

The Informal Sector and Us:

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Introduction

In half a century the concept of the informal sector has become known throughout the world. It is sometimes understood simply as a synonym for poverty and family survival strategies, but mostly the concept is used to describe a series of relationships and contexts associated with job insecurity, economic uncertainty, and irregularity in many social, political and legal spheres.

Unlike most concepts developed by policy-oriented professionals, the informal sector has been adopted by economic and development consultants, international organizations, governments, political organizations, the academic community, and most importantly, by the general public. It has been developed and used by the International Labor Organization almost since the start, and has been incorporated into the analysis of the development process particularly in Latin America. This wide range of users probably makes “informality” one of the most commonly known terms ever to have been invented; perhaps even earning a place in the top 100. Such fame needs to be explained, especially as 50 years research findings and common sense criticisms have described it as a contradictory, confusing and meaningless concept.

The first aim of this article is to describe the polemic that surrounds the informal sector concept, which necessarily means sketching in the main ways it has changed over time. The second aim is to describe the most common interpretations that underlie it, and thus help us understand its adaptability to markedly different contexts, as well as the theoretical ambiguity that results. The last aim, which is perhaps the most important, is to offer some ideas about working with marginalized urban populations, with special reference to Mexico where the author has worked for twenty years. The intention is to affirm the value of doing this, as improvements can be made and problems can be solved, and because our contributions are doubly repaid by the richness of what we learn in the process.

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The Polemic

The World Employment Program used the concept “informal employment” back in the 1960’s, and in 1972 a Canadian anthropologist called Keith Hart who was working in Ghana defined a series of characteristics that put the concept on the world stage. The characteristics referred to both economic and employment factors: micro-sized firms, self and family employment, lack of labour benefits, low-division of labor, low technology, and low productivity.

All that sounds easy enough to understand, but even the simplest ideas can provoke debate, and since the 1970’s the informal sector has appeared in most statements about social and economic development in what was then called the Third World.

During the first decades more types of informal relations and precarious work situations were being discovered and documented; including poverty and economic subsistence, women’s work and family relations, urban and rural contexts, tax evasion, corruption and non-compliance with regulations, multiple and interrelated informal relations, informal land settlements and unregulated urban growth, street selling, rubbish collection, increasing flexibility in production and employment relations, subcontracting in specific industries, and the discovery of “informal” relations in the “First World.” Last, but not least, the informal sector has been subject to a vivacious theoretical debate.

As can be seen, the informal sector won considerable popularity and was applied to a very wide range of fields. This diversity soon became a major element of criticism; due to its lack of clarity, it’s “catchall” and contradictory nature, and its generally negative connotation.

Some of the early criticisms were particularly hard hitting, showing for example that informality is a poor conceptual disguise for the well-known phenomenon of increasing labor exploitation by firms. Many “informal” workers have a boss who owns the business, (it could be a sweat shop in the rag trade, the “owner” of a street stall; a large firm that distributes its products by paying a commission on the amount of goods sold, among others), and wages are therefore lower than they would be if the same activity was fully registered with the authorities² and the workers’ pay and conditions were in line with the existing legislation.

Other researchers discovered that “formality” itself can generate “informality,” and that compliance with all the regulations may well be the exception and not the rule. Either way the findings of many researchers have begged the question

² There are many regulations about working conditions and pay. Other regulations may be violated as well, including health and safety, land use permission, local and other taxes, environmental hazards, technology pirating, licenses, among others.

about whether it's the regulations that count or the competitive drive in our economic system that determines what legislation is needed, and the sectors that will benefit by it as well as those that will be left behind.

Another group of researchers focused on the collective aspects of informality showing that it is never a socially isolated phenomenon, but so highly integrated that it's usually not possible to "go it alone." Often more social relations, contacts, payments and permissions are required for washing cars on the street than for operating a business in the "formal" sector. In fact, very few activities have "free" or "open" entry, and the poor vie for the best places and the best times to earn their subsistence.

Finally, from the beginning there have been researchers that criticize the lack of a theoretical basis to give specificity and content to the informal sector concept. They speak in favor of concepts that are informed by clear, well-founded theoretical positions³.

These debates raged in an important and interesting context, and I think that the origins of the concept are very relevant here. The fact is that many of the developing countries started to play a much greater role in the world economy during the post war period. This is particularly the case of the Asian countries such as Taiwan, South Korea, Singapore and Hong Kong who based their economic expansion on exports. Other economies grew as well, in Latin America for example, but the economic focus was on developing the internal market rather than producing for export.

As industry flourished a disproportionate amount of Gross National Product was generated in the fast expanding cities. In a just a few decades millions of people had migrated from rural areas to take advantage of the abundant opportunities for work, and in the hope of leaving subsistence agriculture forever. Natural population growth rates tended to be high as well, and it's not surprising that the result was the proliferation of shanty-towns where people visibly eked out an existence, and without any clear reference to the future.

The established government structures that regulate work, infrastructure, urban services, and housing, were (and most still are), inadequate and completely overwhelmed to meet the increasing demand. This along with the overwork, underpay and long hours in transit between the city centre and periphery, describes a multi dimensional problem. It is also an immediately visible problem that inevitably forms a strong impression to any newcomer⁴. In these circumstances "informality" appears a feasible term that captures the differences between the rich, ordered north, and the poor, chaotic south.

³ A valuable review of the different perspectives that are encompassed by the "informal sector" concept can be found in C. RADOWSKI (Ed.) "Contrapunto: The Informal Sector Debate in Latin America." State University of New York Press. 1995

⁴ One researcher said that the informal sector is like a giraffe, being hard to describe but easy to recognize.

That is to say, the origins of “informality” are found in the development debate, and the gap between the emerging economies and the older advanced ones. For the countries with fast growing economies and populations, the opportunities for a better life were to be found in the expanding cities that were ill-prepared for their arrival⁵. Many observers have compared the post-war industrialization process in these countries with the same phenomenon that occurred in Europe and the United States approximately one hundred and fifty years previously. Living and working conditions for the majority of the population in the industrial areas were particularly shocking⁶.

Despite the validity of these comparisons, the newly industrializing countries in the post-war period seemed to lag very far behind, and this seemed particularly true when the type of economy is taken into consideration. The industrialization process in the 18th and 19th centuries resolved its problems through mechanisms that are not so readily available to the emerging economies (many of which had achieved their independence relatively recently). These include the development and adaptation of a wide range of institutions, imperialism and war, and the consolidation of labour struggles⁷.

In fact, in the post war period the old industrial economies were undergoing the opposite changes to the new ones. Their cities were contracting because industry was relocating in order to exploit the abundant cheap labor that was available in the countries whose rules weren't too expensive to obey⁸. And not only did the jobs go from the old industrial heartlands as industrial decline set in, but also their population. Large-scale population decline was registered in all the old, obsolete industrial cities, as people left to enjoy a quieter life in the suburbs, or the new towns, or even to make an outright move to the countryside.

It's fair to say that the concept of “informality” responds to these multiple changes, almost as if it means that the rules were changing everywhere, but without being clear about which rules or why.

⁵ In some countries internal migration was discouraged or even illegal. China is one example.

⁶ The inhuman working conditions in the factories during the first phases of industrialization have been widely documented (long hours, child labour, women's labour in inappropriate conditions, lack of ventilation, dangerous machinery, insufficient rest, etc.). A general account of the conditions in Manchester, which is one of the true heartlands of the industrial revolution, can be found in F. ENGELS, “The Conditions of the Working Class in England.” 1845.

⁷ E.P. THOMPSON'S “The Making of the English Working Class,” (1963) is one classic study of the social and economic context that produced activity directed towards the achievement of collective goals of the 19 century.

⁸ The developing countries competed to attract the relocating industries. Some built “Export Processing Zones” (known as maquiladoras on the frontier zone between Mexico and the United States), where foreign companies could build factories, use local cheap labour for production, import inputs and export finished products without paying duties. The advanced countries could not compete with these low costs.

More Changes, but the Concept Stays the Same

From the 1990's onward the content of what constituted "informality" changed dramatically. Few development experts had foreseen the longer-term consequences of the multiple changes that were happening around them. In other words most did not use theoretical tools to identify the underlying tendencies⁹.

As we have seen, major changes were taking place in the structure and location of economic activities and the international division of labour, and these were soon referred to as *globalization*. In the space of just a couple of decades whole economies were opened up for trade; "flexible" work processes replaced established labor practices; public industries and services were privatized; and the State withdrew, wholly or partially, from all manner of social goals. Social welfare started to become an individual and family responsibility rather than a social responsibility and a human right.

Of course, there were legislative changes to accommodate these changes, and the extent of change varied from country to country. Despite this, it can be affirmed that the world was changing in a very important sense; and even the radically protectionist economies like Mexico opened its doors to GATT 1986, and later to free trade with its old adversary the United States, and Canada in 1994.

It's understandable that the general public interprets all these processes in terms of increasing "informality," as more and more areas of economic and social life were left to solve their own problems. In addition, the private sector criteria for balancing the books were taking priority as subsidies and grants were cut, and cost recovery penetrated most types of activity whether publicly financed or private investment.

In this context, informality also describes the underlying sense of instability that comes with change, and shows us how far we have gone down the free-market road. It also demonstrates just how much the development gap is closing. So the many meanings of informality have also evolved, and its humble origins back in the industrializing and urbanizing context of Ghana, is hardly recognizable. Now the reference is to a truly global situation that affects most of us, and this is why it has a particular appeal to general public opinion.

In academic terms, the lack of precision reduces the explicative power of informality to just another word. The fact is that it doesn't have a theory that establishes universal laws; neither does it refer us to an explanation of any particular phenomenon. It doesn't tell us about cause and effect, and it leaves us

⁹ Nigel Harris is among those that had. See "The End of the Third World: The Newly Industrializing Countries and the Decline of an Ideology," IB Tauris, 1986.

free to choose the data, the interpretation and the relationships that we want to define to make the case that suits us best. In this sense informality is as much a conversation piece as anything else, as if a common mistake corrects itself because everybody makes it.

The panorama of change that affects our whole planet is profoundly contradictory and equally asymmetric, and not only is it difficult to establish explanations but also it is equally as tricky to know where progress lies. That is why the underlying assumptions of “informality” need to be exposed, as confusion affects our perception and therefore our ability to act.

Informal Employment

As we have already seen the informal sector has always been associated with employment and sub-employment, and its adoption by the International Labour Organization from the 1970's onwards ensured its wide diffusion, as well as contributing to it becoming an important analytical category. There are two points that need to be made about this that will help us understand the present attitude to this organization to the global employment situation and irregular working conditions.

The first is the idea of the “dual” economy¹⁰ that has been a major theoretical backdrop to explaining informal employment since the 1970's, and describes the relationship between “modern” and “traditional” sectors. In one common formulation the “modern” coincided with capitalist industry, and the “traditional” represented the pre-capitalist sector that referred mainly to subsistence agriculture that does not involve capital accumulation.

Duality has been particularly attractive as an explanation for the abundant and precarious labor situation in the emerging economies in both the urban and rural areas. In Latin America it also found echo with regards to its own interpretation of the development and under-development problem, based on the region's economic dependency on the advanced economies, which leads to increasing levels of social polarization¹¹.

The affinity between duality, social polarization and informality is still present in the ILO dialogue¹², but the message has a different tone. Informality occupies a different place, and is defined more precisely than previously in terms of self-employed and family workers. The relationship with gender is particularly

¹⁰ For a brief and succinct history and definition of the dual economy see Gary S. FIELDS, “Dual Economy,” ILR Working Papers, Cornell University, 2007.

¹¹ For an overview of the position adopted by the Economic Commission for Latin America, and Latin America's own development theorists see Esthela GUTIERREZ GARZA, “Desarrollo Económico y Contrastes Nacionales, in Datos, Hechos y Lugares, No. 21. 2003.

¹² International Labour Office, “Global Employment Trends, January 2008.” ILO. Geneva. 2008.

clear as women are less likely to have formal work arrangements than men, and are more vulnerable to poverty that is related to wages and working conditions.

The second point is the policy agenda and the role governments can play in improving vulnerable and informal work situations. This area of consideration has been present in the discourse about informality since the beginning and includes a wide range of positions, for example, researchers that are regarded as conservative such as Hernan de Soto who affirmed that the antiquated regulatory framework is the reason for capitalist underdevelopment in Peru¹³, and others who use more traditional leftist analytical tools, and affirm that “informality” is best understood as the reserve labor force as defined by Marx¹⁴.

These criticisms, and many others, mean that “informality” has lost some of its early popularity. New concerns have emerged, such as the environment, human rights and poverty, and informality is finding itself in a new context. For the International Labour Office it has been translated into the goal of decent work for all. This organization now sees precarious work situations as a major cause of poverty and has developed a series of policy recommendations for international and national implementation that addresses human development on the basis of decent work for all¹⁵.

The importance given to the question of how people earn their living is now included as a specific target of the United Nations Millennium Goal Number One, which is the eradication of poverty. Here it is internationally recognized that access to decent work is the main route out of poverty.

Informal Economy

Establishing the relationship between informality and economic activities (companies and firms whether big, medium-sized, small or micro), and other economic indicators is markedly different to the study of informal employment. This is because the economy is a wider category than employment and the informality concept is not relevant for many economic performance indicators.

Given the problem of establishing parameters for measuring and evaluating the informal economy¹⁶, I’m going to centre this part of the essay on my own

¹³ Hernan DE SOTO, “The Other Path. The Invisibile Revoluion inthe Third World.” Harper and Row. 1989.

¹⁴ Mexican researchers have contributed significantly to this debate, see Gerardo GONZALEZ CHAVES. “La Globalización y el Mercado de Trabajo en Mexico,” in Problemas de Desarrollo. Revista Latinoamericana de Economía. Vol. 35, No 138. Julio-Septiembre 2004. Also see: Teresa RENDÓN “Trabajo de hombres y trabajo de mujeres en el Mexico del siglo XX,” México CRIM-PUEG, 2004.

¹⁵ This includes people working in the “formal” and “informal” sectors, as wages are often very low and working conditions are bad in the “formal” sector.

¹⁶ Informality is sufficiently important for the World Bank to include mention of it several times in its 1998 Global Economic Report, usually in relation to economic uncertainty and structural adjustment policies in different countries and regions of the world. Generally, the World Bank does not see informality as getting worse over recent decades, except in temporary situations that are related to economic cycles and functioning.

work on street selling in Mexico City¹⁷, because it demonstrates some of the conceptual issues, as well as the data collection problems which are common for all so-called informal activities, and also exposes the problems in developing and implementing public policy for the improvement of the working conditions of sellers, the streets, and of small-scale commerce itself.

As street selling takes place in spaces that are denominated “public,” it is regarded an informal sector activity *par excellence*, and possibly the most visible economic activity in the world. The streets of some cities in the developing world are full of disorderly stalls, or people laying out wares on the pavement and getting in the way of passers-by. Perhaps outside observers wonder why the authorities don’t do something about this, and at the same time they worry at the lack of decent jobs and the increasing poverty that drives people to sit out in all weathers in the hope of earning a day’s wage.

However, if we are better informed we know that we are not looking at disorganized chaos, as many street sellers are organized in groups, whether big or small, which are often, but not always, penetrated by political interests and corruption. We might also know that the local and/or city authorities administer all activities in public spaces, at least to a certain extent, and therefore street sellers are subject to some type of administrative control. And whilst we happily discourse on the urban image or tax evasion, we are reluctant to see street selling as an economic activity, even though it says so in its title “street *selling*.” Even if we stop to buy something, in our minds eye street selling remains principally an employment problem that causes transit congestion and urban deterioration.

In fact, street selling forms part of the structure of commerce and like all other trading activities, whether carried out in supermarkets, small shops or elsewhere, it depends wholly on the market for the goods on sale. There wouldn’t be any sellers on the street if there were no buyers, as nobody works all day without earning something¹⁸. This simple and obvious point is too often overlooked, and the main reason is the lack of information that permits the analysis of street sellers by the type of goods on sale, days/hours of work, location, and other variables such as the gender of the seller. Without this information it isn’t possible to analyze how street selling functions, and we are therefore susceptible to repeat half-truths, and fail to grasp important tendencies associated with consumer preferences, the origin of the goods on sale, gender relations in street selling, among other issues.

¹⁷ Mary WILLIAMS, Comercio Callejero en la Delegación Coyoacán y Micro Territorios: México, Plaza y Valdes, 2007.

¹⁸ The investment of time and effort could be for more than a day, and in the case of street selling in México City, it can be seasonal, that is to say that sellers remain on the streets for long periods with minimum sales and make up for it in bonanza periods such as Christmas, Mothers Day back to school in September, among other events. Other sellers earn very little all year, perhaps they have a simple tray of sweets, and are very poor.

So a vicious circle is established where perspectives cannot be developed for the lack of information, and the information we do have is partial and often biased. For example, sufficient data discloses that in the Coyoacan urban area of Mexico City, the majority of stalls sell a prepared hot food (from breakfast onwards), sweets, drinks, and other types of food (regional cheeses, bread and cakes, fresh fruit and vegetables, etc). While a wide range of other goods is on sale, these are a minority of the total. However, one popular view of street sellers is of illegally imported goods, pirated music, and stolen or defective goods, and it is clear that in the zone in question (which is an entire municipality), the configuration of goods on sale is completely different. This configuration derives from the local market that includes university and high school students, transport interchanges, and government offices. All of these installations are open to the public for most of the day and are used by people that often arrive from far away. Restaurant food is relatively expensive, and the relationship with street foods is the result.

The second point is related to the first, because the lack of information specifically on the micro location of the street sellers means that it isn't possible to develop alternatives that are viable in commercial (market) terms. Although the idea of relocation is popular with government and established commerce, as it clears the streets, it doesn't take into account that the market for the goods on sale is on the street. Mexico City has learnt to its cost that expensive relocation programmes in Commercial Plazas don't work. Most of these have simply created more abandoned areas, or alternatively have provided spaces that street sellers use to store their goods, thus perpetuating their occupation of the streets rather than the opposite.

Given that informality is strongly associated with imprecision, the lack of information worsens the problem. Changes can only be made when new perspectives are demonstrated, and this is particularly serious in the case of micro territories. In many areas of urban policy, the focus is away from general improvement programmes towards attention for priority zones that are selected for specific actions due to the seriousness of the problems and for their potential for multiplier effects.

The lack of information means that the street traders themselves are subject to half-truths and distortions, and attitudes about them become polarized. Without doubt there are problems of legality, violence and corruption in some cases, but these should not have a place in any type of commerce, and are not restricted to street commerce¹⁹.

Lastly, it has to be pointed out that, given the scale of street selling in Mexico City (up to 100,000 street sellers), information can only be collected by

¹⁹ Guillermo DE LA PEÑA shows the relationship between large firms and institutionalized corruption in Guadalajara. See "Corrupción y Informalidad" in *Espiral. Estudios sobre Estado y Sociedad*. Vol.III. No. 7. Sep/Dic 1996

government agencies. The local and city authorities have collected information on the characteristics of all street sellers, however they don't normally release it to facilitate analysis, probably for political reasons²⁰. Therefore, the public cannot be presented with new perspectives based on proper information, including the academic community, neighbourhood organizations, trade organizations, and of course the street sellers themselves. In the view of the author this represents a restriction of democracy, and contributes to ensure that the problems are not solved.

The Informal Economy and Us

However dire the conditions that were prevalent in the newly industrializing countries fifty years ago, the levels and impact of the changes in both the less and more developed countries were not anticipated by most observers of the development process. Precarious work, insecurity and irregularity in almost all fields of economic and social life have grown everywhere, and the world economy is a long way from generating the 50 million new jobs that are required annually to keep its population employed. An ever decreasing proportion of total jobs are generated by the productive sector, and this means that a greater proportion of the working population are found in service activities, including commerce, which are particularly susceptible to informal practices and labour relations.

This is one of the contradictions of our world economy, which has grown without precedent over recent decades; this means that the world's wealth has also increased without precedent during the same period. Despite this, poverty abounds and inequality has even increased²¹, and many observers are asking the question "what is it all for?" For the first time in our history we *all* need to know what "development" can offer us.

As we face new problems such as environmental deterioration, energy shortages, climatic change and the scarcity of water²², which threaten our sustainable existence, we have to look for solutions that are both individual and collective. While we are more conscious of the vulnerability of our planet, we also have to recognize the contribution made by the low-income groups to our society as workers, and also to its problems as consumers of precious resources and generators of waste. It is as if we are coming full circle because our problems cannot be solved exclusively by technological improvements and the development of new products, so we have to ask ourselves where progress is going to come from.

²⁰ The Coyoacan street sellers project was undertaken in coordination with the local authorities and was largely based on the analysis of their data.

²¹ See: Andres SOLIONANO, "Distributive Justice and Economic Development" The University of Michigan Press, 1999.

²² In many poor areas of Mexico City water is rationed and inhabitants fill tanks and buckets to tide them over until the next time the supply is turned on.

The lack of social improvements, and this includes the increasing incapacity of governments to significantly improve the quality of life of their poor, segregated, marginalized and discriminated populations is part and parcel of the crisis of legitimacy of most governmental and political institutions²³. It is widely recognized that the rapid transformation of our global economic and social system has taken place at the cost of social cohesion.²⁴ And whereas previously we looked to the State as mediator of society's problems and conflicts, this major institution has been exposed because nobody today would affirm that these are exclusively government problems.

To answer our question we have to ask, whose problems are they? Whatever answer we give ourselves, we knew the strengths and limitations of the private sector from the start, and deep down we've also known that the State is not impartial. This is not to say that these two main sectors of our international community can be excused of their responsibility on the basis of their intrinsic nature, but rather to indicate the direction in which many agencies are seeking an answer.

Here the specific recommendations for incorporating informal workers into social protection schemes are well developed²⁵, as are anti-poverty measures, gender equality policies and other policy prescriptions aimed at improving access to basic services, education and justice²⁶. One particularly important consideration that is now included in the policy agenda is human development; that is to say, for some agencies, the focus has shifted from economic development to a broader concept of the quality of life for everyone.

Whatever amount of resources are necessary to ensure the development of the disadvantaged groups and geographical areas, it is also the case that these same groups have to learn to exercise their own choices about their own lives, and spaces have to be created within the policy framework for dialogue and participation. With this, the exercise of choice, participation and empowerment, are seen as part of the quality of life.

In my view this represents one of the most valuable challenges that have been presented to development specialists. It incorporates modern human rights in a sustainable development model that includes everybody, and seeks to encourage alliances between different types of organization, including government (central,

²³ The World Bank considers governance a prerequisite for development and has elaborated a series of governance indicators: see: www.siteresources.worldbank.org

²⁴ See "Cohesión Social: Inclusión y sentido de pertenencia en América Latina y el Caribe." Naciones Unidas, CEPAL, Agencia Española de Cooperación Internacional, Secretaría General Iberoamericana. 2007. This document is available in English.

²⁵ ILO Op.cit.

²⁶ The United Nations organizations have developed a wide range of analytical and policy oriented documents including UNESCO, UNIFEM, UNDP, UNCHS.

city and local level government), the private sector and, most importantly civil society organizations. For the first time credit is given for the role of leadership in promoting and implementing improvements, and far-reaching changes are seen as necessary if discrimination is to be tackled.

Although the laying-out of the necessary actions to achieve progress is still more evident on paper than in practice, it has the distinct advantage of putting all of us on the human stage, as part of the problems of our age, and an opportunity to find solutions. That is to say that the world now has the wealth, the technology and the knowledge to solve the problems presented by informality and inequality in all its expressions, it only takes us to play our part in ensuring that it becomes reality.
