

# Relations of Production and Modes of Surplus Extraction in India: Part II – ‘Informal’ Industry

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This paper uses aggregate-level data, as well as case-studies, to trace the evolution of some key structural features of the Indian economy, relating both to the agricultural and the informal industrial sector.

These aggregate trends are used to infer (a) the dominant relations of production under which the vast majority of the Indian working people labour, and (b) the predominant ways in which the surplus labour of the direct producers is appropriated by the dominant classes. This is Part II of the paper covering the “informal” industrial sector; Part I, on agriculture, appeared last week.

Men make their own history, but they do not make it as they please; they do not make it under self-selected circumstances, but under circumstances existing already, given and transmitted from the past.

– *The Eighteenth Brumaire of Louis Bonaparte*, Karl Marx.

## 2 Industry<sup>10</sup>

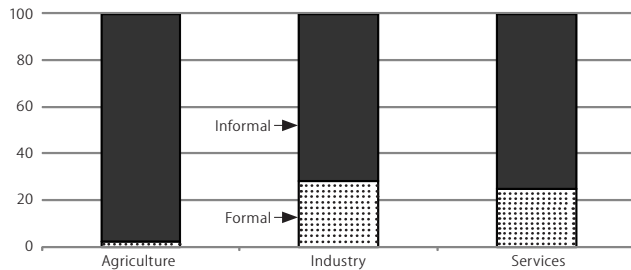
The classical concerns of economic development relating to the establishment of a capital-intensive (“modern”) industrial sector, whether under State or market control, in societies dominated by labour-intensive industry and non-capitalist modes of production, are still alive today. Witness the numerous sites of conflict between the peasants and the State (acting in the interests of corporate capital) over acquisition of land and other resources in the name of industry. India remains a dual society and a dual economy and the roots of this duality are to be found in the colonial period. The colonial duality between the “modern” and the “traditional” sectors continues today as the divide between the informal sector consisting of peasants, artisans, small producers and retailers, and domestic workers and the formal sector consisting of large capital, foreign and domestic, as well as the State itself. This divide is seen far more prominently in the case of the manufacturing sector where a substantial large-scale, capital-intensive component has developed, as compared to agriculture, which remains overwhelmingly small-scale.

In terms of employment, the informal economy continues to dominate. Figure 19 (p 64) shows the relative proportions of the formal and informal economies in employment (as of 2008-09, NCEUS 2009) for the three sectors. Across all three sectors a large portion of employment (93% according to NCEUS 2009) is classified as “unorganised” (government of India terminology) or “informal” (academic and general policy usage). These workers work in informal enterprises or are casually employed in formal enterprises. An informal enterprise typically employs less than 10 workers (and in many instances only works with family labour), is not registered with the government and typically does not pay any taxes, nor is required to abide by labour and other laws. Informal employment in formal sector enterprises means that work is not regular, secure, or governed by formal/written contracts, and usually no benefits (health, retirement, other social security) are paid.

Total employment in industry is about 45 million (about 18% of the labour force). The share of industrial sector in employment has increased, albeit slowly, since the 1980s (14% to 18%). According to a recent National Sample Survey Organisation (NSSO) survey of the “unorganised manufacturing sector” covering the period 2005-06, 36.44 million of India’s 45 million industrial

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**Figure 19: Share of Formal and Informal Employment in Agriculture, Industry and Services (in %)**



Source: NCEUS (2009).

workers are employed in the informal manufacturing sector (Government of India 2008a). Informal manufacturing firms account for 75% of manufacturing employment and 27% of gross value added (GVA) in manufacturing. If mining and construction are included, the contribution in GVA jumps to 40%. The informal manufacturing sector also has an extensive scope, producing food products, beverages, cotton, wool, and silk textiles, wood and paper products, leather and chemical products, metal and plastic products, electrical and transport equipment and repair services of various kinds, including repair of capital equipment. That said employment is certainly concentrated in a few key industries that form the backbone of this sector. The “top three”, food processing, textiles and garments alone account for nearly 50% of informal manufacturing employment.

It is common knowledge that large-scale industry has not expanded as expected in India. The share of large industry (factories of >100 workers) in manufacturing employment grew from around 5% in 1900 to 30% in 1980 and thereafter has declined to around 25% (Roy 2000). Apart from well known reasons of low employment elasticity of capital-intensive industry and increasingly unproductive use of surplus in finance and speculation as opposed to accumulation, the new phenomenon that has gained prominence in the post-reform period is the extensive use of informal (casual and subcontracted) employment by formal firms looking for “labour flexibility” (NCEUS 2007).

While there has been no shortage of empirical studies on India’s informal sector, many of these have been motivated by a developmentalist or “poverty-centred” view rather than an “exploitation-centred” view. Hence the range and quality of studies analysing production relations and modes of surplus extraction to be found for agriculture does not exist for the rest of the informal sector (for some accounts, see Breman 1996; De Neve 2005; Haynes 1999; Parry et al 1999; Wilkinson-Weber 1997; Varman and Chakrabarti 2006). Marxist accounts of Indian industry have tended to focus on large-scale or “modern” industry, since it was assumed that this sector was the more dynamic one and would grow rapidly to accommodate all industrial employment. More importantly, the “industrial proletariat” has been imagined as consisting of urban workers in large industry. The workers and small producers in the “traditional” or small-scale industry, though numerically strong, occupy an ambiguous position in Marxist theory, similar to the peasantry. The revolutionary experiences of Russia and China had shown that peasants and other small producers could, depending on the specific historical conditions, be antagonistic to or allies of the modern industrial working class, or indeed a

revolutionary force in their own right. Many of the issues that have motivated controversies over the role of the peasantry in the socialist revolution are relevant to the analysis of small-scale industrial production as well (see Sanyal and Bhattacharya 2009 for a recent analysis).

The present study is motivated by a desire to understand the material conditions confronting the vast majority of the industrial working class. To a first approximation, relations of production in large formal sector firms may be termed “industrial capitalist”. We do not discuss these further. This study limits itself to the informal manufacturing sector. As we will see, relations of production and modes of surplus extraction are more complex here than those which prevail in formal industry. A large body of the self-employed exists alongside wage-labourers. Unpaid domestic workers are crucial. Workers are free to change employers to varying degrees and are “free” of the means of production to varying degrees. Wide and deep putting-out arrangements are the norm.

We present macroeconomic data from five rounds of the National Sample Survey (NSS) of the unorganised manufacturing sector from 1984 to the present and we supplement this aggregate data with micro case studies. These data show that the particular type of capitalism found in Indian informal manufacturing is characterised by a large number of very small firms locked in unequal exchange relationships with large industrial capital as well as merchant and finance capital. Broadly speaking, formal rather than real subsumption of labour to capital, and extraction of absolute rather than relative surplus value characterises many firms. Surplus extraction via the “conventional” wage-labour route is compounded by unequal exchange, unpaid domestic labour, labour bondage, contingent or casual labour, and gender and caste hierarchies. Towards the end, we present a framework for the diversity of production relations to be found in this sector.

## 2.1 Informal Industry: A Production Relations Perspective

The Sengupta Commission (NCEUS 2007) has adopted the following definition of the informal sector:

The unorganised sector consists of all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten total workers (p 2).

Thus three major criteria, legal status, participation in the market and firm size (number of workers) are used to define an informal firm or enterprise. While the NSSO criteria differ slightly, number of workers working in the enterprise remains a crucial aspect of any definition. This is a good starting point but as Hariss (1982) comments referring to categories based on firm size or scale (such as number of employees, size of assets, etc).

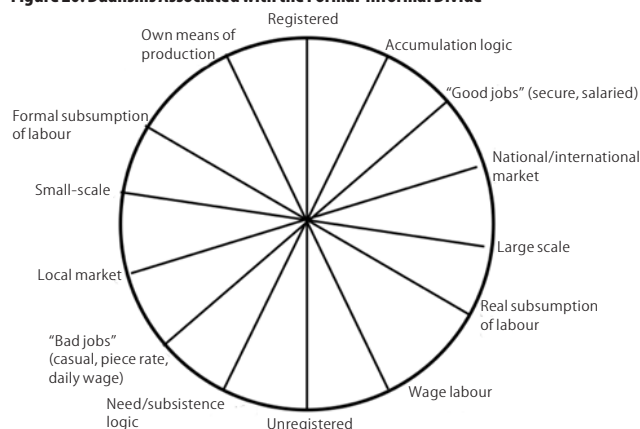
For analytical purposes these categories are quite clearly of very limited value because they mostly rest upon numerically defined classes and may subsume quite different forms of the production process and of relations of production (p 945).

### 2.1.1 Beyond Firm Size

The purely statistical aspects of informality should be distinguished from more substantive issues of production and exchange relations, type of labour processes, etc, although naturally the

two interact in a complex way. For example, costs of conforming to government regulations exceeding the gains of concentration and centralisation of capital are often cited as a reason for remaining small or undertaking “horizontal” as opposed to “vertical” expansion, or for employing casual labour. Similarly, firm size profoundly shapes the type of labour process, modes of supervision and control, division of labour in the workshop and so on. Figure 20 offers a schematic look at the various criteria that have been used to describe the dualism in the Indian economy. In this schematic, the formal-informal distinction itself is restricted only to the question of state regulation of economic activity (“registered” versus “unregistered”). The point of the schematic is to draw attention to the more substantive aspects of the formal-informal divide that relate to forms of exploitation (real versus formal subsumption of labour to capital), relations of production (ownership of means of production versus wage labour) and the type of circuit of capital (need versus accumulation). Qualities on the right half of the circle are usually associated with formal sector firms, while those on the left are thought

**Figure 20: Dualisms Associated with the Formal-Informal Divide**



to belong to informal firms. Though needless to say, no single enterprise in either sector may display all the features typically associated with that sector.

### 2.1.2 Marx on Informal Industry

Even though Marx's writings on primitive accumulation and the transition from peasant to capitalist farming are much more well-known, in fact he had a lot to say about the transition from small-scale and cottage industry to capitalist factory production. In Chapters 14 and 15 of *Capital* Volume 1, he discusses at length the development of modern industry in England and parts of Germany. The sheer diversity of production relations, including independent commodity production, putting-out, and wage-labour described by Marx, calls to mind contemporary conditions in Indian informal industry. In these pages Marx appears to be concerned about three things. One, what are the specific ways in which workers are exploited in “so-called domestic industry”? Two, how is small-scale and domestic industry transformed when it becomes articulated within a dominant industrial capitalist mode of production? And three, under what conditions do modern large-scale factories emerge from existing decentralised workshops and domestic production? All these questions are pertinent

for us today. For example, Marx notes that “concentration of workers” (i.e., large-scale production) become profitable only under “exceptional circumstances” because competition is intense between workers wanting to work at home, and because by putting-out production to the workers' home the capitalist saves all expenses on workshops, maintenance, etc (Marx 1992: 462-63). Thus, outsourcing to smaller workshops and homes can, under some circumstance, be more convenient, from the capitalist's point of view, than centralising production in a factory, something we observe repeatedly in the Indian experience, particularly in the neo-liberal period.

This home-based artisan who works for capital, though he appears superficially similar to the independent craftsman of yore, is also very different from him. Referring to “domestic industry” Marx observes:

*That kind of Industry has now been converted into an external department of the factory... Besides the factory worker, the workers engaged in manufacture, and the handicraftsmen, whom it concentrates in large masses at one spot, and directly commands, capital also sets another army in motion, by means of invisible threads: the outworkers in the domestic industries, who live in the large towns as well as being scattered over the countryside (Marx 1992: 590-91, emphasis added).*

Capital thus organises production in a familiar dual mode: large factories are articulated with smaller workshops dependent upon the factory. Higher rates of exploitation are achieved not via increased productivity of labour but via lowering the price of labour power or by increasing the intensity of work made possible because “the workers' power of resistance declines with their dispersal”. Further, unlike the direct relationship between the worker and employer in formal industry,

*in the so-called domestic industries... a whole series of plundering parasites insinuate themselves between the actual employer and the worker he employs (ibid: 591, emphasis added).*

Both the factors alluded to above remain relevant in Indian informal industry today. The dispersal of the working class or, in some instances, the failure of the working class to aggregate in the first place, results in the breaking of labour's resistance to exploitation by capital. And the rising importance of middlemen creates channels for surplus extraction via unequal exchange.

Thus, in reading Marx on the evolution of modern industry one is often struck by the resonance with Indian manufacturing today: the widespread prevalence of putting-out relations, the preponderance of merchant capital and of formal subsumption of labour. However, there are important differences to be noted as well. First, the transition from small (home and workshop) to large (factory) production would have to occur in the context of dominant transnational capital. Informal manufacturing today is inserted into global commodity chains in a way that did not exist for European domestic industry. Second, the economies of scale achieved via large industry owed an unacknowledged debt to colonial plunder. Similar plunder being attempted in India today is meeting with fierce resistance from the peasantry and the adivasis. Third, due to State policy as well as the logic of global capital accumulation, recent industrial history of India offers evidence not only for a constant or increasing share of informal production

but even for an absolute decline of large industry in some sectors and its replacement with smaller workshops or home-based production (the power-loom sector is a particularly well-studied sector where this has occurred). As Roy (1999) notes rather than being annihilated, several types of traditional industries survived with changes into the 20th century, and even grew in size in some cases.

Surat at the turn of the century probably employed about 5-6,000 weavers in silk and lace. Today, the direct descendant of weaving, the power-loom, provides employment to about half a million. Moradabad brassware engaged 7-8,000 full-time workers in 1924. In the 1990s, an estimate places the town's metal workers at 1,50,000. Not more than a few thousands were found in the carpets in Mirzapur-Bhadohi area in the interwar period. 3,00,000 is the approximate figure in the 1990s (<http://www.indialabourarchives.org/publications/Tirthankar%20Roy.htm>).

Marx's famous dictum "the country that is more developed industrially only shows, to the less developed, the image of its own future", has often been read in teleological fashion as asserting that the particular transition from petty commodity production to domestic industry articulated with capitalism (putting-out) to large-scale factories will be repeated wherever capitalism develops. Apart from the obvious fact that the period over which this transition occurs is around 300 years (from the 17th century to the 19th centuries), one important factor that Marx did not incorporate in his analysis is imperialism; later Marxists drew attention to imperialism and the uneven development that characterises the world capitalist system. It has been argued that the incorporation of the Indian economy into the global capitalist system creates conditions for the perpetuation of the informal sector and other low-productivity activities. To this must be added another caveat. Modern large-scale industry has, in general, displayed great capital intensity and a corresponding failure to provide employment to a large fraction of society (even in China, the new manufacturing powerhouse, the secondary sector currently employs only 23% of the labour force). The persistence of small-scale production as "employer of last resort" thus raises important questions for the type of industrialisation that should drive the development process. We defer further comments on this issue until the concluding section.

### 2.3 The Informal Firm: An Analysis of NSSO Data

As mentioned earlier, one main cause of anxiety regarding the development of industry in India has been that the formal sector has displayed low employment elasticities. Figure 21 shows that formal manufacturing employment has been stagnant since the 1980s (NCEUS 2009). The share of large industry (usually defined as composed of firms employing more than 100 workers) in manufacturing employment grew from around 5% in 1900 to 30% in 1980 and thereafter has declined to around 25% (Figure 22). In particular, the post-reform period has seen growing "informalisation". Figure 23 plots the time series of the number of informal manufacturing firms as well as the number of workers. We observe a clear, though modest, decline in informal employment over the decade of the 1980s, from 37 million to 32.5 million, which reverses in the 1990s and is back to the

Figure 21: Total Persons Engaged in Manufacturing Industries (in million)

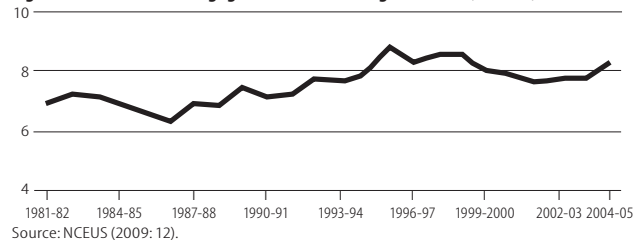
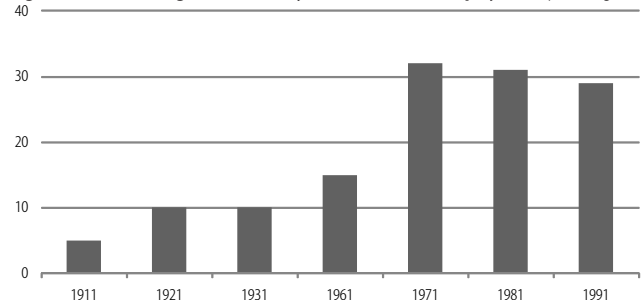


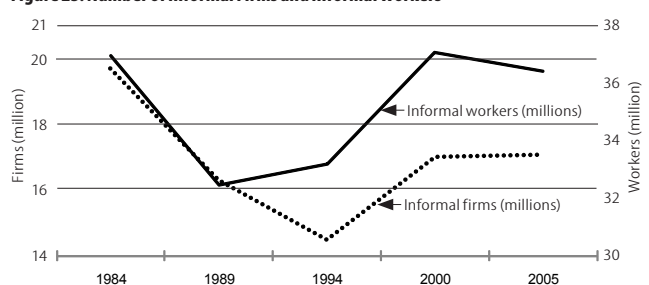
Figure 22: Share of Large-scale Industry in Total Industrial Employment (percentage)



1984 level by the year 2000.<sup>11</sup> There is an even greater decrease in the number of firms through the 1980s, which also reverses in the 1990s though it does not return to the 1984 level. This is consistent with data we present later on an overall increase (albeit small) in the size of the informal firm.

The persistence and even proliferation of small-scale and cottage industry on the one hand and continued support for large-scale modern industry on the other have resulted in a firm size distribution displaying what Mazumdar and Sarkar (2008) refer to as the "missing middle". This refers to the low proportion of firms employing more than 50 but less than 1,000 or more workers compared to very small firms (employing less than 9 workers) or very large ones (with more than 1,000 workers). In part the explanation may be found in incentives to reduce small firm size in

Figure 23: Number of Informal Firms and Informal Workers



order to avoid compliance with labour and other laws. Beyond a certain size, where non-registration is not an option, economies of scale may result in large firm sizes.

#### 2.3.1 Forms and Locations of Informal Labour

We now take a closer look at the composition and structure of informal enterprises. Eighty-five per cent of firms in informal manufacturing are own-account enterprises (employing no wage-workers), while 10% are firms employing less than 6 workers, and 5% employed more than 6 but less than 20 workers (Government of India 2008a). Depending on whether and how many



wage-workers are employed in the firm, the NSSO categorises informal firms as follows (category labels are ours):

(1) *Petty-proprietorship (PP)*: These are called “Own Account Manufacturing Enterprises” (OAMES) in the NSSO data. The defining feature is that no wage-workers are employed. Use of family labour is common and many firms are situated on household premises. A typical PP firm has one working owner and one unpaid (mostly family) worker.

(2) *Marginal capitalist (MC)*: These are called “Non-Directory Manufacturing Establishments” (NDMES) in the NSSO data. They have at least one wage-worker but no more than 5 wage and family workers taken together. A typical MC firm has one working owner and two hired workers.

(3) *Small capitalist (SC)*: These are called “Directory Manufacturing Establishments” (DMES) in the NSSO data. These employ more than 5 but less than 20 workers (at which point they should be included in the Annual Survey of Industries). A typical SC firm has one working owner, one unpaid worker and eight hired workers.

The rural and urban percentage shares for the above three types of firms for 2005-06 are shown in Figure 24. Petty-proprietorships are by far the most common type in both rural and urban areas, in terms of both number of firms and number of workers (Figure 25). However, relatively more marginal and small capitalist firms are found in urban areas as compared to rural areas. The all-India shares of firms and workers are shown for the past 25 years in Figure 25. It is clear that the overall structure of informal manufacturing, at least as captured by size classes, has remained more

or less unchanged during this period. However, there has been a 10 percentage point decline in the proportion of workers accounted for by PP firms, of which 2.5% have been absorbed by the MC firms and the remaining by SC firms. Consistent with this observation, NSSO also reports that the 10-year period from 1994 to 2005 saw a 4 percentage point increase in proportion of hired workers in total informal workers, from 20% to 24% (Government of India 2008b).

Despite these trends, direct exploitation of wage-labour still forms a minor part of the informal manufacturing sector taken as a whole. Unpaid family members and other non-hired helpers make up a very large part of the informal industrial working class. While 52% of all informal workers are “working owners”, 24% are “other workers” (unpaid family workers) and the remaining, 24% are “hired workers”. The majority of hired workers (85%) are male while the majority of “other workers” (59%) are female (Government of India 2008b). Thus, to reiterate, fully 76% of the workers in informal manufacturing labour are outside of the capital-wage labour relations of production.

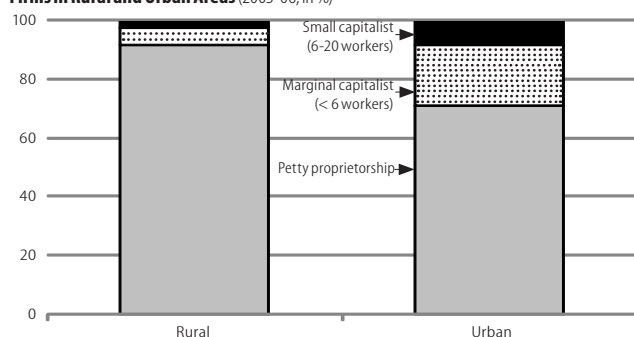
Further, in keeping with the epithet “cottage industry”, 73% of informal manufacturing firms, across rural and urban areas, are located within the household premises of the proprietor. Home-based production is particularly common for petty-proprietorships (81.1%), followed by marginal capitalist (27.4) and small capitalist (17.2%) firms. Since petty-proprietorships still account for the majority of workers, we can conclude that for a very large proportion of India’s manufacturing workforce, the home and the factory are one and the same. In keeping with this we find that the workshop premise or home forms the single largest asset for informal firms, accounting for 60-80% of assets (Government of India 2008b: 29). Sanyal and Bhattacharya (2009) have commented on the significance of home-based production:

Self-employed production units involve the contribution of family members as “helpers”, the dwelling unit itself is used as the site of production, personal assets of family members like bicycles act as assets of the enterprise, durable assets of households act as fixed business investments and household expenditures and production expenditures overlap... The location of production within the household explains how informal production units with such low levels of fixed business investment manage to survive (pp 40-41).

### 2.3.2 Putting-out Arrangements

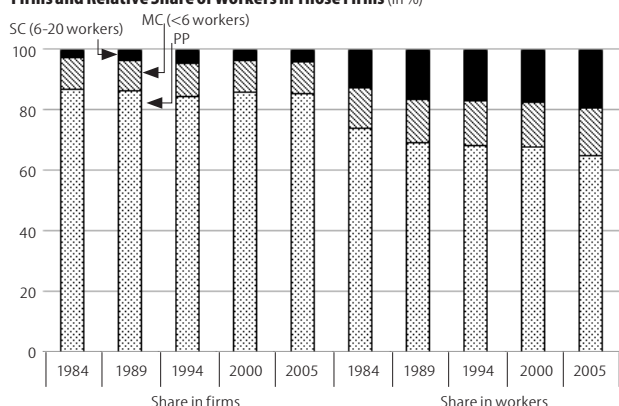
Does this domestic industry resemble that described by Marx as an “external department of the factory”? In other words, is self-employment really disguised wage-labour? For example, a nominally independent own-account manufacturer may work exclusively for a larger merchant or other type of capitalist firm on contract. The producer may possess part of the means of production but may be dependent on a larger unit for key inputs such as raw materials and design. Such type of subcontracting or putting-out arrangements which are common, for example, in the handloom weaving sector, as also in other craft-based industries have been described by the Sengupta Commission as “a living testimony of the exploitation of the home-based rural enterprises by the master enterprise or the contractor, through contrived trade devices” (NCEUS 2007: 273). We offer some examples from case-studies in the next section.

**Figure 24: Share of Petty Proprietorships, Marginal Capitalist and Small Capitalist Firms in Rural and Urban Areas (2005-06, in %)**



Source: Government of India (2008c).

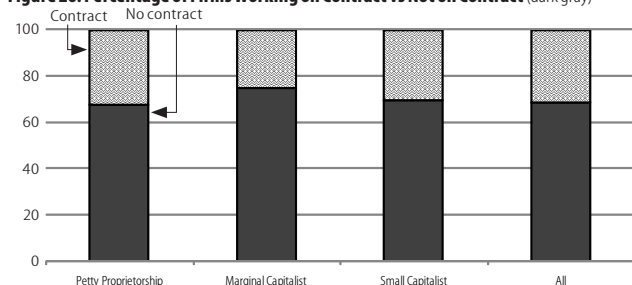
**Figure 25: Relative Shares of Petty Proprietorships, Marginal and Small Capitalist Firms and Relative Share of Workers in Those Firms (in %)**



Source: NSS, several rounds.

But such arrangements, however prevalent they may be in certain industries, do not seem to be in the majority at the aggregate level. NSSO data reveal that only 32% of informal manufacturing enterprises had undertaken some work on contract basis during the reference period (Government of India 2008a). That is, fully 68% of enterprises had not worked on contract at all. These proportions were very similar to those reported for the year 2000-01 (30.7% on contract, 69.3% with no contract, Government of India 2002). When we contemplate the 67.5% of petty-proprietorships who did not work on contract (Figure 26), we find a type of production regime that is extensive in size but that neither employs wage labour nor is inserted into any type of putting out arrangements. These firms constitute the substantial non-capitalist sector (Sanyal and Bhattacharya 2009).

**Figure 26: Percentage of Firms Working on Contract vs Not on Contract (dark gray)**

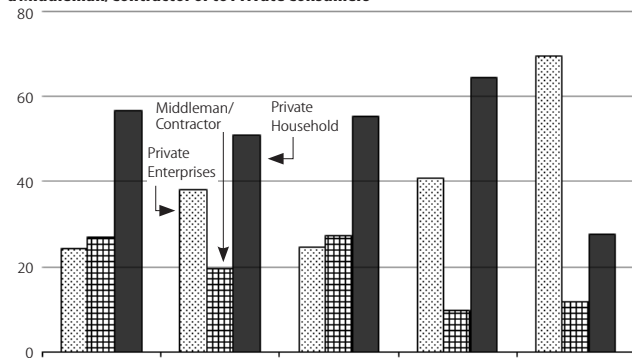


Source: Government of India (2008a).

However, for those firms that did undertake work on contract, the overwhelming majority (85%) worked solely for the master unit or contractor. Moreover, there was a five percentage-point rise in the proportion of such firms between 2000 and 2005 (Government of India 2002 and 2008a) indicating a rise in putting-out relationships at the all-India level. As one might expect, petty-proprietorships tend to work exclusively for a contractor much more frequently (88%) as compared to the marginal (63%) and small capitalist (70%) firms who sell more often to other customers.

NSSO data offers yet another dimension along which the relationship of the informal firms to the rest of the economy can be explored. Figure 27 shows the distribution of firms according to destination of output: to private households (consumers), private enterprises (other manufacturing or merchant firms) and middlemen/contractors. Less than 10% of firms who sell to the government, to cooperative societies, and to miscellaneous other agents are not shown. The relatively greater importance of middleman

**Figure 27: Percentage of Firms Which Sell Their Output to a Private Enterprise, a Middleman/Contractor or to Private Consumers**



Source: Government of India (2008c).

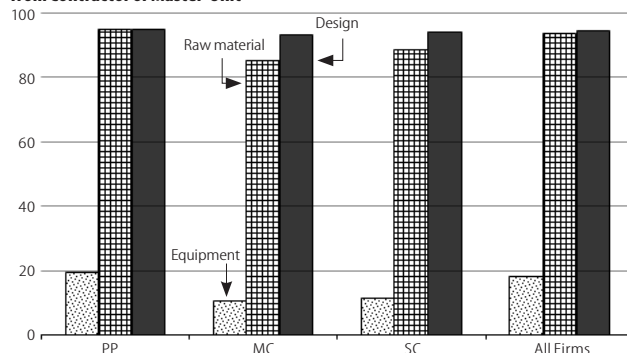
in the rural sector is expected since many urban firms put out work via middlemen to seasonally unemployed peasants and village artisans. However, despite this we can see that across rural and urban areas, 80% of the firms sell at least some of their output on the market to other firms and consumers. Disaggregating by firm type we see that PP firms are much more likely to sell to consumers while SC firms sell predominantly to other firms. The importance of the middleman declines with firm size. Two caveats have to be added here. First, any given firm may sell to more than one destination resulting in overlap in the figures quoted above. We do not know the extent of this overlap. Second, we do not know the percentage of output that is sold to each of these destinations.

The “putting-out” mode of production is historically a result of the subordination of artisanal production to merchant capital. Typically a merchant or his representative supplies raw materials or working capital to the producer and collects the finished product at an agreed upon price or piece-wage. One account of the contemporary small-scale industry describes the situation thus:

Under the new system capitalists exercise tight control in the market of raw material and finished products. Production is organised through a supply of raw material to sites of production spread out in houses and huts. A battery of middlemen and contractors operates at several levels. In many cases these levels are so numerous that the producer knows nothing about the master...This arrangement has spread quickly in textile, hosiery, readymade clothes, electrical devices, small machines and leather works. Of late, ironwork, clay-work, carpentry and stone-work have also been brought within the ambit of this system (Sahasrabudhey 2001: 3).

Today, putting-out goes by the name of subcontracting and is a widely discussed phenomenon in mainstream international economics as global commodity chains become increasingly elaborated. NSSO data presents a picture of subcontracting arrangements that is in close agreement with classical putting out relations where a merchant (or a merchant’s employee, the middleman) puts out work (gives an order for some products) to an artisan or small producer. Raw materials are provided by the merchant along with specifications on what type of product is desired. The machine and tools typically belong to the worker. The finished product is collected by the merchant and the worker is paid piece wages. Figure 28 shows that proportion of firms operating under subcontracting arrangements who obtain equipment, raw materials and design specifications from the contractor. Over 90% of firms

**Figure 28: Percentage of Firms Obtaining Equipment, Raw Materials and Design from Contractor or Master-Unit**



Source: Government of India (2008a).

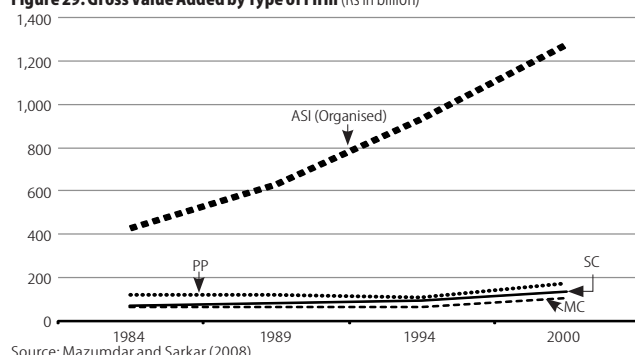
obtain their raw materials and design from the contractor or master unit, while only 18% obtain equipment. However, disaggregating by firm type, we observe that almost twice as many PP firms (20%) as MC and SC firms (10-11%) obtain equipment from the master unit. This finding is consistent with case-studies that find the poorest artisans and producers often operating on equipment rented from merchants. In some cases, such as handloom weaving, a master-weaver may also install a loom in the weaver's home with the agreement that he weaves exclusively for that master-weaver.

### 2.3.3 Wages, Profits and Value Added

It is a well-known fact that the informal sector is plagued with extremely low wages. In 2005, hired workers in marginal and small capitalist firms earned on an average a monthly income of Rs 2,134 (Government of India 2008b). Even today, five years later, daily incomes of Rs 80-100 with work available for around 20-25 days of the month are observed. In some cases, such as the handloom sector, nominal wages have even fallen during the past five years, in parts of India. Thus it is not surprising that households in this sector may have multiple sources of income in order to survive. In the section on agriculture, we have seen the importance of multiple income sources (such as cultivation, agricultural wage work and non-farm businesses) for rural households. This pattern is also found in the manufacturing sector. NSSO reports that across firm types, 72% of enterprises had owners for whom this activity was the only source of income, while 11% had another minor source and for the remainder 17%, the major source of income was not the surveyed enterprise. Agriculture forms the single most important "other income source". Of those working owners for whom the surveyed enterprise was not the major source of income, 77% relied on agriculture, 8.7% on manufacturing and 5.9% on trade. Taken together with the data of income sources presented in the Agriculture section, the picture that suggests itself is one of a rural countryside dominated by small and marginal peasants who hire in as well as hire out labour, on and off farm and also participate in petty production of goods and services for sale, largely in the local market (Government of India 2008a: 35-36).

It is also well-known that informal economic activity is characterised by low value added. As can be seen in Figure 29, GVA in the formal sector has grown at a much more rapid rate, going from five times informal GVA in 1984 to nearly 10 times informal GVA in 2001. While this is expected, it is interesting to note that GVA has also been increasing rapidly in the past decade across the informal sector.

**Figure 29: Gross Value Added by Type of Firm** (Rs in billion)



Coupled with the fact that total informal industrial employment has not grown similarly over the same period, we can infer that labour productivity has been increasing in this sector. Table 5 gives summary aggregate statistics for wage and profit shares as well as average wages and profits per worker for 2005.

**Table 5: Gross Value Added and Wages Share for Informal Firms**

	PP	MC	SC
Aggregate GVA (billions Rs)	280.61	211.20	384.05
Wage share	-	59%	54%
Profit share	-	41%	46%
No of workers (millions)	23.69	5.78	6.98
GVA per firm (Rs)	19,203	1,19,302	5,58,513
GVA per worker (Rs)	11,846	36,543	55,052
Number of workers/firm	1.62	3.26	10.15
Annual emolument/worker (Rs)	-	21,576.00	29,635.00
Profit/worker (Rs)	-	14,967.00	25,417.00

Source: Government of India (2008b and c).

GVA per firm for the PP enterprises can essentially be taken as the household's income from that enterprise and as can be seen, in 2005 it came to an abysmally low Rs 19,203 per year. For marginal and small capitalist firms the profit share (working owner's income and profit of enterprise) is a healthy 41% and 46%, respectively. However, because the level of economic activity is low in general, absolute values corresponding to those percentages only reach the level of compensation paid to lower echelons of formal sector in case of the small capitalist firms (Rs 21,500 per month).

We now come to a point of theoretical as well as practical importance that arises when considering the value added figures. To calculate the gross value added in manufacturing two quantities are first defined:

- (1) *Operating expenses*: "The total values of raw materials, electricity, fuel, lubricants and auxiliary materials consumed; cost of maintenance, services purchased and other expenses incurred during the reference period" (Government of India 2008c: 14).
- (2) *Receipts*: "The sale value of products and by-products manufactured by the enterprise together with the value of services rendered to other concerns..." (ibid).

Then, Gross Value Added (GVA) = Total Receipts – Total Operating Expenses

But what happens if due to an unfavourable position in the market, informal enterprises (like small and marginal peasants) are forced to sell cheap and buy dear? Such unfavourable terms of trade will bias the value added figures downward. In fact what is happening in this hypothetical situation is that surplus generated in informal firms is being pumped via unequal exchange into the formal sector. While there are no comprehensive studies on the terms of trade facing the informal manufacturing sector, case studies reveal that in situations where long supply chains exist linking the producer with the final consumer, the sale price of the producer (the informal firm) is only a small part of the retail price paid by the final consumer. This problem is particularly accentuated when the value chain is global. As Chakrabarti and Varman (2009) note in their study of the Kanpur leather cluster,

...almost 80% of the final price of the shoe goes to the long chain of middlemen who operate only in the post-production stage. Or in other words, four-fifths of the 'value addition' of shoes in the global value

chain actually adds no value to the product. <http://rupe-india.org/47/leather.html> (last accessed, August 2010).

Heintz (2006) has developed a model in the “unequal exchange tradition”, that attempts to capture the unequal distributional consequences of a global production system where “large retailers or brand-name corporations set up a decentralised system of production and distribution”. Here

Actual production is subcontracted out to small producers who face extremely competitive conditions...Retailers and brand-name multinationals enjoy some degree of market power which they can use to keep prices low for the goods they purchase or to earn rents through the development of monopolistic brand identities (p 511).

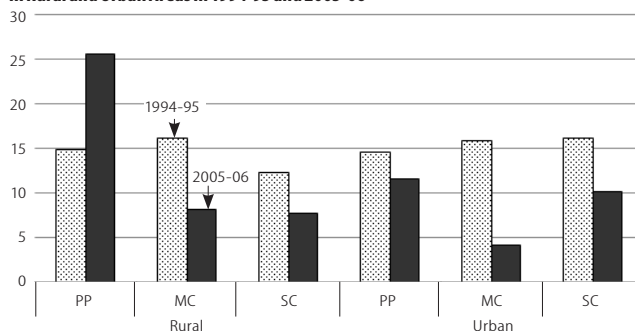
Heintz points out that the international division of labour between exporters of primary products and manufactured goods is being reproduced as the divide between manufacturing economies (erstwhile primary producers) and the knowledge economies specialising in ideas, designs, brands, etc.

### 2.3.4 Credit

The preponderance of the self-employed and of employers who work alongside their workers may suggest that the informal economy is characterised by a c-m-c type of circuit. The product of labour produced by a producer united with the means of labour is brought to the market, sold for money, which is exchanged for consumption goods as well as replacement for working capital. But of course the presence of hired workers, even if in a minority, suggests that m-c-m also equally characterises this economy. This later conclusion is also strengthened when we note the extent to which credit plays a role in informal production.

According to NSSO data, in 2005-06 outstanding loans were 21.6% of total fixed assets owned, at the all India level. While nearly 50% of the credit in rural and urban areas came from government agencies, public sector and cooperative banks, or other institutional sources (such as the Khadi and Village Industries Commission), private moneylenders along with other informal sources such as friends and relatives accounted for 15% of outstanding loans at the all-India level. Expectedly, formal sources of credit were more important for small capitalists as compared to marginal capitalists and petty-proprietors. Petty-proprietors are the worst hit by moneylenders. The percentage of loans from moneylenders to rural petty-proprietors has actually increased substantially in the period from 1994-95 to 2005-06, while it has decreased for every other category as seen in Figure 30. The

**Figure 30: Percentage of Loans Coming from Moneylenders across Firm Type in Rural and Urban Areas in 1994-95 and 2005-06**

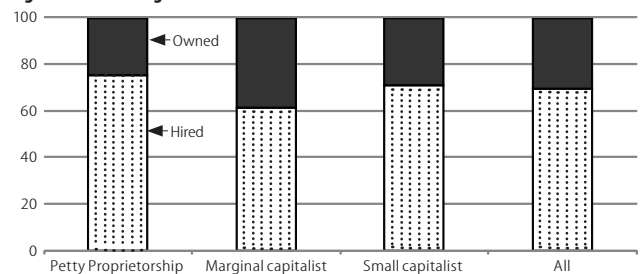


Source: Government of India (2008b).

figure of 25% can be compared to the proportion of loans going to farmers from moneylenders reported in the section on agriculture. The usurious nature of moneylender credit is apparent when we note that the “annual interest payable as a percentage of loan amount outstanding” is on average ten percentage points higher (at 26%) than formal sources of credit (around 15%).

Further, continuing on the theme of needing money to commence production, the informal sector should not be thought of as a place where producers (except wage workers of course) are always united with their means of production. Even for PP firms, a quarter of the fixed assets were rented rather than owned. This proportion increased to 39% for MC and 29% for SC firms (Figure 31). Thus rented assets form an important part of the operation of the informal manufacturing economy. Across all three types of informal firms, 30% of total assets were hired. Taken together with the data presented on use of credit, we note that money or credit forms an essential first step to production everywhere in the informal sector.

**Figure 31: Percentage of Hired versus Owned Assets in Value of Total Assets**



Source: Government of India (2008b).

### 2.3.5 Shortcomings of NSSO Data

In this study, so far we have relied exclusively on aggregate-level data collected by the NSSO. This approach is useful because it enables us to form a picture of production relations at the national level. However, we have to also take into account the potential pitfalls of relying only on aggregate data. Das (2003) has carried out a micro-level case study of the ceramic ware manufacturing sub-sector in Gujarat specifically to uncover the shortcomings of national level NSSO data, which result in part from problems with including/excluding specific sub-sectors below the two-digit level National Industry Classification (NIC). The key points that emerge from this study are:

- (1) At a greater level of disaggregation of industrial classification it is seen that NSSO data has improved vastly over time to include more and more previously missed types of industries. For example, early NSSO data (1978-79) estimated no informal enterprises in manufacturing or processing of cotton textiles, and in drugs, cosmetics and washing and cleaning preparations, both of which consist of several informal units in Gujarat (and most likely elsewhere as well).
- (2) The National Sample Surveys are likely to underestimate, in some cases severely, the number of informal enterprises and as a result the size of informal employment. For example, the ceramic ware sub-sector had one surveyed unit and an estimated eight units in the informal sector according to 1994-95 NSSO data. Das (2003) found at least 164 and possibly as many as 229 informal units. The corresponding employment estimates were 24 workers for ceramic ware industry in Gujarat according to NSSO (1994-95) data and



anywhere between 1,292 and 1,802 workers as per the Das (2003) study. Thus only about 3% of the total number of units surveyed was reflected in the official statistics and similarly the official level of employment was less than 2% of the study's estimate.

(3) Annual emoluments for non-OAME's according to NSSO 2005-2006 is Rs 26,682. Das (2003) reveals wages around Rs 18,000 (assuming regular year-long employment). The piece rate system was widely prevalent though it does not feature prominently in the official statistics.

(4) Only around 28% of informal enterprises did not have any hired workers while the NSSO data reports a much larger percentage. This suggests that NSSO estimates of the number of wage-workers in the informal sector may also be biased downwards.

Hence treating the NSSO data as a first pass on the types of production relations in the informal sector, we now turn to case-studies of individual industries which offer more reliable data as well as richer institutional detail. Using examples from different informal industries including Agra footwear, Lucknow Chikan, Gujarat Ceramics, and UP and TN Handlooms, and a 1991 survey of 1,500 artisan households involved in 15 different export-oriented handicraft industries, we offer a schematic look at the principal ways in which surplus extraction is facilitated.

## 2.4 Modes of Surplus Extraction

As elaborated in the introduction, a "mode of surplus extraction" refers to the specific way in which unpaid labour is extracted from the producers and appropriated by the dominant classes. In advanced capitalist economies, the employer-employee relationship (the wage-labour/capital relation) forms the single most important mode of surplus extraction although in the neo-liberal period unequal exchange between larger and smaller capitalists via subcontracting has assumed renewed importance. In contrast, developing economies such as India are characterised by a much greater variety of modes. Broadly speaking, we may distinguish between three principal modes: wage-labour, unpaid work, and unequal exchange. In the first case, surplus is pumped out of direct producers by ensuring that workers produce greater value than is returned to them in the form of wages. In the second case, one vital to both peasant production and artisanal production, the labour of women and children is extracted in return for direct subsistence. In the third case, the surplus produced in small-scale production, even if it be first appropriated by the direct producer, is eventually transferred from the small producer to a larger one, or to a merchant capitalist or rentier. Each of these modes interacts with other hierarchies prevalent in society, such as caste and gender to accentuate the rate of exploitation.

We now consider some specific institutional ways in which surplus extraction is achieved in the informal economy.

### 2.4.1 Piece Wages

The NSSO does not gather data on whether wages paid in the informal sector are piece-wages or time-wages but we know from several case-studies that piece-wages are widely prevalent in small-scale manufacturing. In the Gujarat ceramic study cited earlier (Das 2003), 88% of informal units and 47.5% of formal

units followed the piece-rate system. In a 1991 survey of 365 handicraft artisan units, 96% paid piece-wages (Vijayagopalan 1993). Marx (1992) notes the salient features of piece-wages, that in this system it is "the personal interest of the labourer to lengthen the working-day, since with it his daily or weekly wages rise" (p 695). Thus piece wages achieve an increased rate of exploitation via increasing intensity of labour and a lengthened working day. Further they obviate the need for control by the capitalist over the labour process since "the quality and intensity of the work are here controlled by the form of wage itself" (ibid: 695). Hence Marx's conclusion "that piece-wage is the form of wages most in harmony with the capitalist mode of production" (ibid: 697-98).

The two types of putting-out relations described by Marx, which give rise to a "hierarchically organised system of exploitation and oppression", are still applicable to informal manufacturing in India:

On the one hand, piece-wages facilitate the interposition of parasites between the capitalist and the wage-labourer, the "sub-letting of labour". The gain of these middlemen comes entirely from the difference between the labour-price which the capitalist pays, and the part of that price which they actually allow to reach the labourer (p 695).

For example, in the Lucknow Chikan industry middlemen (*beechwaale*), also called agents, perform the work of bringing cloth and other raw materials to the embroider at her home and then carrying off the finished product. Social norms around gender make producers accessible only to men who are the women's relatives and neighbours.

...while agents do not control embroiderers by directly overseeing their work, they do impose a rudimentary discipline upon them by adjusting the flow of work according to the relative productivity of each woman, and adjusting wages as a means of penalising deficient workers and rewarding good ones. In this way, agents effectively release the mahajans from the need to intervene directly in the labour process (Wilkinson-Weber 1997: 59).

In the second type of putting-out arrangement,

...piece-wage allows the capitalist to make a contract for so much per piece with the head labourer – in manufactures with the chief of some group... – at a price for which the head labourer himself undertakes the enlisting and payment of his assistant work people. *The exploitation of the labourer by capital is here effected through the exploitation of the labourer by the labourer* (Marx 1992: 695, emphasis added).

This system is found in the Agra footwear industry as well as the Banarasi Sari industry where master artisans take responsibility for an order, execute part of the work themselves and recruit additional artisans as needed to fulfil the order (Knorringa 1999; Varman and Chakrabarti 2006). In general "exploitation of the labourer by the labourer" exactly characterises production relations in large parts of the informal economy.

### 2.4.2 Unequal Exchange

The issue of unequal exchange and the "exploitation" of petty-producers and small capitalists by merchant capital are ubiquitous in the literature on artisans (Portes and Walton 1981; Roy 1994; Knorringa 1999; Wilkinson-Weber 1997). Yet few quantitative studies exist on the aggregate amount of surplus that is siphoned

off in this fashion. Asymmetric market power needed for unequal exchange exists because typically many artisans must compete for the business of one or a few traders. Vijayagopalan (1993) found that around 50% of the artisans surveyed obtained their raw materials from traders (who placed the order) and around 90% handed over the finished product to middlemen/traders. Knorringa (1999) provides institutional detail in his study of the Agra shoe industry:

Because plenty of anonymous artisans must bargain with a limited number of identifiable traders and because the small quantities allow for easy, quick, and accurate inspection, the margins for artisans are pushed down...Moreover with all their working capital tied up in one production cycle, artisans in a direct sales channel cannot postpone selling (p 314).

Traders, on the other hand, can wait for artisan profit margins to decline. Further, traders also double as financiers extending credit in the form of leather raw material. Since these artisans are owners of their home-based production units and working capital, this is a typical example of hidden dependency of self-employed artisans.

As mentioned earlier, depending on how prevalent such situations are, they cast doubt on aggregate value added numbers. Since value added is calculated simply by subtracting raw material costs from total receipts, unequal exchange, by increasing input prices and decreasing output prices, thereby squeezing margins, will result in low value added estimates.

Apart from monopsonistic or monopolistic situations, extensive middlemen networks also serve to reduce the price paid to the artisan per piece. In Mexico's garment industry, domestic women workers work on piece wages using their own sewing machines.

A blouse which retails for 120 pesos costs the merchant 60 pesos, plus the cost of the material which he has given ready-cut to the broker. The broker pays the seamstress 15-20 pesos and keeps the rest for himself (Lomnitz, quoted in Portes and Walton 1981: 99).

To accomplish the production target the seamstress may require the help of her children, mother, neighbours, etc. This work is unpaid. Here we witness a common way of increasing absolute surplus value, by engaging not only the artisan but his/her entire family for one person's wage. Further, workers assume the costs of errors in production.

Wilkinson-Weber (1997) offers another detailed example from the Lucknow Chikan industry. Agents are paid by the traders/merchants per piece and in turn pay the producer. For items retailing at Rs 60 to over Rs 100 (1,990 prices) piece wages for chikan embroidery

...were as low as a single rupee for kurta embroidery in the village, five to fifteen rupees for salwar-kamiz embroidery in town, and up to Rs 100 for top-ticket items. In very rare circumstances, a highly skilled embroiderer might collect more than Rs 100 for a specially commissioned piece obtained directly from the trader. At the other extreme, most women get their work through agents, who take a substantial cut from the piece wage, so that the women get no more than a fraction of a rupee for embroidering the most commonly sold item, a kurta (p 52).

Male agents admit to taking at least 50% and sometimes more of the piece wage for themselves while female agents take less (ibid: 60).

Here one could make the case that given the technical conditions of production, the middlemen perform an essential function bringing together the components of the final commodity. But it should be noted that their compensation can be far in excess of the labour they expend. Middlemen wages may thus be seen as cut of the surplus rather than wages per se, being proportional not to the labour expended but the scale of operation. This is analogous to Adam Smith's observation that profit of enterprise should not be viewed as wages for supervision since profits are proportional not to labour expended by the capitalist but rather to the stock of capital employed.

A last point to note is that exchange relations manifested in these terms of trade act in concert with production relations. Production relations (including but not limited to asset ownership patterns) determine market power. Market power and resulting terms of trade determine current income. Income determines future assets and production relations. It is important to emphasise this dual nature because arguments that limit themselves to deteriorating terms of trade or non-competitive market structures often do not question why the conditions of exchange are what they are. Why are rates of return on capital reaching 30 or 40% demanded from small producers? Perhaps because production is fragmented and volumes of loans are small, or purchase volumes are small, and transaction costs are large. Relations of production thus underlie relations of exchange. It is not only because intermediaries manipulate and monopolise that we get unequal exchange, but rather production relations can create the conditions for unequal exchange, which are exploited by intermediaries. Such an argument forms the rationale for the formation of producer and peasant cooperatives.

### 2.4.3 Labour Bondage

Das (2003) in Gujarat Ceramics and De Neve (2005) in Tamil Nadu handlooms and power-looms describe the practice of "consumption advances" which are used to hold workers in bondage. These advances (called "baki") can amount to as much as one year's worth of wages for the worker and binds him to the employer until the loan is paid off, which may never happen. This system is analogous to the attached labour system in agriculture described by Brass (1990) and Jodhka (1994). Consumption advances were viewed in the modes of production debate as a type of feudal or semi-feudal arrangement which makes labour un-free. However the situation here is more complex. It is true that these advances often function as a device to retain skilled labour that reduces costs of replacement and training. However the resulting "rigidity" in the size of the labour force is also cited by employers as a problem during lean times or in dealing with "problem" workers. Further, in practice workers have been found to retain mobility by transferring loans to new employers.

### 2.4.4 Gender and Caste

Exploitation of unpaid domestic labour especially of women and children is ubiquitous in household enterprises. In addition to unpaid market work (to be distinguished from unpaid non-market work performed by women), women's *paid work* is often devalued as well. The Lucknow Chikan industry provides an archetypal

example of surplus extraction achieved via devaluing of women's paid work.

Women's embroidery, made in the home, is looked upon with far less respect than the products of men, made in their workshops. Chikan embroidery is thus not regarded seriously as an occupation in spite of the fact that many families depend upon the income they derive from it. In fact, it is customarily referred to by mahajans as "free-time" work to fill in the hours between cooking, cleaning, and caring for children...As one [mahajan] put it, "They just sit around and they get work, and they get money. All in their spare time! I'm the one with all the headaches" (Wilkinson-Weber 1997: 62).

Another avenue for the devaluing of productive work is via caste. Agra's footwear industry offers a typical example of a caste-based division between artisans who produce a commodity and traders/merchants who sell it. Producers are *chamars* (an untouchable caste) while merchants are upper-caste Hindus from Punjab. In general the "producer castes" (artisans and peasants) are often shudras (OBCs) or dalits (SCs) while the traders and other non-productive workers belong to the forward castes. However, even in instances where employers and workers belong to the same caste, this may strengthen rather than undermine the regime of exploitation. For example, Engelshoven (1999) alludes to the Surat diamond cutting industry where both employers and employees are Saurashtra Patels. While the caste monopoly helps workers retain some job security, it also makes it difficult for them to challenge exploitation since community bonds are supposed to trump class contradictions. As a result there has been no strike in this industry.

Thus gender and caste hierarchies can serve to enhance surplus extraction occurring via wage-labour or unequal exchange. This highlights the importance of understanding how exploitation is produced at the intersection of several hierarchies. The intention is not to reduce gender or caste oppression to class exploitation, but rather to elucidate how each of these may reinforce (and at times undermine) the other.

#### 2.4.5 Reversing the Technical Division of Labour

We have commented on how piece-wages can eliminate the need for supervision on part of the employer and enhance the production of absolute surplus value by intensification of the work effort as well as lengthening of the working day. However, there is yet another channel of exploitation afforded by putting-out which depends not on intensification of the work effort for a given type of task, but rather on increasing the type of tasks a worker is expected to perform at a fraction of the cost of employing another worker to do the job. Sahasrabudhey (2001) notes that in this system of production the management of production, the tasks of training, maintenance of machinery, ensuring supply of electricity and water, etc, have been shifted onto the labourer. Each of these, which would represent an independent cost to the capitalist, is born by the worker. Thus the capital-enforced division of labour between management and production is collapsed to a certain extent and workers once again become managers, though ironically only to exploit themselves all the more.

#### 2.5 A Framework for Discussing Production Relations

The informal manufacturing sector displays a great variety of production relations in which the producer retains or loses

control over the means of production and the labour process as well as product to varying degrees. The variety of production relations observed empirically can be captured in a simple matrix (Table 6) where the two axes are control over labour process and product, and control over fixed and working capital.<sup>12</sup> By "self" or "other" labour process is meant the absence or presence of supervision over the labourer respectively. "Self" labour product refers to the producer's ability to dispose of the product of her labour according to her will (i.e., on the market) while "other" labour product indicates another's (typically a merchant's) control over the product. "Self" refers to the artisan household; in other words, this scheme does not consider unpaid household labour as a separate category.

**Table 6: A Typology of Production Relations in the Indian Informal Manufacturing Sector**

Labour \ Capital	Self Product and Process	Self Product Other Process	Other Product, Self Process	Other Product and Process
Self fixed and working	Classical artisan	X	Contemporary artisan	X
Self fixed and other working	X	X	Putting out-I	X
Other fixed and self working	X	X	X	X
Other fixed and working	X	X	Putting out-II	Classical wage labourer

**Classical Artisan:** The "classical artisan" mode consists of say a weaver, a metal-worker, or a leather-worker who owns the means of production, works in own premises usually with the help of household labour and produces for sale on the market. He (usually though not necessarily male) also retains control over a self-directed labour process and commands unpaid household labour. This is, of course, an ideal type and actually existing artisanal firms may deviate to varying degrees. In fact, as capitalism undermines the conditions of existence of independent commodity production and as merchant capital inserts itself between the market and the artisan, the producer increasingly loses control over the process and product of labour and slides into a putting-out arrangement. Going further, as he is completely alienated from capital, the classical proletarian is born.

**Contemporary Artisan:** Here the producer works on own premises, with own capital but loses independence in the market and works either exclusively or partially on the order of a merchant or industrial capitalist. Thus he or she is not always free to dispose the product as desired. He/she may also be dependent upon the same merchant for credit. This type of arrangement is found among other places in the Agra footwear industry as well as in the Banaras handloom industry. This captures the salient features of the contemporary artisan: control over capital and labour process but little control over access to the market.

**Putting-out variation I:** The producer works on own premises with own equipment but with working capital advanced by the merchant, in a self-directed labour-process and hands over product to merchant capitalist or his representative. As the NSSO data, discussed earlier, suggest, this is an extremely common type of contract arrangement.

**Putting-out variation II:** The producer works on own premises in a self-directed labour process but with equipment and working capital advanced by the contractor/merchant and hands the

product over to the merchant capitalist. NSSO data suggest that this is less common though weavers in rural areas (sometimes called “dependent weavers”) often labour under such relations. In industries such as embroidery where working capital forms the bulk of capital, this type of relation is particularly frequent. Women are given cloth, thread and other materials on which they work at home. The finished product is collected by male agents. *Classical wage labourer*: The producer works in another’s premises with no independent access to capital or the market. Though these are in a minority as compared to the self-employed, they still form an important part of the informal manufacturing working class.

Relating our typology to Roy’s (1994), we can say that the “classical artisan” corresponds to Roy’s “independent weavers” (sale of product not tied to one buyer, no monopsony) and the putting-out variations correspond to the two types of “dependent weavers”, those employed on piece contracts (“seller of cloth”) versus those on wage-employment (“seller of labour”), the capitalist in the first instance being a merchant or moneylender and the second case being a larger producer-cum-merchant. An example of putting out-ii has been reported in Mau, UP, where large producers lease out looms to weavers. “Workers work in their own house but on someone else’s looms” (Roy 1994: 207).

One point that emerges from the above discussion is that capitalist relations may show up not in the separation of the producer from the means of production but rather in a slow loss of control first over the product and then over the process of labour. Conversely wage-labourers may be united with the means of production if this is suited to the interest of capital. For example, in the Bhavani handloom industry in Tamil Nadu, described by De Neve (2005), many capitalist owners of workshops who previously employed weavers on piece-wages began to sell or lease their looms to master-weavers to whom they provided yarn. The problems of managing the looms and disciplining labour were thus transferred from the merchant capitalist to the master-artisan. Lastly, it should be noted that the fluidity of production relations is also manifested at the level of the individual worker who may work on piece-wages today, be a small contractor of labourers tomorrow and work on a factory shop-floor on the third day.

## 2.6 Summing Up

In the foregoing pages we have attempted to take a broad look at the organisation of informal industry in India. In particular we have focused on the evolution of firm size, the types of production relations and the modes of surplus extraction prevailing in informal industry. The relations of production in informal industry are neither purely those of the independent producer (characterised by producer’s control over the labour process and ownership of capital) nor only those of the industrial capitalist (characterised by a proletarian workforce and a real subsumption of labour to capital). Rather a spectrum of putting-out relations based on formal subsumption of labour and a reliance on extraction of absolute rather than relative surplus value is observed. In addition to putting-out arrangements, nominally self-employed or independent producers are often locked into a relation of

dependency vis-à-vis merchant and finance capital. This situation is closely analogous to the position of the peasant in the countryside with respect to intermediaries.

Relations of dependency and lack of resources as well as incentives for technical change keep informal workers trapped in low productivity, low wage work. Surplus labour, low wages and intense (self) exploitation in turn create disincentives for technical change. From the point of view of the large or formal-sector capitalist (whether merchant or industrial) subcontracting arrangements retain advantages of economies of scale in purchase of means of production while circumventing the costs associated with a formal labour force. The number of workers protected by legislation is kept to a necessary minimum while much labour-intensive (skilled and unskilled) work is contracted out to informal units. Through employment of unpaid family labour and labour paid below official minimum wage, informal firms are able to survive and formal firms are able to extract larger amounts of surplus value. The disintegration of the textile mills and their conversion into power-loom sweat-shops is an example of this process.

Labour bondage, gender and caste hierarchies, unpaid domestic work and contingent and casual labour can all be understood as attempts to increase absolute surplus value. This reinforces the fact that in all these cases, there is formal rather than real subsumption of labour by capital. The incentive to alter the methods of production or adopt new techniques of production comes, in these circumstances, from the direct producer, who however, lacks the resources to undertake this task. Capitalists in the formal sector do not have the incentive to undertake technical change because under formal subsumption of labour there is no drive to increase relative surplus value. Efforts to increase productivity and reduce work burdens are thus doubly undermined as producers, who have the incentive do not control their own surplus while capitalists, given a large labour force ready to work for extremely low wages, have resources but do not face incentives for technical change. Naturally, we do not mean to imply that the above-stated reason is the only factor in continued low labour productivities observed in informal manufacturing, but it is nevertheless an important part of the story.

It is widely recognised that in the face of the failure of modern industry to expand satisfactorily, the informal sector has acted as the “employer of last resort” for surplus labour in the agricultural sector. However, NSSO data also shows that employment in informal manufacturing has been more or less constant since the 1980s. Thus it can be inferred that informal retail as well as informal labour in construction have largely absorbed the increase in the labour force. Further work is needed to explore the relations of production in these two important sectors of the Indian economy.

## 3 Conclusions

Based upon the foregoing analysis, we would now like to raise some political and philosophical questions for further discussion without in any way claiming to have arrived at conclusive answers. Though both the authors agree as to the analysis presented above, we derive different political and social implications from these trends. This is due to the different political and philosophical



perspectives that both of us see ourselves closest to. Rather than paper over our differences and in the spirit of dialogue, we therefore, present our alternative viewpoints, which might even be contradictory, for further discussion.

One of the striking features of contemporary Indian capitalism is the predominance, both in agriculture and in industry, of small-scale production. In 2003, 70% of all operational holdings in Indian agriculture were less than 2.5 acres in size, with another 16% between 2.5 and 5 acres (Government of India 2005a); around half of the produce from these small holdings is kept for family consumption while the other half is sold in the market. Similarly, informal manufacturing is dominated by petty proprietorships, which typically have an owner-employer and an unpaid worker (usually a family member); a large number of such firms neither employ wage labour nor are part of a putting-out system. Thus, while production for subsistence and for sale on small, unviable plots is a key characteristic of the agrarian scene (see Figure 14), petty commodity production (or simple commodity production) marked by low productivity and income seems to be a pronounced feature of the non-farm economy. The vast majority of the Indian poor shuttle between these two parts. As a consequence of these relations, unequal exchange must be counted alongside wage labour as a pre-eminent mode of surplus extraction in the Indian economy.

All the issues that we wish to raise in this concluding section relate to such an economic structure, characterised by the persistence of small-scale production: (a) the vicious cycle of the interaction between small-scale production in agriculture and industry, (b) the implication of predominance of small-scale production in India for the development of revolutionary class consciousness, (c) the changed nature of the agrarian question and the relevance of redistributive land reforms in resolving the agrarian question, and (d) the question of the appropriate model of industrialisation. Let us take each of these in turn.

### 3.1 Relation between Small-scale Production in Agriculture and Industry

Recall that the picture emerging from our study of the agrarian economy emphasises the growth of capitalist relations of production over the last few decades. The decline of tenancy, growth of wage labour, decline of attached and bonded labour, growth of casual labour, replacement of patronage by contractual arrangements, increase of migration to locations outside agriculture and outside the village, modest accumulation and the adoption of new technologies – irrigation, tractors and high yielding varieties of seeds – highlight the consolidation of capitalist forms of surplus extraction. However, some key trends associated with capitalism are completely missing. Lack of concentration of land on any significant scale and the persistence of small-scale cultivation are two such trends, which are often seen as signs of a lack of growth of capitalist relations. Some political economists would probably argue that this warrants a characterisation of the contemporary political economy as semi-feudal. Does lack of land concentration, the perpetuation of small-scale farming, and the resultant economic stagnation have anything in common with the stagnation associated with

semi-feudal relations of production observed in an earlier period? We do not think so.

To understand the issue of land concentration, let us recall that by the process of concentration is meant the transfer of land from smaller to larger landholders. A smallholding owner of land can give up his/her ownership to the larger landholder in at least two different ways: he can be forcibly driven off his land or he can sell it off. In India, both historically and today, the first form of land transfer – so important in the development of capitalist agriculture in England – has not been observed on any substantial scale. The recent attempts by the State to forcibly drive off peasants from their land have been fiercely resisted all across India, from Nandigram to Kalinganagar to Raigad and beyond. While forcible eviction of the peasantry, at least on a large scale, has been absent, sale of land by smallholders also not been observed on a large scale in the post-1947 period. The refusal of smallholders to part with their land thus works against the movement towards concentration. What lies behind this refusal?

As we have already seen in the section on agriculture, there is lot of evidence to support the claim that small-scale agricultural production has become economically unviable: small-scale agriculture does not generate a comfortable surplus in the present context of property relations and state structure. Sources of income data show that only families with large landholdings (i.e., 10 acres or more) can generate more income than their expenditures. Why do smallholders refuse to give up ownership of their land if cultivation of their small plots, despite heavy self-exploitation at the family level, has become seriously unviable? In part, the answer must be that giving up ownership would mean a further worsening of the material conditions of their existence compared to their current situation.

If we pay attention to the situation of employment options outside agriculture, we can understand the dogged refusal of smallholders to part with their land. Employment outside agriculture in India today is predominantly available in the unorganised or informal sector. As the Sengupta Commission Reports (NCEUS 2007, 2009) have made amply clear, employment in India's informal economy is marked by low wages, abysmal conditions of work, self-exploitation, no social security, and no job security. The alternative to agricultural production is, thus, low-paying and precarious employment. In such a scenario, a small piece of land can very well mean assurance of some subsistence needs in the face of extreme income uncertainty. The growth of the informal sector, therefore, feeds on and reinforces the lack of land concentration. We suggest that the logic of semi-feudalism – appropriation of the surplus labour predominantly through direct labour services, bondage and attached labour; interlinked credit, labour and product markets; prevalence of usurious credit; lack of incentives for productive investment both for the direct producers (the tenant) and the owners of the land (non-cultivating landlords) – does not seem to be at work here; what is relevant is the political economy of contemporary backward capitalism resting on the vicious cycle of precarious non-farm employment and small-scale agricultural production, both marked by low productivity and low incomes and one reinforcing the other.

### 3.2 Multiple Relations of Production and Class Consciousness

The second issue that we wish to put forward for discussion relates to the dynamics of class differentiation in rural India. The persistence of petty production in agriculture, industry as well as services has been interpreted as arrested class differentiation. However, a closer look at the evolving relations of production reveals that class differentiation is proceeding, albeit in a way different from the European case. For example, the differentiation that is taking place in rural India is more between a heterogeneous rural gentry and a heterogeneous rural poor, than between capitalist and worker. In industry too, the apparent preponderance of petty production hides the extent of wage labour, for example, by making a piece-rate wage worker appear as an own-account producer. Both in agriculture and in industry, the actual extent of alienated labour is, hidden by a semblance of private property.

All this implies that a member of the working population participates in multiple production relations and her consciousness is shaped by these multiple, and often drastically, different objective positions in the production process. At one time a worker may be an agricultural labourer, exploited through the institution of wage-labour; at another time, often within weeks or months, a tenant cultivator, hiring in land from the local landlord and facing exploitation through semi-feudal methods; on still another occasion he may even employ wage-labour during peak season for his small plot of land, and finally as a petty producer he may operate as an owner of a small business using family labour.

The political struggles that have mobilised large numbers in the past few decades are a testament to this complexity. Rather than witnessing mass struggles of the proletariat against capital, or of the landless against the landlords, we have seen a vast number of struggles over "*jal, jungle, zamin*". These are essentially struggles against dispossession or struggles of small property holders against confiscation of their property. Dispossession forms the centrepiece of the adivasi struggle aided by the Communist Party of India (Maoist) also. The agitations over input and output prices which mobilised lakhs of farmers in the 1980s and 1990s are also struggles of property-holders and can be explained by the evidence we have presented regarding the penetration of the market up to the smallest producer. What does this imply for radical social transformation? Can the absence of a clear-cut class-based political leadership of these resistance movements explain the lack of a serious challenge to the power of the Indian state?

If the class differentiation at the lower end of the social and economic hierarchy is masked by participation of members of the working population in multiple relations of production, the rural gentry at the other end of the spectrum is also a complex entity. How did this rural gentry come into being? Land reforms, of a decidedly timid variety, "sliced off a bit of the old land-owning classes, those that owned enormous estates, and incorporated a small upper section of the tenants in the land-owning group, thus creating a broader strata of landowners..." (Desai 1986, quoted in Balagopal 1986). Members of the rural gentry have, over the years, lost some of the monopoly over land, as we have seen, but facing this decline, have nicely "diversified" their portfolios into other areas of rural economic life, thereby maintaining their hold over

rural society (Metcalf 1967). Facilitated by a pliable state, members of this class gradually got involved in trade and usury, in government contracts for infrastructure works, in building and maintaining hotels, cinema theatres, petrol pumps, newspapers, etc. They continue to rely heavily on their relationship to the State to facilitate the reproduction of their capital; and without exception, they are the local notables of mainstream political parties, often maintaining their own militias to politically intimidate the local population, and garner the lion's share of development funds.

It is difficult to differentiate, within the rural gentry, between feudal interests (which have certainly seen a secular decline over the past five decades) and capitalist interests, as much as it is difficult to differentiate between different varieties of capital: industrial, merchant, usurious. Analogously, from the point of view of the working class, it is difficult to identify where surplus extraction via unequal exchange stops and that via wage labour begins. As feudal methods of surplus extraction, like tenancy, declined and as their hold on the monopoly of land dwindled, members of the rural gentry painlessly morphed into capitalist farmers and local merchants. Some started industrial activities with the support of the State, while others ploughed their capital into moneylending. It is worth noting that never in independent India have the class of capitalist farmers taken up arms against the so-called feudal interests in land; the contradiction, to the extent it ever existed between these fractions of the rural ruling classes, have been resolved in the most amicable manner.

### 3.3 The Question of Land Reform

The third issue worth considering is the continued centrality of the agrarian question to any project for revolutionising Indian society. This follows simply from the fact that the majority of the working people in India are related, directly or indirectly, with the agricultural sector; this is a direct result of the failure of the structural transformation of the Indian economy. Any attempt, therefore, at radical reconstruction of Indian society will have to deal with the agrarian question effectively. Dealing with the agrarian question will mean, among other things, rapidly increasing the productivity of agricultural activity, the surest way to increase the income of the vast masses of the working people involved in agriculture and thereby create a home market for domestic industry.

The Marxist tradition has seen redistributive land reforms as essential to the project of dealing with the agrarian question. The reasons have primarily been political, though some economic arguments have also been developed.<sup>13</sup> Politically, land reforms have been seen as a way to decisively break the power of the parasitic class of feudal and semi-feudal landlords; economically, it has been understood as creating conditions for the development of the productive forces in rural society, increasing the productivity of labour, creating a surplus for supporting industrialisation and providing a market for domestic industry.

Using Lenin's distinction between the Prussian and the American paths for bourgeois development in the rural economy lends credence to the call for redistributive land reforms (Lenin 1907). The three main communist streams in India, the Communist Party of India (Marxist), the Communist Party of India (Marxist-Leninist) Liberation and the Communist Party of India (Maoist) more or

less accept this distinction, the first two explicitly and the last one implicitly.<sup>14</sup> Hence, for all the three streams the main task (or axis) of the current stage of the People's (or New) Democratic Revolution is the agrarian revolution, with redistributive land reforms being one of its main tasks.

While it is true that India, because it did not witness any serious efforts at land reforms on a national scale, developed along the landlord path out of semi-feudalism, there are some important differences that need to be considered. One pole of landlord capitalism, viz, landlessness has been growing over the years; the other pole of landlord capitalism, viz, the continued dominance of a few "big peasants" seems to be at variance with the evidence. Aggregate level data about India that we have seen in the course of this study seems to throw up an unmistakable trend of the declining power of landlords (feudal or otherwise), not by any revolutionary means but just by the sheer pressure of demographic developments and economic stagnation. The total land owned by the large landholding families, the "big peasants" that Lenin refers to, has halved over the last five decades and today they own only about 12% of the total land. On the other hand, the land owned by medium-to-small landholding families has increased to over 65%. Does this, along with other evidence on the decline of tenancy and the increase of wage-labour, not indicate that the rural economy in India is inexorably being pushed in the direction of peasant capitalism? How would this important trend of the increasing dominance of peasant capitalism, and a gradual whittling down of landlord capitalism, change the course of the agrarian revolution? If landlords, as a class, are dwindling in economic and social power, is a programme aimed at breaking their political power still relevant? Is the contradiction between feudalism and the broad masses of the people still the principal contradiction in India today?

A crucial issue that will need to be addressed in the context of the slogan for redistributive land reforms is to see whether the resulting farms will be viable in any meaningful economic sense. Let us recall that the average size of ownership holding in India in 2003 was 0.81 hectares; so, the most equitable redistribution will result in the average holding of this size. If instead land is only taken from those owning more than 10 acres and all of it distributed among those currently owning less than 1 acre, then the average size of holding for those receiving redistributed land will roughly become 1.25 acres. If we juxtapose this with the cost of cultivation data, we can easily see that agricultural units of approximately such sizes will not be economically viable in the sense of being able to generate any substantial surplus product after sustaining a decent level of consumption of the producers. It is extremely doubtful whether these small farms can generate any economic surplus even after the onerous relations of unequal exchange have been removed from the picture. Can they, therefore, help in the industrialisation effort by generating surplus or will they instead require a net resource flow in their direction with subsidised credit, power, inputs, technology, etc, to continuously keep them viable? This question is extremely important as can be seen from the concrete experiences of the Russian and Chinese revolutions.

The growth of capitalist relations in the Indian countryside, the continued fragmentation of the land, the decline in tenancy,

the unviability of small-scale production and other related factors seem to suggest that collective forms of agricultural production are gradually being pushed on to the historical agenda of the revolutionary movements in India. Collective, cooperative and socialist forms of large-scale agriculture probably need to be seriously considered as an option emerging out of the very evolution of the material conditions of the vast masses of the working people. The agenda of redistributive land reforms creating bourgeois property in rural areas and facilitating capitalist development needs to be seriously rethought, not because of some ideological reasons but because the development of the agrarian structure seems to demand such a re-evaluation.

It is not that redistributive land reform is, either economically or politically, not useful; it is extremely useful at this stage of Indian development and thus finds pride of place in the programme of all the communist streams. Land reforms will certainly help in increasing the consumption levels of the vast masses of the peasantry from their current abysmally low levels; it will democratise the ownership structure in rural society; it will help create an internal market for the accumulation of capital; it will help break the stranglehold of the rural gentry over rural social and political life. All these reasons undoubtedly make redistributive land reforms an indispensable part of any strategy for the radical restructuring of Indian society.

Without in any way undermining the logic of land reforms in the present Indian context we would also like to strike a cautionary note, following Paul Baran (1957), against treating land reforms as a panacea for all economic problems of an underdeveloped society such as India. The agrarian structure of rural India, with its extremely low land-man ratio, suggests that the limits of the positive aspects of redistributive land reforms will be reached pretty quickly; it will need to be positively transcended within a very short time. Hence, the transition from a focus on redistributive land reforms and support for peasant capitalism to an emphasis on collective ownership and production will need to be reckoned with from the very beginning; both the agrarian structure and historical lessons suggest such an emphasis.

### 3.4 The Mode of Industrialisation

The fourth large issue raised by our study concerns the mode of industrialisation of the Indian economy. It is relatively uncontroversial that a shift of the agricultural population into the secondary and tertiary sectors will be required in order to raise real incomes of the vast majority. How this transformation is to be achieved is the difficult question. The structural transformation required to relieve above-mentioned pressures on agriculture cannot be left to the anarchy of the global capitalist market. The "market-friendly" post-1991 period has been witness to a type of growth that has resulted in rising inequality and increasing number of low-wage, contingent and informal jobs. However the contradictions and problems of the pre-reform, "planning period" also need to be taken seriously. There is an urgent need to break out of certain simple binaries and equations, which have been imposed upon us. The first binary is that between state-managed capitalism and market-oriented capitalism. India's experience shows that the vast majority of the working population has suffered greatly in

both regimes. In our struggle against a particularly predatory type of neo-liberal capitalism (whose days may in any case be numbered given the global crisis), we must not find ourselves unwittingly arguing for a return to the bureaucratic and corrupt State. Rather the spectacular failure of the neo-liberal model can be an opportunity to demand greater decentralisation and more autonomous development. The various people's movements have been articulating precisely such a model of development.

The second simple equation is between rural areas and agriculture on the one hand, and cities and industry on the other hand. The social and ecological contradictions of the large scale, capital-intensive model of industrialisation must be taken seriously. Nowhere has this model produced high levels of employment in an ecologically sustainable fashion while giving producers a say in the running of the workplace. It is becoming increasingly clear that the economic viability of such industrialisation is obtained only by cost externalisation. The Indian experience points to the necessity for developing dispersed, low capital-intensity, sustainable models of industry that nevertheless raise real incomes of the majority (see Datye 1997 for one such model). This is not a utopian pipe-dream but rather a historical necessity if "development" is not to remain an unfulfilled promise for the majority of Indians.

None of the above can be taken only as a demand for better or more enlightened development policy. Rather it articulates what has already been emerging from social and political movements and in turn seeks to ground the political demands in an empirical and theoretical context. There is a need to extend revolutionary people's movements rooted in peasant agriculture and natural resource struggles into the rural, semi-urban and urban industrial milieu. The urgent question here is how can the dispersed industrial working class be effectively politically organised at a national level? This working class does not always resemble the "classical" doubly-free, urban industrial proletariat. Yet, our attempt here has shown that it remains exploited nonetheless and can and should form an important component of left revolutionary politics. Is an artisan-peasant alliance a possibility for the near future?

There is a difference of opinion between the two of us on the question of the model of industrialisation that might fruitfully accompany efforts at a radical restructuring of Indian society. One of us (AB) believes, as has been stated in the above paragraphs, that a dispersed, low capital-intensity, sustainable model of industrialisation is the way forward. While we agree that the scale and geographic dispersal of industrialisation per se does not lead to its being more democratic or ecologically sustainable, DB places more importance on the institutional setting within which the industrialisation effort is embedded. A small-scale industrialisation effort in the context of local level inequalities of class, caste and gender can reinforce those inequalities and nullify all attempts at democratic control of the production process; on the other hand, a large-scale, high capital intensity and centralised industrialisation effort within a socialist context might be amenable to democratic control if the institutions of workers' control are in place. DB believes that the experience of the Russian and Chinese revolutions shows that petty production of the artisanal variety cannot solve either the economic problems of the vast masses of an underdeveloped country like India or the political problems of a society embarking on the socialist path. Sustainability, for DB, seems to have more to do with proper cost-benefit analysis rather than the scale of production as such. In a socialist context, where the surplus product of society is democratically controlled, the pace and direction of technical change will be determined in a rational and scientific manner and not left to the anarchy of capitalist production and the imperatives of profit maximisation. In such a setting, internalising the environmental costs of production would flow naturally from the imperatives of all round social development.

It has been our effort in the present study to arrive at a macro understanding of Indian agriculture and industry from the Marxist perspective. As our differing positions advanced above indicate, we do not intend to argue for any *one* right solution to the problems identified in the study. Rather we hope that the data and the accompanying reflections and speculations will serve to fuel further discussions and debate out of which visions for a future Indian society may emerge.

## NOTES

- 10 In this study we use the term "Industry" to refer only to the manufacturing sector and exclude mining and construction from our analysis.
- 11 The 62nd round of the National Sample Survey carried out in 2005-06 contains the most recent national-level data on the informal manufacturing sector in India. Data is also available from previous rounds conducted in 2000-01, 1994-95, 1989-90 and 1984-85 giving a broad overview of the evolution of informal industry over the past 25 years. Before we present the data, it will be appropriate to discuss the problems that may arise in comparing data from several different NSSO rounds. The general problem of underestimation of informal activity by sample surveys such as the NSS is discussed separately. Report #524 (62nd round) notes that there has been a change in which industries are covered and which are not between the 51st round (1994-95) and the 62nd round. Repair and maintenance of computers, motor vehicles, electrical appliances, TVs, radios, etc, watches and clocks, and bicycles were covered in the 51st round but were later dropped. Cotton ginning, cleaning and baling was included anew in the 62nd round. We note that this change

would most likely reduce the number of enterprises counted as belonging to the sector since these repair activities account for a greater percentage of enterprises and workers than cotton ginning and baling. The fact that an increase is observed in the same period suggests that this change would not bias results in our favour.

- 12 We thank Mohan Rao for the framework behind the typology depicted in Table 6.
- 13 Patnaik (1972) summarily rejects any economic rationale for land reforms and instead stresses the political logic; but Patnaik (1976) and Patnaik (1986) develop an explicitly economic logic for land reforms in terms of overcoming the ground rent barrier to capitalist development.
- 14 CPI(M) and CPI(ML) Liberation explicitly recognise the current rural scenario in India as being characterised by landlord capitalism; this was most clearly formulated by Patnaik (1976, 1986) and finds its place in the CPI(M) programme accordingly; it also appears explicitly in the agrarian programme of CPI(ML) Liberation, though there is no mention of Patnaik (1976, 1986). The CPI (Maoist), on the other hand, largely discounts the development of capitalist relations in rural India. Characterisation of Indian society can be

found in the programmes of the CPI(M), CPI(ML) Liberation and CPI(Maoist); links for the programmes are provided in the references.

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