

Some Microeconomic Aspects of Informal Sector Enterprises: Field-Based Evidence from West Bengal

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Despite voluminous literature, proper characterisation of 'informal sector' remains an open question. Analyses of production organisation and price formation mechanisms could provide useful insights. Identifying the motive of participation in such diverse activities is also of interest. We have conducted a case study involving diverse locations and variety of informal activities, with a view to identifying the role of community. Community collaboration and surveillance, mutual faith and trust appear to play a significant part. Prices are set through an admixture of market forces, bargaining, hierarchy of contracts and community/group intermediation in such a way that a socially determined standard of living is attained. When intense competition restricts prices from rising, the micro-entrepreneurs work hard, diversify their business and find out new opportunities. This departs somewhat from the orthodox theory of resource allocation. The satisfaction of 'need', rather than profit maximisation, seems to be the mainspring of many micro-entrepreneurs surveyed.

I Introduction

Since the early 1970s the dynamics of 'informal sector' (both rural and urban) has become a subject of intense research across the globe, especially in developing countries. On one hand, the inability of modern industry to absorb surplus labour in admittedly over-crowded agriculture and on the other, identification of enormous potentials of this informal sector by several researchers and national and international institutions have induced a paradigm shift in the discourse of development (Mellor, 1976; Saith, 1991; Ranis and Stewart, 1993; Bangasser, 2000; Lanjouw and Lanjouw, 2001; for a critical review, Sanyal, 2007). Informal sector is no more considered as a 'residual' one, it is increasingly viewed as 'disperse development engine'.

However, in spite of voluminous research, proper characterization of this sector has remained an open question. Although the specifications proposed by

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