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GLOBAL FINANCIAL CRISIS: QUESTION OF INDIAN INFORMAL ECONOMY

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ABSTRACT:

The paper has been aimed at highlighting the impact of Global Financial Crisis of 2008 on informal economy in India. Informal economy accounted for more than 90 percent of workforce during 2009 which means 447 million of the labour force out of almost 500 million of total workforce. This informally employed workforce includes the landless agricultural labourers, casual workers, daily wage labourers, self-employed etc.

The first part of paper introduces the impact of the global financial crisis on Indian economy in totality and then the paper goes on delving into the domino effect which was at play in different parts of the informal economy. Considering the fact that landless and causal wage labourers workingin the agricultural sector contribute to large section of informal economy, second part of paper briefly focuses on the effect of crisis on the agricultural sector. Then a large part of the paper i.e. the third part includes different sections mentioning the impact of the crisis on distinguishing activities within the informal sectors, different people employed in informal economy, women, micro and small producers, etc.

IMPACT OF SUB-PRIME CRISIS ON INDIAN ECONOMY:

When global economy was undergoing through slowdown owing to numerous subprime mortgages becoming delinquent, '**decoupling theory'** was floating around which held that the emerging economies would remain unscathed from the crisis. Indian economy too was anticipated to be decoupled from the global slowdown because even the second quarter of 2008-09(July-September) had robust GDP growth of 7.5 percent. However soon after the collapse of one of the major investment banks of USA i.e. **Lehman Brothers** in the third quarter of financial year 2008-09; decoupling theory stood completely invalidated asthe effects of global crisis started taking an increase toll on India.First worrying impact of the global slowdown was observed in India when GDP growth decelerated to 6.2 percent in third quarter of 2008-09.

Contagion of global recession spread to India through the medium of all three channels; namely, **financial channel, real channel and confidence channel**. The period between September and December 2008 witnessed withdrawal of foreign portfolio investment worth around USD 12 billion along with falling remittances from overseas Indians because of decline in oil prices in the Gulf and West Asia; both the factors come under the category of impact of crisis on India via the financial channel. Outflow of foreign investments from the country leads to widespread banking troubles for traders and exporters by creating a serious credit crunch as the instances of banks delaying and not honouring guarantees increases in frequency. Under the real channel; exports from India declined in absolute terms for five months (during the period of October, 2008 to February 2009) when the downfall of world trade was recorded at 9 percent during 2008-09. Moreover, negative growth of -0.5 percent in terms of real GDP growth was observed in industrial output during fourth quarter of 2008-09.[1] Erosion on account of external demand affected exports and industry's performance which was reflection of increasing integration of Indian economy with the world economy. Lastly, confidence channel was influenced as there was rising risk aversion of the financial system which had made banks cautious about lending. Although situation was better in India as compared to the global financial market which had come to a seizure on account of global slowdown while Indian financial market persisted functioning in an orderly way.

INTER-SECTORAL IMPACT OF CRISIS:

If measured in terms of different sectors then agriculture, manufacturing along with construction and services; all have been victims to shocks of global sub-prime crisis. However, the degree of influence varies among the three sectors. For the period of April-November 2008, growth in manufacturing sector was recorded at 4.0 percent which was significantly low as compared to the growth of 9.8 percent for the corresponding period in 2007.[2] Construction which employs one of the most vulnerable sections (workers in construction being migrants from poor rural areas) was the first one to be hit during the initial weeks of the crisis. Owing to the high dependence of tourism and hotel on high value foreign tourists, services sector had been affected. Transport and real estate of service sector was also severely affected.

IMPACT ON AGRICULTURE:

Complete waiver of loan and one time settlement scheme for loans (which were due for 31st December, 2007 and not paid till 29thFebruary,2008); was provided to the marginal as well

[1] Mohanty, Deepak,"Global Financial Crisis and Monetary Policy Response in India, p. 3
[2] Report on Global Economic Crisis and Its Impact on India, Rajya Sabha, June 2009, p. 31

as the small farmers (whose land holdings are up to 2 hectare) and other farmers respectively. A rebate of 25 percent was provided under one time settlement scheme on payment of 75 percent of the loan. The farmers could avail fresh loans after they were granted the debt waiver.[3] As the result the level of public investment at prices of 2004-05 increased by 1.1 thousand crore rupees and that of private investment shot up by 20 percent during 2008-09 which was the period of highest impact of global slowdown on Indian economy. Besides, subsidies granted on agricultural inputs doubled and use of fertiliser increased by more than 10 percent during 2006-7 to 2008-09. During the period of 2007-08 to 2008-09; the quality seeds distribution by public agencies increased by 1.1 mt. All these measures undertaken by the government ensured that global recession and meltdown does not impact the resource flow to agriculture. Terms of trade moved in favour of agriculture since the start of global meltdown, reason for which is attributed to be the severely affected demand for non-agricultural products compared to the demand for agricultural products. There was a slight fall in net trade in this sector because imports grew faster as compared to exports. However a significant influence on agriculture trade was not caused by global recession.

Thus, use of input and flow of resources; terms of trade for agriculture; and effects which had been transmitted through trade, all these three factors discussed above show that agriculture should not have been negatively impacted during the global crisis. Notwithstanding this, the agricultural growth rate decelerated to 1.6 percent during 2008-09because of deficit rainfall up to 10 percent. [4] Additionally, livestock sector which remained unaffected by rainfall had an accelerated rate of growth, during the same period when agricultural sector growth rate had decelerated. This add more weights to the observation that agricultural growth rate fell owing to rainfall deficit. The rate of inflation in food products during 2009 in India recoded with more than 12 percent increase is also attributed to low agricultural growth during 2008-10.

IMPACT ON INFORMAL ECONOMY:

Informal economy does not operate in isolation and is bound to be impacted by the changes in domestic as well as international economy. Those engaged in the informal economy suffered more shocks of crisis than those in the formal sector because the smallest sectors of unorganised sector (with investment below 25 lakh rupee) which according to RBI could

[3] Finance Minister Speech for Budget 2008-09, IndiaInfoline, February 2008, p. 9

[4] Chand, Ramesh and S.S. Raju (2010), "Effect of Global Recession on Indian Agriculture", Indian Journal of Agricultural Economics, Vol. 65, No.3, July-Sept, p. 7(493)

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previously avail only 5 percent of formal sector credit; now faced increasingly more competition from organised sector to avail credit in the situation marked by acute credit inadequacy.

The impacts of crisis on informal economy were observed in several ways which includes losing of jobs by workers and becoming unemployed; workers getting less work in the same sector where they had been working before the crisis; and workers shifting to other work often less productive and less enumerative. Other works comprised petty trade (street vending, vegetable selling, rickshaw pulling), petty services (helper to drivers or mason, domestic helpers, office peons) and home based work (making of spices, incense sticks, beedi etc.).

As domestic demand collapsed with unveiling of the Lehmancrisis, it had adversely impacted vendors, petty manufacturers and small retailers. Small producers and traders engaged in export related sectors such as gems and jewellery, textiles, handlooms, leather, apparel, carpets, metal products and agricultural products including species and marine were hard hit. India is a major country involved in the global diamond industry, which is organised in a global value chain. India imports raw diamonds and exports finished diamonds after polishing them. Slowdown of global market, impacted the imports as well as marketing of the diamonds. Crash of US markets lead to 50 percent reduction in demand for diamonds because USA is major purchaser of diamonds from India. As the result, theworst jolt was felt by the **gem and jewellery industry** where 30 percent workers lost their jobs, 49 percent settled at less paying jobs within the same industry while other 21 percent moved to less paying occupations in petty trade and petty services.[5]

According to a survey undertaken by the **Ministry of Labour and Employment**, five lakh workers lost jobs in the last quarter of 2008. Various sectors studied for the survey were automobiles, textiles, metal, mining, gems and jewellery, transport, construction and BPO/IT sector.[6]Another report by above mentioned Ministry describes that many workers experienced the phenomenon of decline in income and employment within their sector of employment. This encompasses agriculture, home based garments and chikan craft;where figures were recorded at more than 90, 80 and 55 percent respectively. On the other hand, the count of workers who left their jobs and moved to other sectors for employment was 38 and 21 percent for chikan craft and gems and jewellery sector respectively. In auto parts and engineering industries,a change of 50 percent workers and only 1 percent workers was observed in category of workers whose income declined within same sector and those who left their jobs and shifted to other work respectively. [7]

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[5] Report on Global Economic Crisis impact on the Poor in India, UNDP India, November 2019, p. 21

[6] Report on Effect of Economic Slowdown on Employment in India (October – December 2008), Ministry of Labour and Employment, Labour Bureau, January 2009, p. 10

[7] UNDP "Global Economic Crisis impact on the Poor in India", November 2019, p. 21

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Unprecedented upturn in the prices of food grains during 2007 and 2008in the global market as well as increasing inflation rate depressed the real income of the small as well as marginal farmers, rural and urban causal workers and rural small producers along with urban self-employed. On the other hand, reduction in international prices of several commodities had added to import competition faced by small producers in agricultural and non-agricultural. Problems were further intensified by low prices in sectors like cotton and oilseed production. Wide ranging deterioration of employment status of informal workers was observed with large number of workers forced to shift from skilled to unskilled forms of work, from regular to casual or contractual work. For instance, 11 percent of workers on an average were made to shift in unskilled sector from skilled sector. This implies waste of their skills which had been acquired after years of work in a specific sector.[8]

Decline in income of the workers:

Average monthly income as well as daily wages of workers declined in many sectors. Highest decline was observed in gems and jewellery industry at 97 percent for average monthly income and 44 percent for daily wages.[9] The repercussions of this was significant decline in the household incomes of the workers. Since workers in informal economy does not have significant amount of savings, the decrease in income and the increase in food and other commodity prices lead to reduction in expenditure on food, education and health by large number of workers. According to UNDP ```````````(2010), 20 percent of households in gems and jewellery industry had withdrawn their girls from school and reduction in expenditure of health was 67 percent in the same sector. Similar changes were noted by UNDP in other sectors including engineering industry, chikan craft, etc.

Impact of the Crisis on Women:

According to the above mentioned report, women were the worst sufferers of the crisis in many ways. Firstly, women were pressurised to augment household income by working as home based producers, domestic helpers, construction workers etc . Gems and jewellery which was the worst affected sector witnessedtaking up of full time work as well as part time work by significant number of non-working women.Secondly, they were paid extremely less as compared to the work performed by them. For instance, women in gems and jewellery industry earned as little as 25 rupee per day. Thirdly, unpaid work done by women in forms of domestic work

[8] UNDP "Global Economic Crisis impact on the Poor in India", November 2019, p 22
[9] UNDP "Global Economic Crisis impact on the Poor in India", November 2019, p 24

(cleaning, washing, sweeping), care work and collection of raw food items from common lands as well as common properties multiplied after the crisis. Moreover, the constraints faced by self-employed women acerbated because of poor access to credit as credit had dried up after the crisis, lack of proper infrastructural and technical support and poor access to markets. Lastly, uncertainty about future due to job loss, lack of any assistance and drop in income along with unemployment lead to frustration as well as tension and thereby escalated the incidences of domestic violence.

Impact on Micro and Small Producers:

Another group which underwent distress was most vulnerable group of producers' i.e. small producers and micro enterprises. Their limited access to credit along with passing off burden on them by big traders and exporters left them exposed to the crisis. This group frequently deals with low quality products whose demand is more elastic compared to high quality products. Additionally, there work is job depended implying work also stops as the flow of orders stop. Problems were aggravated by depreciation of rupee as it elevated the prices of intermediate goods and raw material.

Impact on Migrant Workers:

The workers who had migrated from rural areas to urban areas for the purpose of work and had lost their jobs during crisis were found shifting back to their villages as the coping strategy. Because cost of living including rent, fuel, food is cheaper in village as compared to the urban areas.

CONCLUSION:

All this leads to an inference that the global financial crisis on 2008 impacted Indian economy in significant ways after October 2008. Impact on agricultural was not of great importance. However, informal economy was subject to a number of changes during the crisis and saw its size bulging larger as compared to the period before the crisis. In theinformal economy; employment, employment status, income and wages along with skills as well as productivity went through ramifications due to Global Financial Crisis of 2008.

The unemployment rate was recorded at 9.4 percent for the financial year 2009-10 which implies that in absolute term almost 40 million people were unemployed.[10]The reason for this

[10] Labour Bureau, "Employment and Unemployment Survey (2009-10)", Ministry of Labour and Employment, Labour Bureau, Chandigarh, October 2010, p. 31

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can be ascribed to the financial year of 2009-10, being the period when effects of global crisis were at play in the Indian economy. The phase was marked by an increased livelihood insecurity, reduction in income and escalation of poverty and vulnerability. The overall standard of living reduced due to declined incomes of informal economy workers and 12 percent inflation rate prevalent during 2009. The worst effects were endured by casual labourers, among which landless agricultural labourers constituted the poorest section. It worsened the income distribution between those few involved in sunrise sectors and growing majority of the population engaged in the unorganised sector.

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