

Capital Formation in Unorganised Sector with Special Reference to Thrissur Corporation Market Area

Arya Gopakumar

Abstract

Economic progress has often been explained in terms of capital formation. Capital formation an increase in the stock of real capital requires a very sound savings and investment .A nations labour force plays an important role in capital formation and building a strong economic system. Unorganised workers are those who have not been able to pursue their common interests due to constraints like casual nature of employment, invariably absence of definite employer-employee relationship, ignorance, illiteracy, etc. They contribute significantly to employment generation and national income in developing economies, such as India. The unorganized sector in India accounted for 93% of total employment and contributed 57% to the total net domestic product (NDP). In order to study the capital formation trend of this mass numbered unorganised labours, we have selected Thrissur corporation market area which is witnessed by the existence of a large number of unorganised labours as our study area. We conduct the study on 180 unorganised labours who is engaged with street vending to study their saving –investment pattern. We approach them with a pre-tested questionnaire and go through participatory research appraisal method and analyse the data with simple mathematical tools. The study proves that 46 percentages of total labour force is from the age group of 20 to 50 which we considered as the active age group that could be actively contribute towards economic activity of a nation. But we found that their earnings are very low and most of them are below subsistence level. They are highly indebted with some cut throat money lenders and NBFIs. They are even unaware about savings, investment and we found that there is only a limited level of capital formation is occurring from this massive sector.

Keywords: Unorganised Labours; Capital Formation; Participatory Research Appraisal Method

Introduction

Indian economy is characterized by a very strong financial system. For a serene and stable functioning of any financial market a capital base is very necessary. In this scenario capital formation can be stated as the back bone of any financial market. Capital formation refers to the money that is moved from economically nonproducing activities and made available to businesses. capital formation occurs when individuals set aside some of their earnings for savings and investment. Reinvested business profits and funding of business projects

through government or other organizations can also add to capital formation. For a society's economy to grow long term, it is essential to increase the capacity for producing goods and services. Capital accumulation provides the money businesses need to expand their activities and thus contribute to overall economic growth. The higher the rate of capital formation means higher rate of economic growth. Capital formation improves the conditions and methods for the production of a country. Hence, there is much increase in national income and per capita income. This leads to increase in the production which leads to again rise in national income. The rate of growth and quantity of national income necessarily depends on the rate of capital formation.

So increase in national income is possible only by the proper adoption of different means of production and productive uses of the same. A nations labour force plays an important role in capital formation

Author's Affiliation: Faculty at Students' PG Centre, Irinjalakuda, Thrissur, Kerala 680121, India.

Corresponding Author: Arya Gopakumar Faculty at Students' PG Centre, Irinjalakuda, Thrissur, Kerala 680121, India.

E-mail: aryagopan7@gmail.com

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and built a strong economic system. Labour force can be categorized as organized and unorganized sector which the later denominates the former by its strength and contribution. The unorganized workers account for about 93 per cent of the total workforce and there is a steady growth in it over years in India. So its calls for a serious study on the contribution of this major chunk group to frame a strong capital market through a serene base with capital formation.

Unorganised Sector And Capital Formation

Most people in India earn a livelihood by working for an income. They work for one employer or many, or as self-employed or own account workers or as contract workers, homebased workers etc. in every sector in the economy. The informal sector is economic activity that is neither taxed nor monitored by a government; and is not included in that government's Gross National Product (GNP); as opposed to a formal economy. Although the informal economy is often associated with developing countries-where up to 60% of the labour force (with as much 40% of GDP) works, all economic systems contain an informal economy in some proportion.

The unorganised workers account for about 93 per cent of the total workforce and there is a steady growth in it over years in India. It is argued that India had a long tradition of informal social security and social assistance system directed particularly towards the more vulnerable sections of the society but underwent steady and inevitable erosion.

Table 1: Employment in organized and unorganized sector in India

Year	Organised (%)	Unorganised (%)	Total Workforce
1983	24.01 (7.93)	(%)	302.75
1987-1988	25.71 (7.93)	298.58 (92.07)	324.27
1993-1994	27.37 (7.31)	347.08 (92.69)	374.45
1999-2000	28.11 (7.08)	368.89 (92.91)	397.00
2005-06	26.46 (7.54)	358.45 (92.46)	384.91
2006-07	33.87(7.93)	393.06(92.07)	426.93
2016-17	28(6)	437(94)	465

Source: Ministry of labour and employment, directorial general of employment and training and Economic survey.

Note: Figures and brackets are percentages to the respective totals.

The contribution of unorganized sector in net Domestic Product is 56.7% in 2002-03. Thus, the major chunk of NDP is provided by the unorganized sector

Industry wise distribution of NDP in organized and unorganized sectors shows that in agriculture sector, the share of organized sector is only 4% whereas 96% share is contributed

by the unorganized sector. Due to this reason, the informal activities are studied in the nonagricultural sectors only. In mining, manufacturing sector 60% share in NDP is of organized sector while 40% share is contributed by the unorganized sector. In service sector contribution of organized sector is 53% while 47% of the share is contributed by unorganized sector.

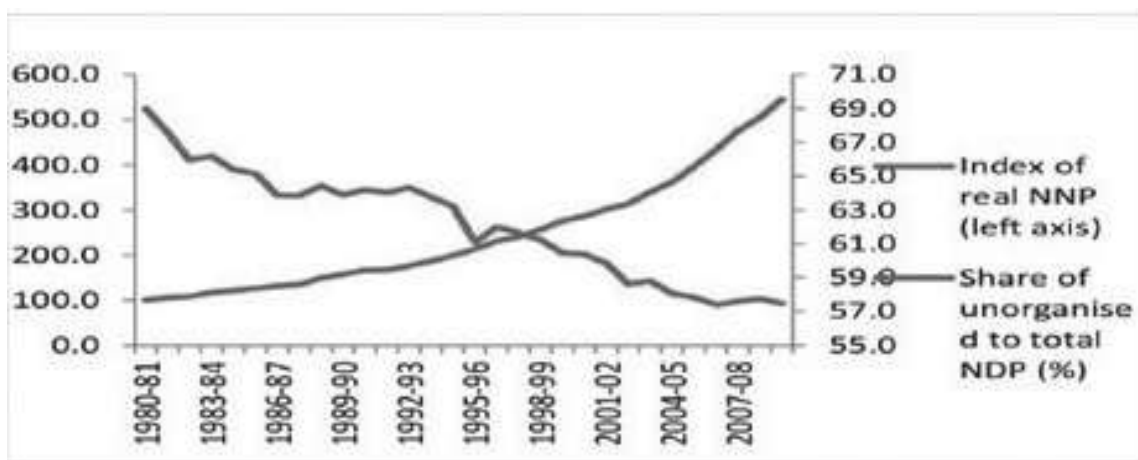


Fig. 1: Share of unorganised sector in NDP, India 1980-2008 (%). Source: CSO, Factor incomes in India, 2009-2010.

Kerala which is generally known as a labour-friendly State bears a major portion of unorganised labours. There is genuine concern and commitment to the protection of the interests of labour and promotion of its welfare. As per 2001 Population Census, the State's population was 3.18 crores and 63.4 per cent of the population was in the age group of 15-59 who constitute the labour force. Projected labour force for 2011 is 237.30 lakhs. Out of India's total main workers, 2.6 per cent are Keralites.

So the study on the contribution of this major chunk force in economic development through capital formation is very essential. Capital formation refers to the money that is moved from economically nonproducing activities and made available to businesses. For example, capital formation occurs when individuals set aside some of their earnings for savings and investment. Reinvested business profits and funding of business projects through government or other organizations can also add to capital formation.

Billion in the first quarter of 2018 and a record low of 2021.90 INR Billion in the first quarter of 2002.

Currently, Indian economy is passing through a process of economic reforms and liberalisation during which, to compete in the world market, merger of various industries and technology up gradation and innovation take place to improve the output in terms of cost and quality. The less efficient units either move out of business or merge with the better performers.

Objectives

1. To study the economic condition of unorganised workers.
2. To Study the level of capital formation in the group.

Methodology

For realizing the objectives of present study we

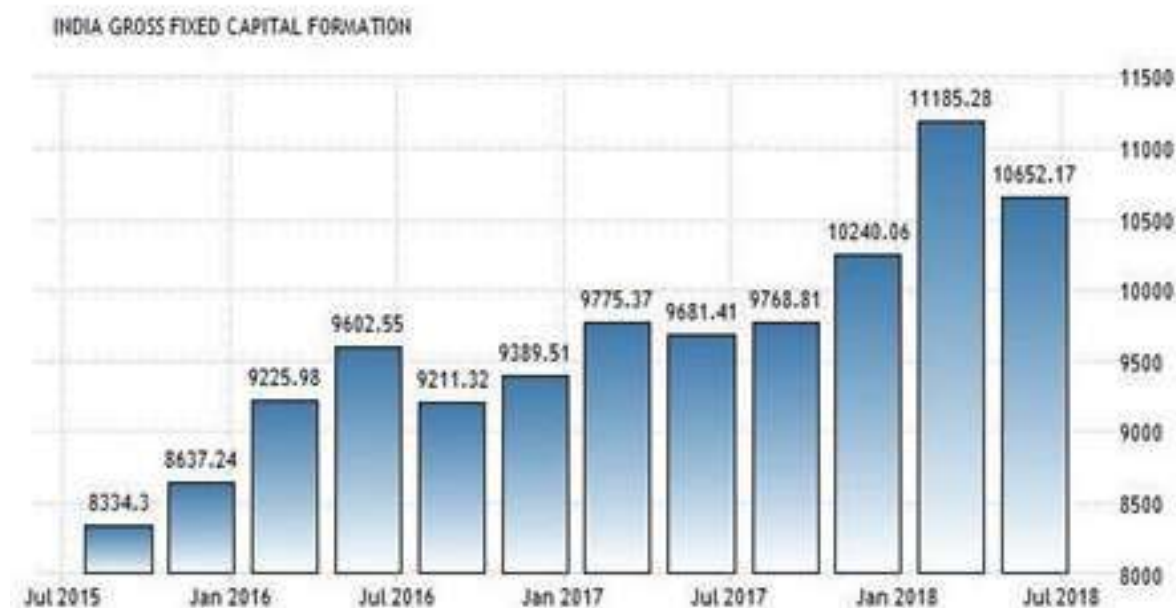


Fig. 2: India Gross Fixed Capital Formation

Fixed Capital Formation in India decreased to 10652.17 INR Billion in the second quarter of 2018 from 11185.28 INR Billion in the first quarter of 2018. Gross Fixed Capital Formation in India averaged 5508.24 INR Billion from 2001 until 2018, reaching an all time high of 11185.28 INR

will have both primary as well as secondary data. We have selected Thrissur municipal Market as our sample area. The unorganized labourers in the area seems to be scattered and omnipresent so that locating the number of respondents become a difficult task. From the area we randomly selected and surveyed 180 labourers from 143 units as our

sample. The selected 143 unorganised units are categorised into 10 according to their nature of their products. For gathering information and data, an elaborate questionnaire was designed. Data regarding the workers' social conditions and economic conditions such as types of products selling, their purchasing cost, selling price, revenue, its margin, consumption expenditure, savings, borrowings etc. have been collected. Besides the pretested questionnaire, varied and diverse questions were asked to make the survey much more comprehensive. The collected data were classified and appropriate average has been used. The average cost and revenue of each unit is estimated by taking the average of all units in the respective categories. As we taken different types of workers handling different types of sales there seems some contradictions in finding their fixed and variable cost so that we take the total and average cost directly. Revenue is estimated by multiplying the quantity of product by the price. By taking the difference between the revenue and cost, the profit or margin of each categories were found. The savings and borrowings of each category were also estimated after assessing their profit and expenditure requirements. Tables, averages, and pie diagrams, bar diagrams etc. have been used to substantiate the facts.

Results And Discussion

Unorganised labours in India constitute 94 percentage of the total workforce. So its contribution to National Income is very high. But at the same time their economic condition is found to be very bad and they are not provided with the benefits enjoyed by the organised sectors labour. The study gives a fair view of the condition of the unorganised labours in the area. The number of unorganised workers in the Thrissur Corporation Market area is seems to be very high compared with the organised workers. All the sample workers in the study area are street vendors and did not have any particular working place. The street vendors in the Thrissur corporation was facing the act of compulsory eviction from the Thrissur corporation council

from July 2011. Though the mission was strictly implemented during the initial days, now many of these vendors have recaptured their place and are continuing with their sales. Most of them are scattered and wandering groups

- In the total workers there are 104 males and 76 females. That is 58 percentages and 42 percentages respectively.
- Different workers are engaged with different types of sales of different commodities. 99 percentage of units are between the population size one to two.
- 46 percentage of workers were between the age of 20-50. The school going age group constitute 2 percentages and it reveals that Child labour is still prevailing in Thrissur.
- Workers with above the age of 60 and Children below the age 15 together are 54 percentages and it reveals that there is lot of dependents involved in different jobs in Thrissur town itself.
- Footwear and Umbrella sellers enjoy the maximum margin even incurring high cost and price. The condition of vegetable vendors is very pathetic economically and socially as they are living in outward and also they enjoy the least margin.
- The vegetable vendors which females are employed in a large rate earn only the margin below the subsistence. The margin from medicine sale is also below the subsistence level.
- There is a huge variation in the cost incurred by the workers due to many reasons.
- There are two types of cost namely fixed and variable cost. But there is a variation in the nature of the sample worker's sale and their cost. Some of them have fixed cost
- only while some have variable cost and at the same time some have both fixed and variable cost.
- The average profit of the unorganised workers in the sample area is 8000 Rupees The average monthly expenditure of the sample population was Calculated as Rs 7731. It includes food, clothing, medical and other household expenses incurred by them.

Table 2: Profit/Margin from the sale

No:	Cotegory	Total cost	Revenue Earnings	Profit/Incom
1	Vegetable vendors	110	1500	400
2	Nut sellers	420	7500	3300
3	Cloth sellers	15000	30000	15000
4	Foot wears and Umbrellas	53000	90000	37000
5	Plastic and electronic Products	4000	8000	4000

6	Book and pens	10500	22500	12000
7	Metal polishers and Stain removers	4000	6000	2000
8	Fertilizers	7000	10000	3000
9	Plants and seeds	3500	6000	2500
10	Medicines	700	1500	800
Totla Profit/Incom				80000
Monthly Average Profit/ Incom				8000

Primary Data

<i>Average Monthly Savings</i>			Relatives and Friends	73	41%
			Indigenous Banks and Money lenders		
Average Monthly Income	Average monthly Expenditure	Average Monthly Savings			
8000	7779	221			

- Average monthly income (y) of the sample respondent is Rs 8000 and average monthly expenditure (c) is Rs 7779. The computation for the average monthly saving (s) = Y-C which equal to Rs 221.
- The difference between their Average Monthly Income and Average Monthly Expenditure of the unorganized labours is not giving sufficient amount for meets their unexpected expenses. They are not getting sufficient amount for further investments on capital goods. So they are making more borrowings to meet their needs.
- As per my study 96 percentage of them are indebted with some NBFIs and with some financial lobbies which they are reluctant to reveal. It seems that they are financially not secured and sufficient capital formation is not occurring there.

Indebtedness of Wokers

- The unorganised workers in the area seems to be indebted from various sources for meeting their capital as well as consumer needs.

Source	No: Of Workers	Percentage (%)
I Institutional Sources	36	20%
Banks Co-Operative Banks	59	33%
II Non -Institutional Sources	97	54%

Primary Data

- There are two main sources of debt viz, institutional and noninstitutional out of the 180 workers 53 per cent takes loans from Institutional sources such as banks and co-operative banks. At the same time 95 per cent were indebted from Non-institutional sources. So the only way they can do any capital formation is through these borrowings. But as per their savings seems to be very low they are insufficient to repay it and the intensity of their indebtedness considering the interest rates are very large.
- So Borrowings is very high and savings are very low. It seems that only a minimum amount is transformed from Savings to Investment. In other words, if whole of the current productive activity is used to produce consumer goods and no new capital goods are made, production of consumer goods in the future will greatly decline. This is what happening in our study area too. This is strong challenge for the process of capital formation in a country as its major portion of labours is from unorganised sector who is very weak in creating capital formation.
- They are not much aware of new economic changes such as Demonetisation and GST and seems to be adversely effected by these new changes.
- Plastic and electronic sellers, footwear sellers and pesticide sellers are highly effected by the digitalization policies of government.

Recommendations

While a nation like India is facing such an issue regarding capital formation from this chunk sector, it may dim the efficiency of an economic system. It will also crack the strong base of a capital market as

well as money market of an economy. So Informal employment remains important, persistent and is often even rising. Thus, the quality of work of poor people holding an informal job has to be improved through the rise of productivity through vocational training and education, micro and small enterprise development and access to credit. Moreover, new strategies are needed to extend economic security to informal workers, and to improve their working conditions. Formal job creation has to be accelerated, exceeding labour force growth. And the transfer from informal to formal employment should be facilitated through changes in regulations and tax or incentive systems, as well as rising productivity of informal activities. Their financial assistance should be ensured with Banking institutions rather than NBFIs who implementing cut throat lending procedures.

Their economic as well as social condition can be increase by monitoring the adoption of national standards through regulatory authorities, facilitating the sharing of best practices and experiences between national and international regulatory authorities and by developing new and innovative enforcement methods including financial incentives that encourage and ensure improved workplace performance. Besides inclusion on the government programs for labours, a proper Financial awareness about savings, investment and borrowings should be made among this group.

If rate of capital formation is to be raised through raising share of profits in national income, the tendency on the part of the capitalists to spend profits on luxurious consumption and unproductive investment has to be effectively curbed and savings and investment in unorganized sector which India's major working force is employed should be accelerated.

Conclusion

Finally, we must ask ourselves for what we need development. It is for these people who form more than 60% of our population that our development goals must aim for. The GDP must increase not only from that but should be made or given to them. They contribute immensely to our economy. It is right to say that our real economy lies with these people. But they are living in a very pathetically economic condition. Their expenditure is above their earnings and savings are seems to be very null. They are earning below the subsistence level of income. So it's

a big challenge is how a sector which earns below subsistence level of income could save or invest. Proper initiatives to uplift their economic condition and financial awareness should be made for this section. Employment, quality of employment, decent work, is crucial for poverty reduction and in achieving growth with equity and pro-poor growth. The link between economic growth, employment and poverty reduction is thus a process in which output growth induces an increase in productive and remunerative employment, which, in turn, leads to an increase in the incomes of the poor and a reduction in poverty Even their activity contributes towards National income, their individual income and savings are very low. This mass population should be brought forward economically to build a strong economic system though capital contribution and financial inclusion.

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