

## Formalization or Informalization of Work? A Simple Industrial Organization Approach

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*The paradox of the recent development experience in India is that while the pace of modernization has picked up momentum, aided, to a large extent, by the tremendous strides in the information technology, there is also a growing trend toward informalization of the work force. The dominance and growth of the informal, unorganized sector – in terms of at least employment of labour – has overshadowed the organized, formal sector. There are several empirical studies on the growth of informal sector in India and also some theoretical studies that attempt to capture the interrelationship and interaction between the formal sector and the informal sector in terms of general equilibrium analysis in the overall context of macroeconomic policy making. The present paper, however, seeks to examine the factors behind the emergence and sustenance of informal work. To be more precise, we intend to examine the issues related to the employers' decision whether to hire/employ, if possible, workers under formal or informal arrangements. In other words, the paper primarily attempts to analyze an employer's labour choice problem under alternative contractual arrangements.*

One of the indicators of economic progress is considered to be found in terms of the rising dominance of the organized sector in a nation's overall economic activity. In a less developed and low income country, where capitalist development is yet to reach its maturity, the production and employment in the informal sector of the economy occupy an important position. India exhibits a number of paradoxical features of economic development, viz., expansion or revolution in the growth of the service/tertiary sector coupled with yet significant position occupied by agriculture and allied activities in terms of employment of labour, existence of poverty amidst plenty and so on.

In the pre capitalist era, when the modern factory and organized economic systems were absent (or, at best, had been in the nascent stage), putting out the system was quite dominant. With the growth and spread of capitalism, the factory system became the order of the day (at least in the countries where it had established its early presence) and with it, accordingly, the division between the organized and the unorganized or between the formal and the informal sectors gradually emerged. Since the launching of economic reforms and liberalization, the Indian economy and its labour market have been undergoing a paradoxical transformation to some extent. While the pace of modernization – a feature of