


2022

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Anjan Chakrabarti
The University of North Bengal, West Bengal

Pooja Sharma
Daulat Ram College, University of Delhi

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Recommended Citation

Chakrabarti, Anjan and Sharma, Pooja (2022) "Revisiting Development Discourse amidst Informal Sector Crises COVID-19 Pandemic," *International Journal on Responsibility*. Vol. 5: Iss. 2, Article 7.
DOI: <https://doi.org/10.62365/2576-0955.1069>
Available at: <https://commons.lib.jmu.edu/ijr/vol5/iss2/7>

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Revisiting Development Discourse amidst Informal Sector Crises COVID-19 Pandemic

Anjan Chakrabarti¹ and Pooja Sharma²

Abstract

Amid the COVID-19 pandemic, India has experienced a severe catastrophe of the informal sector, related to both health and livelihood. The informal sector and migrant workers are closely linked and they became easy prey during the nationwide lockdown at the onset of the COVID-19 pandemic. The informal sector, primarily a fallout of the prevailing dual economy, makes it highly imperative to revisit not only India's growth and development process but also the distribution. The paper attempts to evaluate the development process adopted by developing countries and their relevance in terms of growth and inequality. The study finds the missing link of the theory of distribution of welfare economics. Lack of emphasis on equitable distribution resulted in a wide gap between the rich and poor. The informal sector crises of COVID-19 has ignited the predominance of regional inequalities in the development process on account of the dual economy and has widened the regional disparities at inter and intra-state level. By settling the migrants in their native place with the holistic economic package, comprising of technology, skills and advancement that will contribute to the rural economy in the long term. The need to institutionalize the regional or localized financial sector, health and social infrastructure has been emphasized in the paper as a long-term solution. The responsibility of informal crises in most developing countries is mainly of development discourse. There is a need to revisit the development process adopted by developing countries. The state must address the acute inequality aggravated due to the existing informal sector and implement the policies of health security during Pandemic crises

Keywords: Informal sector, COVID-19 Pandemic, Dual Economy, Inequality, Inclusivity.

Introduction

Amid the COVID-19 pandemic, India is fighting an odd battle to strike a balance between lives and livelihoods. Due to prolonged lockdown, the economy has come to a standstill. On this account, the structural impediments of development discourse embedded in the economic reforms got highlighted and

¹ Professor Anjan Chakrabarti, Director, UGC Human Resource Development Centre, The University of North Bengal, West Bengal. Email: anjaneco@gmail.com

² Dr Pooja Sharma, Associate Professor of Economics, Daulat Ram College, University of Delhi, Delhi. Email: pooja_cos@yahoo.com



exposed. In India, the size of informal labour is debatable, around 90 per cent of people working in the informal economy, about 400 million workers in the informal economy are at the highest risk of falling deeper into poverty during the crisis (International Labour Organisation). The contribution of the informal sector is estimated to be above 50% of the national product (National Statistical Commission report, 2012). India has opted for nationwide lockdown as a result of which both the supply-side and demand side of the economy became claustrophobic. , The pathetic plight of daily wage-earners, migrant labourers that have been unfolded during the lockdown period raised a few fundamental questions on the efficacy and outcome of economic reforms in India and on the theoretical underpinning of the philosophy of neo-liberal economy.

According to the CMIE report, in 2020, around 12 crores of people have lost their jobs in the informal sector, and the unemployment rate has reached 23.60 per cent. While in the case of the urban areas, the rate stands at 25.30 per cent, and for rural India, the rate is 22.80 per cent on 28th April 2020. How to strike a balance between lives and livelihoods is possibly the primary concern before the country at this crucial juncture of the COVID-19 pandemic. It is well-said “You can’t get rid of poverty by giving people money”, - P.J. O’Rourke

Direct money transfer could be one of the ways to tackle the immediate need of the disadvantaged section of the informal sector owing to the limitations of the lack of bank account of each member of this class. The community kitchen, Local NGOs, Self Help Groups and Panchayat or municipality can be a safe option where cooked food can be sent to the respective poor household.

Export has already reduced by 35 per cent, owing to a severe recession. Therefore, the revival of the domestic economy and domestic demand is the only option. Having an ADHAR card-linked bank account through Jondhan Yojana, cash can easily be transferred without any pilferage. The budgetary allocation under MGNREGA, Rural and Urban Livelihood Mission, Mid-Day Meal, Swarnajayanti Gram Swarozgar Yojana, Pradhan Manti Kishan Pension Yojana, Atal Pension Yojana can be clubbed to ensure the cash and kind transfer till the normal economic activities are taking off. India’s debt-GDP ratio stands at 69.04 per cent (Trading Economics, 2020). Given the fact that revenue collection will be much lower than anticipated, India must relax its fiscal deficit to remain contained within 3.5-4.5 per cent, and at least 5-6 per cent of GDP should be spent to support the families associated with the informal sector.

Further, there is strong evidence of reverse migration back to rural areas, therefore settling the informal labour in their native place suggests that the remedies are embedded in rural areas themselves. COVID-19 gives us a chance to correct the system and balance it by settling the migrants in their native place

with the holistic economic package, comprising of technology, skills and advancement that will contribute to the rural economy in the long term. The need to institutionalize the regional or localized financial sector, health and social infrastructure has been highlighted through the crisis. Earmarking huge collection under CSR must be diverted to the revival of the self-sufficient village economy.

The informal sector is that section of society that is deprived of not only the benefits and rights such as primary healthy working conditions, right to education and good health, however, plays a critical role in economic growth. Scheider and Enste (2000) argued that this section of society is devoid of any social protection or employee benefits, and the principle of inclusiveness in the labour market. The informal sector is prevalent in almost all developing countries. Among the SAARC countries, informal economy and casualisation of labour are highest in India and Nepal (90.7%) with Bangladesh (48.9%), Srilanka (60.6%) and Pakistan (77.6%), (ILO 2018; The Wire, 04 May 2018).

The biggest fallout of a dual economy is the adverse socio-economic conditions of the informal sector and the emergence of a wide magnitude of inequality between the rich and the poor. Consequently, eliminating such inequalities become the predominant problem of all developing countries. The sordid situation of the informal sector of the economy has become a subject of scrutiny. The sordid picture of reverse migration might have shaken the country but this is also an offshoot of widening regional disparities and the presence of informal economy during the post-reform period. This paper is an attempt to review these guiding principles of the three-decades-long reform process and to find out a plausible escape route from the conundrum created due to the pandemic.

Dual Economy: The Genesis of the Informal Sector and Migration

The presence of the informal sector fortifies the existence of a dual economy. The informal sector is primarily a fallout of a dual economy. Among a large set of definitions of “dualism”, the definition advocated by Lewis (1954) defines the fundamental characteristics of “Dualism”. Dualism is primarily characterized by the distinction between the “traditional sector” characterized by limited resources and subsistence production on one side, while a “modern sector” is reflected by modern technology and means of production that is for profits and commercial purposes.

The informal sector comprises not only the internal migrants from different states but also becomes an instrument for the absorption of all refugees and illegal migrants from abroad. Among the several collections of literature in development economics, Todaro (1969) and Harris and Todaro (1970) are recognized for their model of migration, Fields (1975) and Majumdar (1976) also incorporated migration.

Stiglitz (1974) worked on efficiency theory; however, it failed to explore that duality might change over time.

The announcement of lockdown during the pandemic has exposed the scenario of internal migrants in India. The Census 2011 estimated the number of internal migrants accounted for inter and intra-state movement to be 450 million, an increase of 45% compared to the estimates of Census 2001 (De 2019). As per the Economic Survey of India 2017, the number of inter-state migrants population stand at 60 million and between 2011 and 2016, the average annual flow of migrants among the states was calculated at 9 million (Sharma 2017). The actual figure of migrants is likely to be much higher than what Census data is showcasing. This is more of a definitional problem associated with the Census enumeration of migrants. In Census, migrants are identified based on the place of birth or last place of residence and deviation from it. Census, as well as NSSO estimates, do not capture Short-term seasonal movements of migrants. The increasing presence of the informal economy and short-term movements of the labour force has become increasingly prominent.

Who are migrating and from where do they migrate? In other words, the types of migrant workers and source and destination become important to understand the fragility of the rural economy, increasing regional disparities and informal sector. Most of the migrant workers are joining in the agricultural labour force, in brick kilns, construction sites, services (maid, watchmen, laundry services, drivers etc.), industrial un-skilled tiny roadside businesses (tea shops, dhabas, small eateries, hotels, restaurants etc.). This entire workforce predominates the informal sector which constitutes 93 per cent of India's total workforce (Dandekar & Ghai2020). These migrants are not moving out for better opportunities, rather a failure to secure their livelihoods in rural areas, they are moving out and joining the informal sector which is embedded with inhuman work conditions and extreme socio-economic insecurity of urban and peri-urban areas of India.

It is the wages that connect the two extreme sectors comprising of agriculture sector with (low profitability, low-income elasticity of demand) and manufacturing sector characterized by profit incentive, higher productivity, rising wages, trade). One would easily resort to a subsidy to equalize or bring balance between the two sectors. By increasing the wage subsidy in the urban sector, or lowering the shadow wage, the level of unemployment could be decreased. While at the same time, induce further migration, leading to an increase in net employment (Harris and Todaro, 1970).

Bhagwati-Srinivasan (1978) aptly demonstrated that there does exist a subsidy given to all sectors that leads to optimality but fails to measure the marginal productivity of labour due to information problems. Thus, subsidies are generally avoided as they are the second-best solutions and lead to economic

inefficiency and reduce economic growth. However, subsidies in the areas such as education, health and the environment lead to long-term benefits both in present and future.

Growth Theories and Inequality

The sole aim of the development process must be to converge and reduce the inequality levels prevailing in the economies. However, the extensive literature on growth theories explicitly reveals that the rich are becoming more affluent, and the poor are becoming poorer, which is increasing inequalities (Chandrasekhar and Ghosh 2007; Sengupta et al. 2008). In all the development debates "regional inequality" has been ignored. The existence of high-income inequality challenges the basic argument of Solow's growth theory, which advocates that competitive forces and inter-regional migration will allow regional inequality to disappear through gradual factor prices equalisation (Solow 2000). Solow's argument has further been challenged by new growth theorists like Romer, Lucas, Krugman, Venables and Fujita. According to Lucas, uneven distribution of human capital and according to Romer, it is the differences in research and development that causes regional inequality (Barro and Sala-i-Martin 1995). Sala-i-Martin (2002) pointed out that regional inequality has been ignored in the development debates. Kharas and Kohli (2011) referred to it as the "Middle-Income trap", suggesting movement away from centralized to decentralized management or governance.

The famous Kuznets curve (1955) advocated an inverted U – curve postulating that inequality first increases and then decreases over time. Baumol (1986) and Barro (1991) determined convergence in developed countries while divergence in less developed nations. Romer (1986) observed a lack of convergence across nations and argued for an alternative framework for modern growth. Later, endogenous growth theories modified the neoclassical production function to incorporate factors such as human capital, innovation, increasing returns and spatial spillover in the production function to determine long-term growth rate.

There are mixed results, one set of literature are of the view that lagging regions will catch up with the fast-growing regions by adopting balanced regional development strategies such as Borts and Stein (1962) and Needleman (1968) for developed countries such as the US. While Perroux (1950), Myrdal (1957) and Kaldor (1970) argued regional incomes would not converge in the long run. Later, Martin and Sunley (1998) argued that policymakers will attempt to intervene with balanced development but will not be able to overcome regional divergence. In China, Aroco (2008) pointed out that income distribution has shifted away from convergence to "polarization".

The Growth-inequality trade-off is a mixed bag again. Per capita, GDP growth rate is highest in China and lowest for Brazil. Albeit inequality remains highest in Brazil in all four years but continues to be the lowest in Finland. The human development index (HDI) is highest in Switzerland, followed by Finland. HDI is lowest in Nepal and Bangladesh, as shown in table 1. The Indian economy has grown over the last two decades. However, the growth has been unequal substantially when compared to other nations. China has shown a substantial increase in the development of the top 1 per cent of the population, followed by India. This gap has been reduced in the Russian Federation and Brazil (World-inequality Database). There has been an inverse relationship between growth and inequality in the case of India.

Table 1: Country-wise inequality, Expenditure on health and education as a percentage of GDP

Country	1991			2001			2010			2016		
	HD I	Gini	Per capita GDP growth	HD I	Gi ni	Per capita GDP growth	HD I	Gini	Per capita GDP growth	HD I	Gini	Per capita GDP growth
Switzerland	0.832	33.90	-2.146	0.889	33.4	0.67	0.932	32.6	1.935	0.943	33.0	0.617
Finland	0.784	22.90	-6.424	0.858	27.2	2.37	0.903	27.70	2.714	0.918	27.10	2.333
Brazil	0.611	60.50	-0.258	0.684	58.4	0.013	0.727	52.90	6.524	0.758	53.30	-4.09
Russian Federation	0.734	48.40	-5.259	0.720	36.9	5.54	0.780	39.50	4.453	0.815	36.80	0.145
India	0.427	32.70	-0.983	0.493	36.8	3.02	0.581	37.50	7.042	0.636	37.80	6.997
China	0.502	32.20	7.812	0.594	38.7	7.555	0.706	43.70	10.10	0.748	38.50	6.160
Bhutan	NA	NA	-1.120	NA	40.9	6.083	0.566	38.80	10.77	0.609	37.40	6.83
Bangladesh	0.387	27.60	1.106	0.468	33.4	3.113	0.545	32.10	4.39	0.597	32.40	5.950
Nepal	0.387	35.20	3.627	0.446	43.8	3.052	0.529	32.80	4.31	0.569		-0.319

Srilanka	0.62	32.4	3.347	0.68	41.	-	0.74	36.40	7.27	0.76	39.80	3.338
	5	0		5	0	2.243	5	0		8	0	

Source : *Worldbankdatasource*

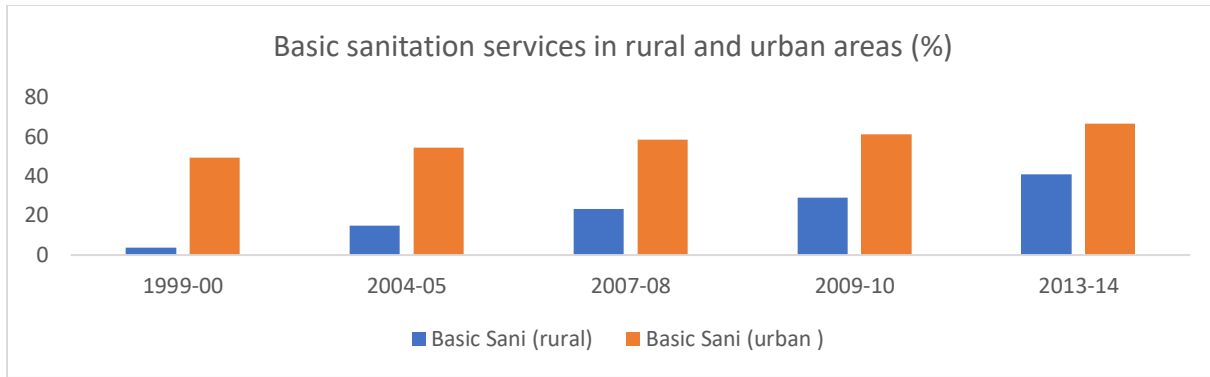
Growth and Inequality in the Indian context

With the onset of economic reforms of the 1990s, India has been heading towards unprecedented per capita growth rates. However, inequality continued to broaden across the nation. The income inequality in India declined sharply between the 1950s and 1980s but increased after that (Chancel and Piketty 2017). The All India Debt and Investment Surveys (AIDIS) reported Gini coefficient for wealth was 0.75 for 2012, rising from 0.67 in 2002.

There was a conditional convergence in terms of level in income inequality and poverty across the states, Jha (2000). However, he added that the variation in rural headcount ratio seems to be rising over time. Marjit and Mitra (1996), Chakravorty's (2003), Roy (2012), Dholakia (2003) and Bhattacharya et al. (2004) argued that though the income of all the states has increased during the last four decades, the sign of convergence was not visible. Roy (2012) identified the gap in human development indices such as literacy rate, general enrolment ratio and life expectancy at birth has declined across the states as well as between rural and urban segments within states.

As pointed out by Nayak (2020:42) 'the present crises of capitalism and its reforms and concluded that its prospects and long-run viability are delimited by ecological imbalance and growing inequalities associated with it'. The paper contended that it is improbable that India is unlikely to move away from the capitalist market system; however, the challenges of education and health need to be addressed on an urgent basis (Nayak, 2020:45).

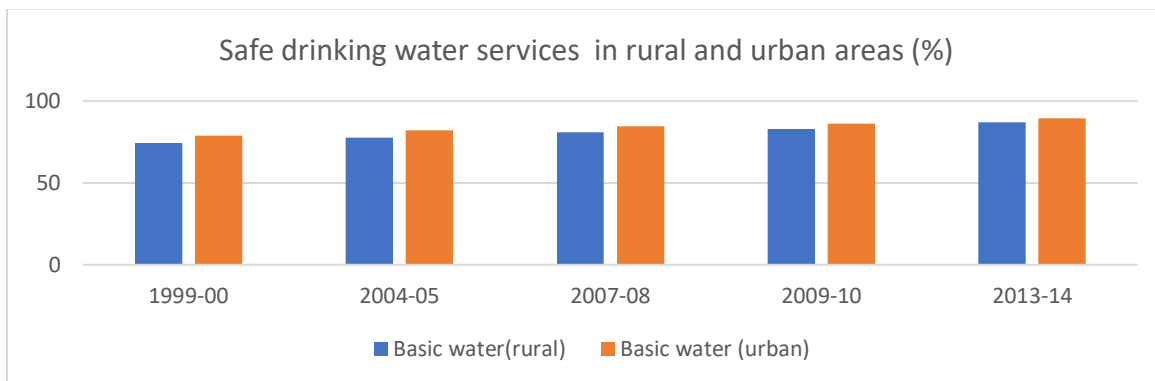
The entire discourse of the development process adopted by India and most of the developing countries mainly points out that the improvement in human capital is not equitable in terms of rural and urban areas. There is strong evidence of enormous disparity between rural and urban areas in the context of social infrastructures, such as basic sanitation and safe drinking water services. In India, there prevails a massive gap between the essential sanitation services in rural and urban areas, evident in figure 1.



Source: Author's calculations based on data collected from <https://databank.worldbank.org/>

Figure 1: Basic sanitation services in Rural and Urban areas (Percentage of households)

However, the situation related to safe drinking water services is better in the context of disparities between rural and urban areas. Around 79 per cent of people using safe drinking water services belong to urban areas while almost 74 per cent to rural areas in 1999-00, as reflected in figure 2.



Source: Author's calculations based on data collected from <https://databank.worldbank.org/>

For data see Annexure I

Figure 2: Safe Drinking water services in Rural and Urban areas (percentage of households)

This reinforces the fact that the kind of development process that we should be looking at in the post – COVID scenario must be based on justice, social contract theory and equity in distribution.

A correlation between the selected variables can summarize the key indicators that reflect the tradeoffs and relationship between the informal sectors in rural and urban areas. Economic growth is gross value added (GVA), the quality of human development indicated by the human development index (HDI), informal employment in rural and urban areas. Per capita consumption in rural areas and unemployment.

Table 2: Results of Correlation

	HDI	GVA	Rural informal N	Urban informal N	Un N	Per capita consn (rural)
HDI	1					
GVA	0.767	1				
Rural informal N	-0.465	-0.186	1			
Urban informal N	-0.239	0.006	0.970	1		
Un N	-0.276	-0.245	0.463	0.437	1	
Per capita consn (rural)	0.974	0.756	-0.612	-0.409	-0.434	1

Source: Author's calculations

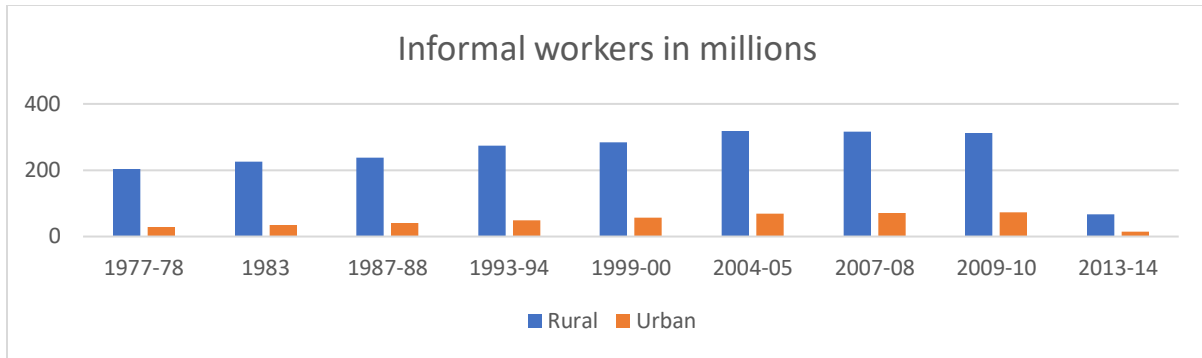
For Description of variables, data source and data see Annexure, II, III & IV

Both rural and urban informal employment significantly increases when there is a rise in unemployment rates. Another crucial observation is the per capita consumption expenditure in rural areas is significantly inversely related to rural and urban informal employment. As rural and urban informal employment increases the rural per capita consumption expenditure reduces significantly. With an overall increase in the unemployment rate, the per capita consumption expenditure also reduces significantly. Further, unemployment substantially reduces the per capita rural consumption. It is also observed that rural and urban employment themselves are highly positively correlated. The human development index is significantly positively related to gross value added and rural per capita consumption.

Governments of all eras and across the world have rejected the notion of harnessing informal workers to promote growth and development. Such a development process has resulted in huge issues and challenges in the informal sector, as discussed below.

Issues and challenges of the informal sector:

As a fallout of the development process, a large section of the labour force has fallen into the grip of informal employment. Apart from uncertainty of job and sub-optimal wages, the informal workers encounter several challenges such as poor-living conditions, child labour, exploitation, access to safe drinking water and sanitation etc. The informal workers are prevalent both in the rural and urban areas, as evident in figure3.



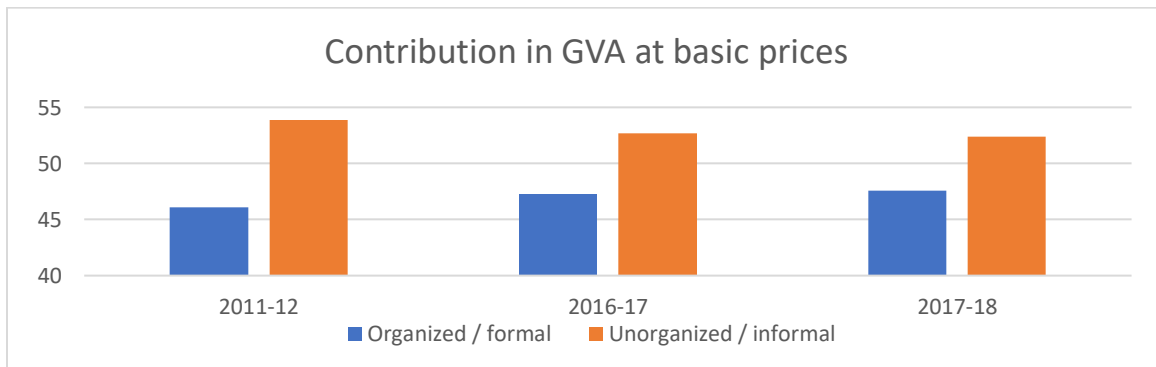
Source: Author's Calculation

For data source and data see Annexure IV

Figure 3: Informal workers in millions (rural/urban)

There is a huge gap between rural and urban employment, and this gap has been continued before and after the economic reforms of 1991. In 1977-78, around 202.9 million workers were engaged in the informal sector in rural areas while only 28.1 million workers were involved in informal employment in urban areas. The trend continued even after the 1991 economic reforms and reached the highest level in 2004-05 in the case of rural employment in the informal sector.

The share of the informal or unorganized sector has been substantially greater than the organized sector. The contribution to Gross value-added was 46.1 per cent in the case of the organized / formal sector, while the unorganized or informal sector has made about 53.9 per cent contribution. This gap continued and in 2017-18, also around 47.6 per cent of contribution is by the formal sector and 52.4 per cent by the informal sector as shown in figure 4.



Source: Calculated from Data on National Accounts, Ministry of Statistics and Programme Implementation, Government of India, <http://www.mospi.gov.in/>

For Data See Annexure V

Figure 4: Contribution of organized/formal and unorganized/informal sector in Gross value-added at basic prices.

Thus, the persistent bottlenecks of duality are evident for many years. As a result, there are specific critical questions that are raised within the gambit of the development process. Firstly, where is the magical multiplier when the concern is to translate the growth when it comes to the informal sector of society? Secondly, if the sole purpose of the economy and sustainable growth is inclusive growth and equitable distribution of income then the prevailing economic systems are a failure. Thirdly, if the mere existence of this informal sector was to serve only the political vested interest and political economy, then the economic benefits which are the main thrust for this migration are also elusive on account of low levels of casual wages and low productivity. Finally, Should the incapability of the agricultural sector be blamed for not retaining its surplus labour, or it is the manufacturing sector that becomes a deterrent in offering essential skills to equip them to reap economic benefits.

Having discussed the trade-off between the growth and welfare theories and the strong evidence that developing countries are failing to converge, instead of demonstrating increasing regional inequalities, let us talk about the current COVID health crises and their impact on the informal sector.

Conclusion

COVID-19 seems to have taught several lessons to the growth processes of developing economies, “Does the informal sector need urban settlements or it is the urban areas that cease to function without the support of the informal sector will be the fundamental investigation in the Post-COVID economy?” “Do we retain the unorganized, informal sector for our vested interest of economic research and political votes or they are a structural impediment of the economy?” COVID-19 pandemic puts the informal workers in the emergency of not only their survival (life threat) but also their livelihood. Finally, we look for numbers and growth rates but at what cost, at the expense of the environment, cost of poorest of poor. Therefore, there is an acute need to revisit our development process, especially at times when we are almost at the zero-growth rate. The growth is inevitable, we will grow, but the question remains how and what pathways we need to follow to accomplish sustainability and inclusivity. The paper concludes the responsibility of informal crises in most developing countries is mainly of development discourse. There is a need to revisit the development process adopted by developing countries. The state must address the acute inequality aggravated due to the existing informal sector and implement the policies of health security during the Health pandemic.

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Annexure-I

	Basic Sani (rural)	Basic Sani (urban)	Basic water(rural)	Basic water (urban)
1999-00	3.79	49.25	74.27	79.02
2004-05	14.81	54.45	77.80	82.01
2007-08	23.33	58.44	80.76	84.47
2009-08	29.13	61.13	82.76	86.12
2013-14	40.99	66.54	86.83	89.04

Annexure-1I

Sl. No	Variables	Symbols	Description	Sources
1.	Inequality	GINI Index	GINI Index	https://databank.worldbank.org/
2.	Education infrastructure	Edu exp as % of GDP	Education expenditure as % of GDP	
3.	Health infrastructure	Health exp as % of GDP	Health expenditure % of GDP	
4.	Sanitation services in rural and urban areas	Basic Sani (urban) Basic Sani (rural)	People using at least basic sanitation services, rural (% of rural population)	
5.	People using safely managed drinking water services, rural and urban areas	Basic Water (urban) Basic Water (rural)	People using safely managed drinking water services, rural (% of rural population)	
5.	Human Development Index	HDI		
6.	Gross value added	GVA		
9.	Unemployment rate	Un N		

10.	Per capita consumption in rural areas	Per capita consn (rural)		
11.	Informal workers in Rural areas and Urban areas	Informal workers in million in rural / urban sectors		NSS Rounds (July'77-June'78), (Jan-Dec'83), (July'87-June'88), (July'93-June'94), (July'99-June'00), (July'04-June'05), (July'07-June'08), (July'09-June'10)

Annexure-III

	HDI	GVA (crores)	Rural informal N (millions)	Urban informal N (millions)	Un N (%)	Per capita consn (rural)
1993-94	0.427	1522344	274	49.7	6.06	112.63
1999-00	0.493	2254942	283.6	56.1	7.31	127.32
2004-05	0.526	2971465	318.6	69.5	8.28	128.2
2007-08	0.558	3896636	315.4	70.4	5.5	141.96
2009-08	0.581	9837066	312.8	72.1	6.53	148.07
2013-14	0.618	6286549	66.31	15.26	5.56	163.51

Annexure-IV

Sno.	Year	NSS Round	Informal workers in Rural	Informal workers in Urban
1	1977-78	32 (July'77-June'78)	202.9	28.1
2	1983	38 (Jan-Dec'83)	226.1	35.4
3	1987-88	43 (July'87-June'88)	238	39.9
4	1993-94	50 (July'93-June'94)	274	49.7
5	1999-00	55 (July'99-June'00)	283.6	56.1
6	2004-05	61 (July'04-June'05)	318.6	69.5
7	2007-08	64 (July'07-June'08)	315.4	70.4
8	2009-10	66 (July'09-June'10)	312.8	72.1
9	2013-14	Fourth Employment & Unemployment Survey, Labour Bureau, Ministry of Labour and Employment, Govt. of India	66.308	15.25

Annexure-V

		2011-12		2016-17		2017-18	
		Organized / formal	Unorganized / Informal	Organized / formal	Unorganized / Informal	Organized / formal	Unorganized / Informal
	GVA at basic prices	46.1	53.9	47.3	52.7	47.6	52.4