefly be referred to.

At the macro level, the Indian polity is witnessing an increasing tension between what may be called economics of market and politics of democracy. The former is seen in the numerous neo-liberal policy measures whose priority is to galvanize aggregate growth through private capital. Such policies have resulted in numerous new institutions, as for instance Special Economic Zones and the Public Private Partnership . In the absence of institutions which can distribute the benefits of growth equitably across regions and social groups, such policy measures benefit the power of capital, especially the big ones. At the same time, the country is witnessing fierce political mobilization especially from social groups who perceive themselves to be disadvantaged and/or discriminated. The electoral democracy not only enhances the aspirations and expectations of these groups but also pushes the state to take some pro-poor measures, for instance, the NREG Programme and the Bill on rights of Scheduled Tribes. However, policies supported by economics of market are able to display a sense of commitment, urgency and fast track implementation whereas initiatives pushed by the politics of democracy, at best, limp towards implementation (e.g. child care and nutrition (ICDS), housing for the poor (Indira Awas Yojana) and employment guarantee (NREGP) and, at worst, are abandoned or put in a limbo (e.g. contingent social security to the informal workers, right to education, access to credit for marginal and small farmers as well as micro and small enterprises). In nutshell, urgent policies required to 'level up' the unequal social and economic space are either not conceived or funded or are half-heartedly executed. This is an area that calls for much deeper exploration to find out how, and to what extent, such a contradiction in the Indian State emerging due to the economics of market and politics of democracy has strained the socio-economic fabric of the country.

At the meso level, the abovementioned tension has to be understood in terms of certain dominant tendencies. Some provincial States (e.g. Tamil Nadu, Maharashtra and Gujarat) with strong sub-national identities and with some favourable initial conditions (e.g. industrial base and capital) took advantage of the national policies arising out of the economics of market and strengthened the sub-national bourgeoisie whose economic demands are seen to be met by the political class. However, not many of them have been able to meet the challenge of inclusion especially in meeting the capability deficiencies and adversities of the working poor. In a few other provincial States some of which have a long record of active and sustained mobilization of the labouring poor and resultant public investment in human development (e.g. Kerala) or a record of rural economic growth and prosperity (e.g. Punjab) or favourable initial conditions such as absence of a class of landless and public investment in rural economic and social infrastructure (e.g. Himachal Pradesh) one can see the redressal of capability deficiencies and adversities in substantial measure. This has resulted in a relatively better record in human development for the labouring poor from the 'lower' social groups. In a number of other States, the domination of feudal or feudalistic classes (mostly rural) surplus generation was through feudal/semi-feudal mode of production processes and capture of state resources. In such a scenario, the systematic discrimination of 'lower' social groups and often the exclusion of the bottom layer are quite palpable. Public expenditure often metamorphoses into opportunities for rent-seeking.

At the micro or local level either the development policies are structurally/architecturally flawed or they are captured by the entrenched local interests. The first has been discussed in the literature and basically connotes that macro policy and planning while taking into account the objective realities often ignore the ground reality of unequal access to resources and the entrenched social inequality. As a result, even the best of policies falter during the stage of implementation. Empowering measures for creation of such constitutional bodies as the PRIs are far from gaining a real foothold. However, it is the 'empowerment factor' that is of critical importance from the standpoint of the labouring poor. It is invariably perceived as well as experienced that state's development initiatives fail to insulate itself from the vested interests and as a result the public schemes are often turned into rent-seeking avenues. It is at this micro level where the capture of the state benefits seriously hurt the socio-economic interests of the marginalised. It is at this level the difference between caste/community and class are relatively more blurred i.e., lower social groups may belong to the lowest class.

The costs of neglect of such inequality arising out of the subordination and consequent ineffective implementation of basic social and livelihood security agenda to the large mass of the poor and vulnerable are increasing by the day. In turn, it is the state, and by proxy, the people who bear the cost that should have been devoted to the basic development agenda. Systematic studies on the linkage between the failure to assure livelihood security with a life of dignity to the poor and vulnerable and the different forms and manifestations of social and political tensions and conflicts are far and few. I think here is a big challenge for the social science community to take up and make their work directly relevant to the ongoing, and if I may say so, tortuous, process of socioeconomic change in the country. Given the size of the country and diversity of social and cultural systems and the magnitude of the problems of underdevelopment, tensions and often open conflicts erupt and also sustain in different parts. They might be in the name of region, religion, caste, land, class and so on. While the framework of political democracy ensures a space for protests, mobilisation and organisation, not all forms of protests are within such a structured framework but often manifests as violence of one kind or another. Some of them have been from the bottom layer of the society opting out of the democratic framework. It is quite instructive that an expert group report to the Planning Commission on 'Development Challenges in Extremist Affected Areas' has articulated the social and economic dimensions of what is popularly called the 'Naxalite Movement' and recommends that the Indian State should move away from its security-centred view of social issues. To quote:

"It should be recognized that there are different kinds of movements, and that calling and treating them generally as unrest, a disruption of land and order, is little more than a rationale for suppressing them by force. It is necessary to contextualize the tensions in terms of social, economic and political background and bring back on the agenda the issues of the people – the right to livelihood, the right to life and a dignified and honourable existence. The State itself should feel committed to the democratic and human rights and humane objectives that are inscribed in the Preamble, the Fundamental Rights and Directive Principles of the Constitution. The State has to adhere strictly to the Rule of Law. Indeed, the State has no other authority to rule." (Government of India 2008: 30).

Of course, only sustained pressure from below will ensure the prioritization and effective implementation of the basic agenda outlined above. While collective organisations of the working poor are not absent, their strength, coverage and capacity are quite low. They also do not have the critical power to force the state to accede to their demands unlike corporate and trading capital, as well as some of their counterparts in the formal sector. This of course is a

larger challenge that the political and civil society committed to a process of inclusive development will have to address.

Thank you for your patient hearing.

13 December 2008
Giri Institute of Development Studies
Lucknow

Annexure 1
Percentage of Kachha House among Socio-religious Groups across Indian States,
2005-06

Total	ST/SC	OBC	Muslim	Other
Top Level States				
Gujarat (1.5) Punjab (2.4), Kerala (2.5) Maharashtra (2.6) Chhattisgarh (3.3) Haryana (3.6) Karnataka (4.9) Jharkhand (5.6)	Gujarat (3.0) Chhattisgarh (3.7) Haryana (3.9) Maharashtra (4.7) Punjab (5.5), Karnataka (9.0) Jharkhand (9.0) Kerala (9.4)	Kerala(1.6) Gujarat(2.0) Maharashtra(2.6) Haryana(3.0) Punjab(3.1) Chhattisgarh(3.6), Jharkhand(4.0), Karnataka(4.6), West Bengal(9.5), Tamil Nadu(10.4),	Maharashtra (0.3), Kerala (0.9), Karnataka (1.4), Chhattisgarh (1.6), Tamil Nadu (2.9), Jharkhand (3.7), A P (4.3), Uttarakhand(6.6),	Gujarat(0.2), Punjab(0.7), Chhattisgarh (0.9), Haryana(1.0), Kerala (1.5), Jharkhand (1.6), Maharashtra (1.8), Karnataka (2.3), TN (2.3), WB (6.3), AP (6.8), Bihar (7.4), Rajasthan (7.8), UP (8.6), Uttarakhand(11.2),
Middle Level States				
Tamil Nadu(12.2), Uttarakhand(13.3), Andhra Pradesh(13.3), West Bengal(13.7), Uttar Pradesh(16.4), Assam(20.8),	Uttarakhand(18.6), Tamil Nadu(20.2), West Bengal(20.3),	Andhra Pradesh(12.3), Assam(14.8), Uttar Pradesh(16.2), Uttarakhand(17.6), Rajasthan(18.3),	Uttar Pradesh(14.5), Madhya Pradesh(16.6), West Bengal(17.4),	Assam(13.3), MP (13.8), Orissa(26.8)
Lower Level States				
Madhya Pradesh(23.8), Rajasthan(24.3), Orissa(32.6), Bihar(32.7),	Assam(23.0), Uttar Pradesh(23.5), Andhra Pradesh(24.1), Madhya Pradesh(29.1), Rajasthan(38.6), Orissa(41.6), Bihar(50.3),	Orissa(23.9), Madhya Pradesh(24.2), Bihar(32.0),	Haryana(23.8), Assam(31.6), Rajasthan(31.9), Bihar(33.3), Orissa(46.0),	
India (13.8)	India (21.0)	India (13.5)	India (14.1)	India (6.0)

Note: (i) Top level States are those in which the percentage of kachha house is less than or equal to 11.9%. (ii) Middle level States are those in which the percentage of kachha house is greater than 11.9% but does not exceed 22.3%. (iii) Low level States are those in which the percentage of kachha house is more than 22.3%. *Source:* Computed from data from NFHS-3.

Annexure 2
Toilet facility within the household among Socio-Religious Groups across Indian States, 2005-06

Total Population	ST/SC	Muslim	OBC	Others
Top Level States				
Kerala(96.0) Assam(76.3) Punjab(70.9)	Kerala(87.1),	Kerala(98.7) Punjab(85.9), Assam(85.0), Uttarakhand(83.6), Maharashtra(80.0), Tamil Nadu(78.3),	Kerala(96.8) Assam(74.2) Punjab(71.9)	Kerala(97.0) TN (96.0) Assam(84.9) Gujarat(84.3) Punjab(81.1) WB (78.3)
Middle Level States				
WB (59.5) Uttarakhand (56.8) Gujarat (51.6) Maharashtra (53.0) Haryana (52.4) Karnataka (47.3)	Assam(60.2), Punjab(51.8), West Bengal(46.6),	Gujarat(66.1), Andhra Pradesh(62.7), Karnataka(62.1), Uttar Pradesh(60.5), Chhattisgarh(60.3), Madhya Pradesh(57.7), West Bengal(46.8),	West Bengal(62.6), Haryana(55.8), Maharashtra(52.6), Karnataka(49.4), Uttarakhand(48.0), Tamil Nadu(46.2), Gujarat(40.0),	Bihar(68.3), Rajasthan(67.2), Jharkhand(66.2), Andhra Pradesh(63.4), Chhattisgarh(62.6), Haryana(61.8), Uttarakhand(61.0), Karnataka(59.8), Maharashtra(59.2), Madhya Pradesh(57.1), Uttar Pradesh(53.6)
Lower Level States				
Tamil Nadu(42.9), Andhra Pradesh(42.4), Uttar Pradesh(33.1), Rajasthan(30.8), Madhya Pradesh(27.0), Bihar(25.2), Jharkhand(22.6), Orissa(19.3), Chhattisgarh(18.7),	Uttarakhand (42.3) Haryana (39.1) Gujarat (33.6), Maharashtra (33.6) AP (29.7) Karnataka (27.3) Tamil Nadu (21.7) UP (18.1) Rajasthan(17.2) Madhya Pradesh(11.5) Chhattisgarh(9.0) Jharkhand(8.9) Bihar(7.0) Orissa(5.7)	Rajasthan (40.8), Orissa (34.0), Jharkhand (33.8), Bihar (27.2), Haryana (20.5),	Gujarat (35.9) AP (23.6) MP (22.4) Rajasthan(21.9) U P (21.2) Orissa (21.6) Bihar (21.2) Jharkhand (19.4) Chhattisgarh (16.3)	Orissa (37.0)
India (44.4)	India (27.5)	India (59.9)	India (36.1)	India (67.9)

Note: i) Top level States are those in which the percentage of household with toilet facility is more than 70.2%. ii) Middle level States are those in which the percentage of household with toilet facility is greater than 44.5% but does not exceed 70.2%. iii) Low level States are those in which the percentage of household with toilet facility is less than or equal to 44.5%. Source: Computed from data from NFHS-3.

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¹ Some scholars have even questioned the relevance of the notion of ‘inclusive growth’. For example, Papola (2008:4) notes that “What is (however) certainly implied in the recognition of the need for ‘inclusive growth’, is that a sizeable group of population has not been ‘included’ in and have, therefore, not benefited from growth. Does it mean that growth has not trickled down to these groups? In fact, the notion of ‘trickle down’ does not seem to be a relevant, let alone adequate explanation of this asymmetric process of growth. ‘Trickle-down’ can take place if the poor are also included in growth process, that is, they are engaged in economic activities that are growing, even though the non-poor may be the main actors and, therefore, main beneficiaries of growth. When certain groups of people are not even ‘included’ in the growth process, there is no question of the benefits of growth ‘trickling down’ to them. In other words, in this situation, the notion of ‘trickle down’ is not merely non-operational, it is irrelevant.”

² Several scholars have studied the issue of ‘jobless growth’ and related issues in organised manufacturing for different periods. See, e.g., Ghose (1994), Kannan (1994), Papola (1994), Bhalotra (1998), Nagaraj (1994, 2000 and 2004), Goldar (2000 and 2004). A recent exercise was carried out by Kannan and Raveendran (2008) covering a period of 23 years from 1981-82 to 2004-05 divided into pre- and post reform periods. The results of this exercise show ‘jobless growth’ over the entire period as well as in two separate periods despite a trend rate of growth of output of around 7 percent. For explanations relating to cheapness of capital, technological change, dependence on exports as well as the high income market see Chandrasekhar (2008) as well as Kannan and Raveendran (2008).

³ See, e.g. Guha-Khasnobis, Ravi Kanbur and Elinor Ostrom (2006).

⁴ The ILO has been in the forefront of promoting and disseminating a large number of studies and policy recommendations relating to the informal economy as part of a developmental process beginning with a variety of insecurities faced by informal workers. For details see, www.ilo.org

⁵ In the case of agriculture, the NCEUS recommended that each operational holding in the crop production and plantation may be considered as an enterprise. In the case of other agricultural activities like forestry, animal husbandry and fishing, the general definition of enterprise as used in the economic census and non-agricultural sector surveys can be adopted. For details, see NCEUS (2008b:Ch.2).

⁶ Insufficiently, yes but not absent. For a macro level analysis of some aspects of economic inequalities along social group lines, see Satish Deshpande (2003:98-124). Another Deshpande (Ashwini Deshpande 2000), notes, on the basis of a critical review of the available literature, that economic scholarship on Indian inequality paying attention to inter-group disparity along social group lines is still in its infancy and makes a case for considering caste as an important ingredient of stratification. For a recent collection of papers on the subject recognizing social inequality as ‘graded inequality’ but largely focusing on access to higher education in the wake of the recent controversy on affirmative action in favour of OBCs, see Thorat and Kumar (2008).

⁷ See, e.g. Saith (2007).

⁸ India’s official poverty line was closer to one PPP dollar per capita per day by international price comparison till recently and this was the threshold level of income for ‘extreme poverty’ adopted by the World Bank. However, a recent revision of this threshold income was revised upwards to 1.25 PPP dollars (see Chen and Ravallion 2008). By this standard, Indian official poverty line is below that of ‘extreme poverty’ which is closer to the 1.25PL adopted by the NCEUS to identify those who are poor and marginally poor.

⁹ The mismatch between the consumer expenditure norm and the calorie norm for determining the poverty line has been brought out by Utsa Patnaik (see Patnaik 2006). In the poverty status grouping of NCEUS (2007a and Sengupta, et al. 2008) and presented here in Table 4 the consumer expenditure level required to

cross the official poverty line is 2PL i.e. the group classified as ‘poor and vulnerable’ are poor by Indian official poverty line in terms of the calorie norm.

¹⁰ For a synthesis of the literature that shows the superiority of a human development-centred approach to growth and development see, Mehrotra and Delamonica (2008).

¹¹ Barbara Harriss-White argues, with the help of case studies, how the local state in India is an active collaborator in the process of accumulation by the local small and trading capital. Critical of the ‘new political economy’ school and its advocacy of deregulation, She observes: “...State is seen as an institution with boundary lines. Civil society is something separate. On this political theorists and policy advisers agree: the State is one thing, markets are another. But at the local level we find no such clear separation. When we look at the local State, the actually existing State below the level of the State capital, as we follow policies down the hierarchy of levels, we soon find ourselves in an economy that is on the edge of – or frankly outside – the ambit of state regulation (despite what is laid down in official statements of intension, and in legislation and orders and institutions); that is, in the informal economy.” Harriss-White 2004:74)