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On the informal economy: the political history of an ethnographic concept

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Informality may be conceived logically in terms of four categories: division, content, negation and residue. Neoliberal globalization has vastly expanded the scope of informal activities; so that we also need to examine what social forms positively organize them and how these relate to governments, corporations and international agencies. The current crisis of world economy has already begun a major swing of the pendulum back from the market to the state (wherever that may be these days). The political potential of our moment in history is well illuminated by a review of how the major development agencies have variously construed the dialectic of bureaucracy and informal economy through the state/market pair since the concept's origins around 1970.

CEB Working Paper N° 09/042
2009

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On the informal economy: the political history of an ethnographic concept[2]

Abstract

I explore here the dialectic of formal and informal economy in the context of 'development' discourse over the last four decades. It would not be hard, in post-colonial Africa for example, to conceive of this dialectic as a war waged by the bureaucracy on the people, allowing informal economic practices to be portrayed as a kind of democratic resistance. Yet, however much we might endorse the political value of self-organized economic activities, there are tasks of large-scale co-ordination for which bureaucracy is well-suited; and the institution's origins were closely linked to aspirations for political equality, even if historical experience has undermined that expectation. So the task is not only to find practical ways of harnessing the complementary potential of bureaucracy and informality, but also to advance thinking about their dialectical movement.

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[2] Centre Emile Bernheim working paper presented at a seminar in Brussels, 29th October 2009.

The informal economy as a Cold War concept

In the early 1990s, not long after the fall of the Berlin Wall and Mandela's release from prison, I wrote my first retrospective critique of the idea of an informal economy: 'Market and state after the Cold War: the informal economy reconsidered'.[3] There I made the obvious point that the formal/informal pair, representing bureaucracy and popular self-organization as they did, mirrored the poles of the Cold War, 'state socialism' vs. 'the free market'. I had earlier tried to show, in a lecture on money ('Heads or tails? Two sides of the coin'),[4] that the habit of opposing market and state theories of money as alternatives, at the time Friedman's monetarism vs. Keynesian macro-economics, was ruinous since impersonal money was both a token of political authority ('heads') and a commodity ('tails'). After three decades of welfare-state democracy, the profound shift in economic policy to what we now call neoliberalism was well under way in the 1980s; and we are now witnessing the start of another long swing back from over-reliance on the market to increased state intervention in some form or another. So the state/market pair has not faded away. In the immediate aftermath of the Cold War, however, I was optimistic that new paradigms could emerge; and I questioned whether the informal economy was a helpful concept, given its origins in the polarities of twentieth-century society that had given us the nuclear nightmare.

The formal/informal pair first saw light in a development context during the world crisis of the early 70s – a sequence of events that took in America's losing war in Vietnam, the dollar's detachment from gold in 1971 and the subsequent dismantling of the Bretton Woods regime of fixed parity exchange rates. This was soon followed by a world depression induced by the oil price hike of 1973, then the invention of money market futures in 1975 and finally by a glut of petrodollar loans that ended up as the Third World debt crisis of the 80s. 'Stagflation' in the West (high unemployment and inflation) prepared the ground for Reagan, Thatcher and their imitators from 1979-80 onwards. After the 'modernization' boom of the 60s, the notion that poor countries could become rich by emulating 'us' gave way to gloomier scenarios around 1970, fed by zero-sum theories of 'underdevelopment', 'dependency' and 'the world system', not to

[3] In R. Dilley (ed) *Contesting Markets*, Edinburgh University Press, Edinburgh, 214-227 (1992).

[4] *Man* 21.4, 637-656 (1986).

mention French structuralist Marxism. In development policy-making circles, this trend manifested itself as fear of 'Third World urban unemployment'. It had been noted that cities there were growing rapidly, but without comparable growth in 'jobs', conceived of as regular employment by government and the corporations. At this time, it was universally held by Keynesians and Marxists alike that only the state could lead an economy towards development and growth. There were a few maverick liberal economists around, but none of them influenced policy. The question was therefore: how are 'we' (the bureaucracy and its academic advisors) going to provide the people with the jobs, health, housing etc that they need? And what will happen if we don't? The spectre of urban riots and even revolution raised its head. Some advocated forcibly returning the urban mob to peasant agriculture where they would be likely to do less damage. 'Unemployment' evoked images of the Great Depression, of broken men huddling on street corners ("Buddy, can you spare a dime?").

This whole story didn't square with my fieldwork experience over two years in the slums of Accra. It took me some time to work out why, but the result was a paper for a 1971 IDS, Sussex conference on 'Urban unemployment in Africa'. It eventually appeared in 1973 as 'Informal income opportunities and urban employment in Ghana', after an ILO report featuring the organizers of the Sussex conference had launched the idea of an 'informal sector' in Kenya.[5] I will not rehash this story in detail. Suffice it to say that my motivation was to persuade development economists, from the perspective of my ethnography, to abandon the 'unemployment' model and embrace the idea that there was more going on in the grassroots economy than their bureaucratic imagination allowed for. To that end, I had two sections: the first was a vivid Malinowskian description ("I have been there and you haven't"); the second was an attempt to engage their interest in the consequences for development theory, using a jargon I call 'economese' (how to sound like an economist without formal training in the discipline) which I had learned from colleagues in a development policy group and by

[5] *Journal of Modern African Studies* 11. 3, 61-89 (1973). International Labour Office *Incomes, Employment and Equality in Kenya*, Geneva: ILO (1972).

moonlighting for *The Economist.* I had no ambition to coin a concept, just to insert a particular vision of irregular economic activity into the ongoing debates of professionals in the development industry. In this sense, it was a classic move in the genre of 'realism'. The ILO Kenya report, on the other hand, did want to coin a concept and that is what it has subsequently become, a keyword helping to organize a segment of the academic and policy-making bureaucracy. So I think it would be fair to say that the idea of an 'informal economy' has a double provenance reflecting its two sides, between bureaucracy (the ILO) and the people (an ethnography of migrants in Accra). In the meantime, the ethnographer had a Marxist conversion and immediately dropped the idea until the late 1980s, when its miraculous persistence encouraged me to revisit it.

My critical review acknowledged the value of drawing attention to activities that had previously been invisible to the bureaucratic gaze, but what struck me two decades on was how *static* my analysis had been. I wanted to establish that no single idea ('the state') can ever capture the complexity of real life, leaving the residue to leak out as potential material for another idea, its negation (in Hegelian terms). But I now realized that I first conceived of informal income opportunities as at best a minor appendage of the state-made economy, perhaps a bit more than the economists' dismissive "taking in each others' washing", but essentially going nowhere. I refused to join the rush to announce a new means of development by the bootstraps nor did I accept the standard Marxist account of 'petty commodity production' or 'casual labour' as merely a subsidy to capital's costs.

Yet I could not anticipate what happened next: under a neoliberal imperative to reduce the state's grip on 'the free market', manifested in Africa as 'structural adjustment', national economies and the world economy itself were radically informalized. Not only did the management of money go offshore, but corporations outsourced, downsized and casualized their labour forces, public functions were privatized often corruptly, the drugs and illicit arms trades took off, the global war over 'intellectual property' assumed central place in capitalism's contradictions, and whole countries, such as Mobutu's Zaire, abandoned any pretence of formality in their economic affairs. Here was no 'hole-in-the-wall' operation living in the cracks of the law. The market frenzy had led to the 'commanding heights' of the informal economy taking over the state-made bureaucracy. Just as the Cold War ended in a 'negative dialectic' (Hegel) of confusion between the poles that launched it – 'state capitalism', 'market socialism', the Pentagon fighting for the free market as the largest non-market collective in the world – so too the formal/informal pair, inspired as I now thought by the state/market opposition, had leaked into each other to the point of being often indistinguishable. What is the difference between a Wall Street bank laundering gangsters' money through the Cayman Islands and the mafias running opium out of Afghanistan with the support of several national governments?[6]

My first criticism of the informal economy concept was that it was insufficiently dynamic. I thought that this might be partly the result of living under the threat of a nuclear holocaust. We didn't want the two sides to move dialectically, since the result could be the annihilation of all life on the planet. In any case, they had moved – at several levels. So my next criticism was that 'informal' says what these activities are not, but not what they are. If the phase of negative dialectic ('deconstruction') was to be succeeded by a new positive idea ('globalization'?), we needed to know more about what was going on under the rubric of 'informal' ('the market') than just to lump everything together in a catchall phrase that allowed bureaucrats to claim they understand what they never could. Since then, I have vacillated over the value of the concept I am now credited with having coined. I still think that the more urgent task is to expose what the positive principles organizing the informal economy are and to place these investigations within an adequately broad historical framework. But I also acknowledge that there are political uses for the idea, particularly within international bureaucracies, such as lobbying for women's rights and conditions of work, as well as intellectual uses that continue to spawn important empirical work in Africa, India and elsewhere. And, while it panders to my vanity to claim a superior attitude towards something I helped to make, why should I kill off the goose that laid the golden eggs?

Our present moment in history

Before getting into the substance of my paper, I should briefly discuss what I take to be the context of our present moment in history. Jean-Louis Laville has recently reminded us of the two lessons to be drawn from the history of the twentieth century:

> First, market society sustained by a concern for individual freedom generated huge inequalities; then submission of the economy to political will on the pretext of equality

[6] *The Hit Man's Dilemma: or business, personal and impersonal*, Chicago: Prickly Paradigm (2005).

> led to the suppression of freedom. These two solutions called democracy itself into question, whether in the form of totalitarian systems or, with a similar result, through the subordination of political power to that of money. If we reject both of these options, it is then a question of developing institutions capable of guaranteeing a plural economy within a democratic framework, exactly what is compromised when the rationale of material gain without limit has a monopoly.[7]

Laville, following Mauss and Polanyi, pillories those who would reject a caricature of the economy in the name of some future alternative, since all economic possibilities coexist now, including those that have been variously dominant in history. Our task is to build economic solidarity (*économie solidaire*)[8] through new institutional combinations and with a new emphasis. This means combining the equal reciprocity of freely self-organized groups with the redistributive powers of the state.

It is, however, no longer obvious where the levers of state power, democratic or otherwise, are to be located, since the global explosion of money, markets and telecommunications over the last quarter-century has severely exposed the limitations of national frameworks of economic management. We are clearly witnessing the start of another long swing in the balance between state and market. Central banks are pumping liquidity into failing asset markets, especially housing. The rapid switch by the 'masters of the universe' from market triumphalism to the public begging bowl would be surprising, if it were not so familiar. The banks want to privatize their profits and nationalize their losses; but such a political recipe may be running out of popular support. Before long, a genuine revival of Keynesian redistributive politics seems to be inevitable. But the imbalances of the money system are now global, as the financial rescue operation recently performed on failing American banks by the 'sovereign funds' of some Asian and Middle Eastern governments shows. Society is already taking the form of large regional trading blocs like the EU, NAFTA, ASEAN and Mercosul; and the Bretton Woods institutions

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[7] Jean-Louis Laville 'Towards a theory of plural economy: in the footsteps of Mauss and Polanyi', London (2008), http://www.rethinkingeconomies.org.uk/web/w/www_26_en.aspx .

[8] This notion, originating in the World Social Forum at Porto Alegre, Brazil in 2000, has entered English, via Portuguese and French, as 'solidarity economy': Allard, Jenna, Carl Davidson and Julie Matthaei (eds) *Solidarity Economy: Building alternatives for people and planet*, Chicago: ChangeMaker Publications (2008).

(World Bank, IMF, WTO) promote no interest beyond that of western capital. The strength of any push to reform global institutions will depend on the severity of the current economic crisis. A return to the national solutions of the 1930s is bound to fail.

There are substantial parallels between the last three decades and a similar period before 1914. In both cases, market forces were unleashed within national societies, leading to rapid capital accumulation and an intensification of economic inequality. Finance capital led the internationalization of economic relations and people migrated in large numbers all over the world. Money seemed to be the dominant social force in human affairs; and this could be attributed to its greater freedom of movement as the boundaries of society were extended outwards, then by colonial empire, now by the digital revolution and transnational corporations. The main difference is that the late nineteenth century saw the centralization of politics and production in a bureaucratic revolution, while a century later these same bureaucracies were being dismantled by neoliberal globalization. Moreover, the immediate winner of "the second thirty years war" (1914-1945) was a strengthened 'national capitalism', a synthesis of state and market that arose from an institutional drive to manage markets, money and accumulation through the nation-state's central bureaucracies, going back to a series of political revolutions in the 1860s. David Harvey calls this post-war turn to social democracy "embedded liberalism",[9] emphasizing the continuities with an earlier market form. I prefer to think of the period 1948-73 as the apogee of national capitalism, if not as Eric Hobsbawm's "golden age".[10]

It is easy enough to harp on about the irrational excess and sheer inequality of the neoliberal era -- the heedless speculation, corporate skullduggery, outrageous looting of public assets, not-so-creative destruction of nature and society. But there are lasting institutional effects, just as there were from previous booms which generated railroads; the gold standard; the rubber industry; stock markets; and colonial empire. The extension of society to a more inclusive level has positive features; and, before we demonize money and markets, we should try to turn them to institutional ends that benefit us all. The world economy is more integrated than it was even two decades ago; we need new principles of political association with which to put in place more

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[9] David Harvey *A Brief History of Neoliberalism*, Oxford: University Press (2005).

[10] Eric Hobsbawm *Age of Extremes: a history of the world, 1914-1991*, New York: Vintage (1994).

effective regulatory frameworks. Fragmentation would be disastrous: I would not wish to return to currency controls and state-managed money, even if it were feasible. The political questions facing humanity today once more concern distributive justice. The long period of Western dominance of the world economy is coming to an end. New actors on the world stage will have their say about who gets what. An escalation of war and general fractiousness is quite likely. Under these circumstances, a focus on the socially redemptive qualities of money and markets might be quite salutary.

The new combinations of money, machines and people emerging today must be addressed squarely. The world society that has developed in the last half-century has some features never seen before and many that are perennial. Any way forward will be worked out by China, Europe, the USA and regional leaders such as India, Brazil, Russia and South Africa. They will build on an existing diversity that is hardly illuminated by catchall phrases like 'neoliberalism'. People everywhere are already asking loudly "What happened to our money, our jobs and our houses? Why did we let them get away with it? How can we make sure it doesn't happen again?" Debates about political economy today could use the historical substance and prophetic vision that Karl Polanyi brought to the last time our incipient world society was threatened with disintegration.[11]

The dialectics of form

General Forms have their vitality in Particulars, and every Particular is a Man.

William Blake

Most people here live substantially inside what we may call the formal economy. This is a world of salaries or fees paid on time, regular mortgage payments, clean credit ratings, fear of the tax authorities, regular meals, moderate use of stimulants, good health cover, pension contributions, school fees, driving the car to the commuter station, summer holidays by the sea. Of course households suffer economic crises from time to time and some people feel permanently vulnerable, not least many of the PhD students and post-docs here today. But what makes this lifestyle 'formal' is the regularity of its order, a predictable rhythm and sense of control that we

[11] 'Money in the making of world society' in Chris Hann and Keith Hart (eds) *Market and Society: The Great Transformation today*, Cambridge: University Press (2009).

often take for granted. I only discovered how much of this had become natural to me when I went to live in a West African city slum forty years ago.

I would ask questions that just didn't make sense to my informants, for example concerning household budgets. How much do you spend on food a week? Households were in any case often unbounded and transient. Assuming that someone had a regular wage (which many didn't), it was pitifully small; the wage-earner might live it up for a day or two and then was broke, relying on credit and help from family and friends or not eating at all. A married man might use his wage to buy a sack of rice and pay the rent, knowing that he would have to hustle outside work until the next paycheck. In the street economy people were moving everything from marijuana to refrigerators in deals marked more by flux than stable income. After completing a doctorate, I went to work in a development studies institute. There I saw my main task as trying to get this ethnographic experience across to development economists. My use of the conceptual pair formal/informal came out of those conversations.

The formal and informal aspects of society are already linked of course, since the idea of an 'informal economy' is entailed by the institutional effort to organize society along formal lines. 'Form' is *the rule*, an idea of what ought to be universal in social life; and for most of the twentieth century the dominant forms have been those of bureaucracy, particularly of national bureaucracy, since society has become identified to a large extent with nation-states. This identity may now be weakening in the face of the neo-liberal world economy and a digital revolution in communications. Any initiatives combining public bureaucracy with informal popular practices need to be put in this historical context.

The formal and informal appear to be separate entities because of the use of the term '*sector*'. This gives the impression that the two are located in different places, like agriculture and manufacturing, whereas both the bureaucracy and its antithesis contain the formal/informal dialectic within themselves as well as between them. The need to link the sectors arises from a widespread perception that their relationship consists at present of a class war between the bureaucracy and the people. It was not supposed to be like this. Modern bureaucracy was invented as part of a democratic political project to give citizens equal access to what was theirs as a right. It still has the ability to co-ordinate public services on a scale that is beyond the reach of individuals and most groups. So it is disheartening that bureaucracy ('the power of public office') should normally be seen now as the negation of democracy ('the power of the people') rather than as its natural ally.

Forms are necessarily abstract and a lot of social life is left out as a result. This can lead to an attempt to reduce the gap by creating new abstractions that incorporate the informal practices of people into the formal model. Naming these practices as an 'informal sector' is one such devise. They appear to be informal because their forms are largely invisible to the bureaucratic gaze. Mobilizing the informal economy will require a pluralistic approach based on at least acknowledgement of those forms. Equally, the formal sphere of society is not just abstract, but consists also of the people who staff bureaucracies and their informal practices. Somehow the human potential of both has to be unlocked together.

'Form' is an idea whose origin lies in the mind. Form is the rule, the invariant in the variable. It is predictable and easily recognized. For example, in a birdwatcher's guide, it would not do to illustrate each species with a photograph of a particular bird. It might be looking the wrong way or be missing a leg… So instead a caricature shows the distinctive beak, the wing markings and so on. That is why idealist philosophers from Plato onwards thought the general idea of something was more real than the thing itself. Words are forms, of course. In his *Science of Logic*, Hegel shows the error of taking the idea for reality. We all know the word 'house' and might think there is nothing more to owning one than saying 'my house'. But before long the roof will leak, the paint will peel and we are forced to acknowledge that the house is a material thing, a process that requires attention. The 'formal sector' is likewise an idea, a collection of people, things and activities; but we should not mistake the category for the reality it identifies.

What makes something 'formal' is its conformity with such an idea or rule. Thus formal dress in some societies means that the men will come dressed like penguins, but the women are free to wear something extravagant that suits them personally – they come as variegated butterflies. The men are supposed to look the same and so they adopt a 'uniform' that cancels out their individuality. Formality endows a class of people with universal qualities, with being the same and equal. What makes dress 'informal' is therefore the absence of such a shared code. But any observer of an informally dressed crowd will notice that the clothing styles are not random. We might ask what these informal forms are and how to account for them. The world's ruling elite is identified as 'the men in suits', because they choose to wear a style invented in the 1920s as an informal alternative to formal evening dress. The dialectic is infinitely recursive. No wonder that some economists find the conceptual dichotomy confusing and impossible to measure.

There is a hierarchy of forms and this hierarchy is not fixed for ever. The twentieth century saw a general experiment in impersonal society whose forms were anchored in national bureaucracy, in centralized states and laws carrying the threat of punishment. The dominant economic forms were also bureaucratic and closely linked to the state as the source of universal law. Conventionally these were divided according to principles of ownership into ‘public’ and ‘private’ sectors. This uneasy alliance of governments and corporations is now sometimes classified as ‘the formal sector’. What they share, at least on the surface, is conformity to the rule of law at the national and increasingly international levels. How then might non-conformist economic activities, ‘the informal economy’, relate to this formal order? They may be related in any of four ways: as *division*, as *content*, as *negation* and as *residue*. This conceptualization should inform actions designed to improve the linkages between the two.

The moral economy of capitalist societies is based on an attempt to keep separate impersonal and personal spheres of social life. The establishment of a formal public sphere entailed another based on domestic privacy. The latter was built up to constitute with the former complementary halves of a single whole. Most people, traditionally men more than women, divide themselves every day between production and consumption, paid and unpaid work, submission to impersonal rules in the office and the free play of personality at home. Money is the means whereby the two sides are brought together, so that their interaction is an endless process of separation and integration that I call ‘division’. The division of the sexes into male and female is the master metaphor for this dialectic of complementary unity. In Hegel’s terms, when the lines between the pair become blurred, we enter a phase of ‘negative dialectic’, from which a new idea may eventually emerge. Focusing on the informal practices that constitute a bureaucracy implies such a blurring at the expense of maintaining what was always only a utopian ideal.

For any rule to be translated into human action, something else must be brought into play, such as personal judgment. So informality is built into bureaucratic forms as unspecified ‘content’. This is no trivial matter. Workable solutions to problems of administration invariably contain processes that are invisible to the formal order. For example, workers sometimes ‘work-to-rule’. They follow their job descriptions to the letter (the formal abstraction of what they actually do) without any of the informal practices that allow these abstractions to function. Everything grinds to a halt as a result. Or take a chain of commodities from their production by a transnational corporation to their final consumption in an African city. At several points invisible actors fill the gaps that the bureaucracy cannot handle directly, from the factories to the docks to the supermarkets and street traders who supply the cigarettes to smokers. Informal processes are indispensable to the trade, as variable content to the general form.

Of course, some of these activities may break the law, through a breach of health and safety regulations, tax evasion, smuggling, the use of child labour, selling without a licence etc. The third way that informal activities relate to formal organization is thus as its 'negation'. Rule-breaking takes place both within bureaucracy and outside it; and so the informal is often illegal. This compromises attempts to promote the informal sector as a legitimate sphere of the economy, since it is hard to draw a line between colourful women selling oranges on the street and the gangsters who exact tribute from them. When the rule of law is weak, the forms that emerge in its place are often criminal in character. A good part of modern society consists in protecting the public image of bureaucratic processes from a reality that mixes formal order with corruption and criminality. We watch movies about cops and robbers, but we detach these fictions from the idea of the rule of law that helps us to sleep at night.

The fourth category is not so obviously related to the formal order as the rest. Some 'informal' activities exist in parallel, as 'residue'. They are just separate from the bureaucracy. It would be stretching the logic of the formal/informal pair to include peasant economy, traditional institutions and much else within the rubric of the 'informal'. Yet the social forms endemic to these often shape informal economic practices and *vice versa*. What is at stake here is whether society is just one thing – one state with its rule of law – or can tolerate a measure of legal pluralism, leaving some institutions to their own devices. Communities exist to the extent that their members understand each other for practical purposes; and so they operate through culture. They use implicit rules (customs) rather than state-made laws and usually regulate their members informally, relying on the sanction of exclusion rather than punishment. European empires, faced with a shortage of administrative resources, turned to 'indirect rule' as a way of incorporating subject peoples into their systems of government on a semi-autonomous basis. This legal pluralism delegated supervision of indigenous customary forms to appointed chiefs and headmen, reserving the key levers of power to the colonial regime. Anthropologists played their part in documenting how this might work out. Any serious attempt to link the formal and the informal today requires a similar openness to plurality of form.

The politics of development discourse

To recapitulate, in the twentieth century capitalism took the specific form of being organized through the nation-state. 'National capitalism' was the attempt to manage markets and money through central bureaucracy. Its antithesis is the 'informal economy'. Beginning as a way of conceptualizing the unregulated activities of the marginal poor in Third World cities, 'the informal sector' became recognized as a universal feature of the modern economy. Independence from the state's rules unites practices as diverse as home improvement, street trade, squatter settlements, open source software, the illegal drugs traffic, political corruption and offshore banking. The issue of 'informal economy' is thus intimately tied up with the question of how long national capitalism can continue as the world's dominant economic form.

Welfare-state democracy was sustained by 'macro-economics', a term associated with Maynard Keynes. Only the state could regenerate a damaged market economy, mainly by spending money it did not have to boost the purchasing power of the masses or 'consumer demand'. The economic boom of the 1950s and 60s depended on the coordinated efforts of the leading industrial states to expand their public sectors. It all began to unravel in the 'stagflation' of the 1970s. The neoliberal conservatives who have dominated politics of late sought to counter inflation with 'sound money' and to release the potential of the market by getting the state off its back. But their policies often combined 'privatization' with a strengthening of state power. In the process they dismantled twentieth-century social democracy.

The idea of an 'informal economy' has run as a submerged commentary on these developments. It came out of the lives of Third World city-dwellers, whose lack of money makes them about as conventionally poor as it is possible to be. By the 1970s it was becoming clear that development was a pipe-dream for Third World countries. Populations had exploded; cities were growing rapidly; mechanization was weak; productivity in predominantly agricultural economies remained low; and the gap between rich and poor was widening. The malaise was conceived of as ‘urban unemployment’. The spectre of the 1930s dominated development discourse.

Anyone who visited, not to mention lived in, these sprawling cities would get a rather different picture. Their streets were teeming with life, a constantly shifting crowd of hawkers, porters, taxi-drivers, beggars, pimps, pickpockets, hustlers – all of them getting by without the benefit of a ‘real job’. There was no shortage of names for this kind of early-modern street economy. Terms like ‘underground’, ‘unregulated’, ‘hidden’, ‘black’ and ‘second’ economies abounded. The best account was Clifford Geertz’s of the contrasting face of Indonesian entrepreneurship and especially of the *suq* or bazaar.[12] The majority of a Javanese town’s inhabitants were occupied in a street economy that he labeled ‘bazaar-type’. The ‘firm-type’ economy consisted largely of western corporations who benefited from the protection of state law. These had *form* in Weber’s sense of ‘rational enterprise’, being based on calculation and the avoidance of risk. National bureaucracy lent these firms a measure of protection from competition, thereby allowing the systematic accumulation of capital. The ‘bazaar’ on the other hand was individualistic and competitive, so that accumulation was well-nigh impossible. Geertz identified a group of Reform Moslem entrepreneurs who were rational and calculating enough; but they were denied the institutional protection of state bureaucracy granted to the existing corporations.

Here and in his later work on the Moroccan *suq*, Geertz pointed out that modern economics uses the bazaar model to study the decisions of individuals in competitive markets, while treating as anomalous the dominant monopolies protected by state bureaucracy. The discipline found this model in the late nineteenth century, just when a bureaucratic revolution was transforming mass production and consumption along corporate lines. At the same time the more powerful states awarded new privileges to capitalist corporations and society took its centralized form as national bureaucracy. Perhaps because he was poking fun at the economists, Geertz’s analytical vocabulary was not taken up by them. The antithesis of the state-made modern economy had not yet found its academic name. This came, as I have said, through a 1971 Sussex conference.

The main message of my paper on ‘informal income opportunities’ was that Accra’s poor were

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[12] *Peddlers and Princes*, Chicago: University Press (1963); with H. Geertz and L. Rosen, *Meaning and Order in Moroccan Society*, Cambridge: University Press (1979).

not ‘unemployed’. They worked, often casually, for erratic and generally low returns; but they were definitely working. What distinguished these self-employed earnings from wage employment was the degree of *rationalization* of working conditions. Following Weber, I argued that the ability to stabilize economic activity within a bureaucratic form made returns more calculable and regular for the workers as well as their bosses. That stability was in turn guaranteed by the state’s laws, which only extended so far into the depths of Ghana’s economy. ‘Formal’ incomes came from regulated economic activities and ‘informal’ incomes, both legal and illegal, lay beyond the scope of regulation. I did not identify the informal economy with a place or a class or even whole persons. Everyone in Accra, but especially in the slum where I lived, tried to combine the two sources of income. Informal opportunities ranged from market gardening and brewing through every kind of trade to gambling, theft and political corruption. My analysis had its roots in what people generate out of the circumstances of their everyday lives. The laws and offices of state bureaucracy only made their search for self-preservation and improvement more difficult.

The ILO Kenya report suggested that self-employed or ‘informal’ incomes might reduce the gap between those with and without jobs and so could contribute to a more equitable income distribution. Following the ‘growth or bust’ policies of the 1960s, they advocated ‘growth with redistribution’, that is, helping the poor out of the proceeds of economic expansion. This reflected a shift in World Bank policy announced by its president, Robert McNamara, in Nairobi a year later. By now the multilateral institutions were worried about potential social explosions; and they felt that more attention should be paid to peasants and the urban poor. A vogue for promoting the ‘informal sector’ as a device for employment creation fitted in with this shift, since the dominant development paradigm was still Keynesian.

Most economists saw the idea in quantitative terms as a sector of small-scale, low-productivity, low-income activities without benefit of advanced machines; whereas I stressed the reliability of income streams, the presence or absence of bureaucratic *form*. When the bureaucracy tried to promote the informal sector – by providing credit, government buildings or new technologies, for example – it killed off the informality of the enterprises concerned and moreover exposed participants to taxation. The association of the idea with the sprawling slums of Third World cities was strong; but the ‘commanding heights’ of the informal economy lay at the centres of political power, in the corrupt fortunes of public office-holders who often owned the taxis or the rented accommodation operated by the small fry.

The 1980s saw another major shift in world economy following the lead of Reagan and Thatcher. Now the state was no longer seen as the great provider. Rather 'the market', freed of as many encumbrances as possible, was the only engine of growth. The informal economy took on a new lease of life as a zone of free commerce, competitive because unregulated. This coincided with the imposition of 'structural adjustment' policies that reduced public expenditures and threw responsibility onto the invisible self-help schemes of the people themselves. By now, the rhetoric and reality of development had been effectively abandoned as the Third World suffered the largest income drain in its history, in the form of repayment of debts incurred during the wild banking boom of the 1970s.

Two decades and a whole lot of globalization later, the problem is different. After the millennium, the attitude of the international agencies changed again. There is now substantial inward investment in some poor countries and foreign businesses are feeling the lack of an effective regulatory environment. To some extent this means boosting national bureaucracy, which is rather contrary when the legitimacy of states was deliberately undermined in the first place so that money could get in and out freely. Now the call is for regulation and standardization. This is partly to secure a measure of economic order within particular countries, but transnational corporations and the international agencies also have a need for standardization between countries, so that they don't have to adapt procedures to local circumstances every time. Clearly we have reached a stage where national and local institutions are themselves becoming globalized. Now 'informality' is seen as a threat to 'private sector development'. Business corporations are undercut by informal operators who pay no taxes, evade costly regulations and take advantage of numerous devices, legal and illegal, to reduce their prices. Accordingly, whereas the informal economy was once seen as a positive factor in development, it is now more likely to be represented as an obstacle in an update of its nineteenth-century designation as 'the dangerous classes'. Today the model of success is the highly bureaucratic type of economy achieved by Western countries only in the second half of the twentieth century.

At the same time, the world economy has become increasingly informal in recent decades. Illegal drugs are the most valuable commodity traded internationally. Finance has been slipping its political shackles, by relocating offshore where money transactions can hardly be monitored or taxed. The armaments industry is a sea of corruption reaching the core of western governments. 'Grey markets' for goods imitating well-known brands and unlicensed reproductions (especially videos, CDs and tapes) have been labeled as 'piracy'. The irrational borders of nation-states are riddled with smuggling. The informal economy is now considered to be a feature of the industrial countries, ranging from domestic do-it-yourself to the more criminalized economy of disaffected youth. Even before the collapse of Stalinist bureaucracy in the Soviet Union and its satellites, it was clear that the command economy had spawned a flourishing 'black market', antecedent of the criminal mafias and 'oligarchs' who now dominate the Russian economy. In Europe, the dissident left has long had a slogan: 'Think red, work black, vote green.'

Meanwhile, the collapse of the state in many Third World countries has led to the whole economy becoming informal. In the shambles that the Congo region has become, soldiers loot at will and politicians fill foreign bank accounts. Mobutu boasted of being one of the richest men in the world and once hired a train for a lavish party in New York. Or take Jamaica, which in the 1970s was a model 'middle-income' developing economy. At one point the value of illegal marijuana sales (*ganja*) was higher than the country's three leading legitimate industries (tourism, bauxite, garments) taken together. No wonder politics was carried out by armed gangsters and youths left school early to learn hustling on the street.

West Africa's former colonies were the last admitted to national capitalism and among the first to leave. Ghana was already in an advanced state of political and economic decay in the mid-1960s. Seen in that light, my fieldwork may be thought of as a harbinger of national capitalism's decline. After much of the Third World dropped out of the movement of the world economy, the communist bloc followed suit, leaving America, Western Europe and a resurgent Asia to contemplate the consequences for their own societies. The informal economy was the self-organized energies of people excluded from participating in the benefits guaranteed by state rule. The question remains if those energies could be harnessed more effectively in partnership with bureaucracy.

What is to be done?

In *The Other Path*,[13] Hernando De Soto argued that Peru was a mercantilist state whose over-regulated and impenetrable national bureaucracy served the economic interests of a narrow clique and excluded the vast majority from effective participation in development. The latter were an entrepreneurial peasantry flocking in ever-larger numbers to the main cities. They were forced to operate informally, that is outside the law, in sectors such as housing, trade and transport. Peru's tradition was inherited from the Spanish empire period and the term 'mercantilism' has been used to describe European political economy from the 16th to 18th centuries. In was succeeded, principally on the initiative of Britain, by a free-trade regime more conducive to industrial capitalism. Peru's development in the 20th century was parallel to the West's earlier. Massive migration to the towns led in both cases to legal exclusion of the poor by mercantilist bureaucracy; but in the West the 'informals' won in the end by cheapening production, making the regulations irrelevant and from time to time erupting in violence. Peru was thus headed for a revolution along French or Russian lines unless the national bureaucracy simplified, decentralized and deregulated itself.

In *The Mystery of Capital* (2000), De Soto portrays Peru and other poor countries as being trapped in a world economy dominated by the first industrial nations. Red tape is mainly an effect of a global regime that forces marginal states to adopt inappropriate institutional practices. The result is the same: migrants pile up in the cities and are forced to work outside the law. De Soto claims that there is no shortage of wealth in the non-western world. What is missing is a property regime that would enable the masses to realize their wealth as investment capital. The banking sector is dominated by foreign firms and it runs along lines now standard in the rich countries. Informal property rights cannot be converted into collateral for loans. This is particularly unfair since countries like the USA, which dominates this global financial bureaucracy and the institutions that supervise world trade and investment, made the transition to modern capitalism by giving flexible informal practices and decentralized violence full rein in their own development. It follows that similar flexibility has to be shown today if the poor urban masses are to have a chance of joining global development on less unequal terms. The alternative

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[13] *The Other Path: the economic answer to terrorism*, New York: Basic Books (1989); *The Mystery of Capital: why capitalism triumphs in the West and fails everywhere else*, London: Bantam (2000).

is more recruits to terrorist networks and large social explosions before long. I would substantially agree with this analysis.

So where does the call to formalize the informal economy come from? Whose interests does it serve? To recapitulate Geertz, it is the bazaar whose competitive individualism most embodies the spirit of the market, not bureaucracy. And economics in its official guise serves mainly to confuse us on this point. If the Bretton Woods institutions see their role as shoring up a new international bureaucratic order suitable for private sector development, can this be presented as an extension of legitimate rule on a global scale? I am generally in favour of bureaucracy and the rule of law as, in principle, means towards greater democracy and emancipation from poverty. I don't want to live in a world run by gangsters, whatever labels they trade under. So there is some point to asking how the formal and informal aspects of economic organization might be more effectively coordinated.

It has never been resolved whether the informal economy refers to casual labor in formal enterprises or not. This has become more pressing in the context of widespread privatization of public services, leading to low pay and precarious rights, and of outsourcing by businesses, often to unregulated workers on the other side of the world. Neoliberal economic policies since the1980s have fostered massive growth in the 'informal' portion of global or national economies, by reducing state controls and promoting the gigantic money flows known simply as 'the markets'. The informal sector is thought to account for 70-90% of the economy in most African countries. War-zone economies in Afghanistan and the Congo are almost wholly informal. This extension of the scope of the concept -- to embrace rich and poor countries, government and business, casual labor and the self-employed, corruption and crime --when taken with the wholesale devolution of central bureaucracies compared with forty years ago, leaves a question-mark over its continuing usefulness today.

The label 'informal' may be popular because it is both positive and negative. To act informally is to be free and flexible; but it also refers to what people are not doing – not wearing conventional dress, not being regulated by the state. The 'informal economy' allows academics and bureaucrats to incorporate the teeming street life of exotic cities into their abstract models without having to know what people are really up to. The idea has had a brilliant success over more than three decades. It lends the appearance of conceptual unity to whatever goes on outside the bureaucracy. Perhaps fearing its own isolation in a 'planet of slums',[14] the bureaucracy oscillates between offering partnership to the 'informals' and hounding them off the streets. The formal-informal dialectic is intrinsic to both the bureaucracy and the informal economy, as well as between them. We need to know how formal bureaucracy works in practice and, even more important, what social forms have emerged to organize the informal economy. If I once sought to translate my own ethnographic experience into 'economese', it is now time to reverse the process and examine the institutional particulars sustaining whatever takes place beyond the law.

The historians of comparative jurisprudence[15] emphasized the concrete particularity of the customary legal institutions they studied in medieval England or Victorian India. For all their imperialist vision, they refused to sacrifice detail for the sake of generalization. Modern ethnographers have likewise documented in immense detail the kinship institutions and religious practices of local groups in Africa and the Pacific. This is no longer fashionable: anthropologists today are funded to study ethnicity, gender, AIDS and, of course, the informal economy. In my own research I focused on specific individuals and was obliged to study the contractual forms of their enterprises, their kinship ties and family organization, their friendship networks and voluntary associations, their religious affiliations, their relationship to criminal gangs and corrupt officials, their patronage systems and political ties.[16] Only later did I join the rush to generalize about the population explosion of Third World cities. The issue of criminal organization inside and outside the formal bureaucracy cannot be wished away. Formalizing the informal economy requires us to confront the cultural specificity of economic activities that cross the great divide.

To sum up, using the fourfold categorization I developed above. *Division:* Any attempt to divide an economy into complementary halves requires a massive cultural effort of both separation and integration. This idea of interdependent, but separate halves of a social whole is a powerful undercurrent in development discourse and should be subjected to revision. *Content:* The idea of

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[14] Mike Davis *Planet of Slums*, London: Verso (2006).

[15] Henry Maine, *Ancient Law*, London: Murray (1906 [1871]); F.W. Maitland, *Selected Historical Essays*, Cambridge: University Press (1957).

[16] Kinship, contract and trust: the economic organization of migrants in an African city slum, in Diego Gambetta (ed) *Trust: Making and breaking co-operative relations*, Oxford: Blackwell, 176-193 (1988).

informality as the unspecified content of abstract forms favours leaving more to people’s imagination and accepting the legitimacy of most informal practices. *Negation:* When the informal is illegal, the obvious response is to crack down on rule-breakers; but such moves are often merely cosmetic -- the biggest offenders escape and the law is made to appear an ass. The number of legal offences could often profitably be reduced. *Residue*: Finally, governments might adopt a genuinely hands-off approach towards semi-autonomous communities within their jurisdiction. If all of these modes of formal/informal linkage were considered, there might be some prospect of bureaucracy and the people entering a new partnership for development.

What is striking in all this is the international agencies’ short-sightedness and lack of institutional memory. The World Bank in particular, over the last half-century or so, has pursued contradictory strategies, often within a decade of each other. I have been involved with the concept of the informal economy now for forty years. I have come to regard the issue as a long struggle to redefine the relationship between bureaucracy and the people in the context of the evolution of market economy. Seen in the light of the whole period since 1945, it is hard to avoid the conclusion that international and national institutions have lost considerable legitimacy in the current decade.

A lot depends on whose perspective you take on these issues. I started off as a young ethnographer four decades ago asking how little people survived in the cracks of the state-made economy; but the informal economy has flourished since as a result of market liberalization. To some extent, bureaucratic institutions need to be more flexible in their treatment of informal practices, so that more people can take shelter under the rule of law. Informality is a problem, for sure, but it must surely be part of any long-term solution.