



Mains Practice Question

Q. The accounting of contribution of informal sector in the national economy is crucial, not only for the sector itself, but for the entire economy . Discuss (250 words)

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Approach:

- Define informal economy.
- Examine the contribution of informal sector and why its accounting is important.
- Give conclusion.

Introduction

The unorganised sector refers to those enterprises whose activities or collection of data is not regulated under any legal provision or do not maintain any regular accounts. Informal/unorganized sector has a predominant place in the Indian economy in terms of its contribution to the GDP and employment. Out of the total workers, nearly 82 per cent in the rural areas and 72 per cent in the urban areas are engaged in the informal sector.

Body

- **Accurate measure of GDP:** Ninety per cent workforce is engaged in the informal economy. About half of India's GDP is informal. Productivity growth has been the most dramatic in the informal side of the economy. Thus inclusion of informal sector economy will provide true and accurate picture of Indian economy alongwith both its strength and vulnerabilities.
- **Broadening Tax base:** As informal economy is very large in India, any effort to widen tax net without incorporating it will be futile exercise. By including informal economy the tax revenue can be raised which can be used by government for infrastructure growth and increasing expenditure on social sectors like health and education.
- **Social security benefits:** Informal workers typically lack the social protection afforded to formal paid workers, such as worker benefits and health insurance, and typically work under irregular and casual contracts. However, the precise relationship between informal employment and the intensity of poverty appears only when informal workers are disaggregated by subsectors of the economy, status of employment (i.e., employer, self-employed, worker), and gender. Higher scrutiny of informal sector for GDP purpose will cause more regulation for this sector and thus will allow for effective implementation of social security benefit to workers.
- **More relevant unemployment data:** Unemployment rates have been controversial issue in India. True picture of unemployment is necessary for gauging health of economy and is required for effective policies. By focusing on inclusion of Informal economy for GDP by studying and examining this sector more closely more accurate picture of unemployment can be generated.
- **Informal economy and gender issue:** Average incomes of both men and women are lower in the informal sector than in the formal sector. The gender gap in income/wages appears higher in the informal sector than in the formal sector and exists even when women are not wage workers. By including informal economy in to GDP calculation, women are more likely to be afforded higher wages thus lowering wage gap.

Conclusion:

India's informal sector i.e., economic activity by unincorporated enterprises, is half of total GDP, among the highest ratios in the world. By including it in GDP calculation it will enable India in building a more just, and stronger economy.

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