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### **Reconceptualizing the Urban “Informal Sector” in Underdeveloped Countries: An Overview of the Brazilian, Indian and South African Cases**

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#### **Introduction**

The purpose of the paper is threefold. At first, it seeks to shed new light on the debate about the so-called “informal sector”. It aims at recapitulating the theoretical history of this concept, starting from the paper written by Keith Hart and the ILO Kenya Mission, both dating back to the early 70’s; proceeding with the contributions within the ILO umbrella made by Sethuraman and Tokman and other authors in late seventies; reviewing the debate developed in the eighties, to which Portes and Castells brought interesting inputs, up to the point where the ILO adopted, in 2002, the new concept of “informal economy”.

Even though we assume the recent ILO definition represents an important methodological step, we also believe that for it to be manageable both empirically and theoretically there is a need to go back to some of the assumptions held in the seventies. Moreover, we shall attempt to stress the specificity of the “informal” sector in the underdeveloped countries, otherwise we may be close to stating that “we have all become informals now”.

By underdeveloped countries, we mean countries with particular social and economic structures, which were constructed following different historical patterns than the ones found in the developed ones. Those countries have internalized capitalists’ production forces and relations of production in very specific ways as they have been “forced” into a pattern of subordinated integration in the ever-changing international division of labour.

The second step is to bring about a general and preliminary overview on the similarities and differences of the urban informal sector in three underdeveloped industrialized countries of the South - Brazil, India and South Africa. Our aim here is to raise some questions about the comparability between these countries, even if their labor surveys make use of different methodologies. This effort would allow us to come up with some hypothesis concerning the different shapes of the urban informal sector in these countries and the various ways through which it interacts with the overall labor market. Moreover, distinctions would be emphasized with the current pattern observed in the developed countries.

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At the end of the paper, we try to reflect upon the main challenges faced by the labour movement in these countries in order to deal with the issue of informalization and precarization. Our perspective is mainly that we are talking about an “animal” which only very slightly resembles the one encountered in the developed countries. In this regard, “the fight against informality” should take into account a very particular set of policies.

The paper, thus, combines different methodologies. The first part seeks to review and summarize the theoretical debate, from the seventies up to now. It shows how the discussion on the informal sector evolved, presenting the principal currents of thought and their underlying assumptions. It also attempts to unveil the advantages and shortcomings of the present ILO concept of informality, a choice undertaken after a heated debate.

Part 2 discusses whether this choice may open new ground for digging into the specificity of some underdeveloped countries which were able to structure powerful industrial bases without eliminating informality. We argue that the urban informal sector in these three countries is much more heterogeneous than the one recently discovered in the developed ones. This hypothesis will be “tested” using the data furnished by the Brazilian, Indian and South African labour surveys.

After stressing the heterogeneity of informality and the multiple links between the various informal and formal sectors in these very specific underdeveloped countries, it's our purpose in part 3 to pose the impressive challenges faced by the labour union movement. For unions in these countries to be able to tackle these issues, they may have an understanding of the “indigenous” dynamics of the informal sector – which depends on the country's position in the international division of labour, the patterns of industrialization and urbanization, the recent impacts of neoliberal policies and the several ways through which the excess of labour supply is filtered into the urban metropolitan areas. That is, the “fight against informality” should take into account that the various “informal sectors” require different set of policies and a coherent approach based on a strategy of social inclusion and economic development.

### **The Adventure of a Concept: The “Informal Sector” as a Theoretical Tool for Unveiling the Social Reality of Underdeveloped Countries**

Labor market is one of the fields in which where the transplant to underdeveloped countries of concepts and categories taken from developed countries' realities requires a particularly significant effort in terms of theoretical adaptation.

The Western tradition of economic thought, at least up to the eighties, has never given much importance to the so-called “informal sector”, at least in a coherent and thorough manner. That made some sense as the developed countries were consolidating their “wage-based societies”, following Castel's definition (1998).

Even though some authors like Gerry (1987, pp. 101-105) emphasize the relevance of the pre- non- and proto-capitalist forms throughout the evolution of the economic development theory, he is short of examples, at best giving some insights of how the principal currents of thought could have approached this subject.

That is, if Marx had talked about the lumpenproletariat, the simple commodity production and the stagnant segment of the industrial reserve army, he didn't throw much attention on developing further these concepts, being obsessed as he was with the main trend towards the full proletarianization and the laying out of a class structure potentially divided in two main social classes.

As for neoclassical economics, the informal sector was just a reaction of the system due to the excess of regulation, leading to a non-covered or competitive sector. According to this view, there is an opposition between both sectors, playing the informal sector the role of a shadow price.

Not even a word about the informal, taken as provisory, in the work of the classics and also in Keynes, Schumpeter and Kalecki, for whom the wage earners equaled the labor factor in aggregate terms.

It is true that the so-called "French school of regulation" mentions the importance of pre-capitalist relations of production and the way they interact with the overall capitalist mode of production. However, this nuanced view is somewhat blurred by its main focus on the fordist wage relation structured in the developed countries after the 1940s. Yet, the institutionalist school also put forward a distinction between primary and secondary sectors of the labor market, through the labor market segmentation theory. However, this is not enough to depict the various situations hidden behind the label of the informal sector.

Nonetheless, for underdeveloped countries, especially after the seventies, it became increasingly counter-productive to deny the very existence of a huge amount of social and economic activities, most of them non-wage based, that blossomed and evolved simultaneously with the overall labor market, without showing any perspective of fading away.

As we try to portray here, to grasp the informal sector theoretically was a difficult task, as it was not a matter of just adding up a new sector, variable or angle, to be fit into the traditional models. Actually, it meant to unravel the very dynamics of this congeries of social and productive forms, heterogeneous by nature, which would change the whole shape and functioning of the labor market in these countries.

Thus, thinking about the informal sector in underdeveloped countries requires one to assume that a significant part of the economically active population will never dare to pass through such a thing as an internal labor market during its social life.

In fact, the informal sector concept has an intricate history, having attracted efforts of researchers from North and South. It was, indeed, a fruitful attempt that brought about increasing returns to the political economy, after which the different interpretations followed their respective paths, being incorporated gradually, and with distinct successes, into the existent paradigms of economic thinking.

Everything started by acknowledging how meaningless was the concept of unemployment for underdeveloped countries, leading to an array of new terms such as “underemployment”, “hidden unemployment”, “urban over-unemployment”, “rural underemployment”, “visible and invisible unemployment”, “underutilization of the labor force”, “urban marginality”, and then, “informal”, “unorganized” and “non-structured sector”, up to the nineties when the concept lost its “sector” cover and got the more general dressing of “informal economy”.

It is our purpose here to sum up this history, less worried with the parade of categories, as our aim is to stress the analytical possibilities opened up for understanding the labor market functioning in these very specific economies.

In a famous article, written in 1943, referring to Eastern and Southern European countries, economist Rosenstein-Rodan (1969, p. 252), asserted that 25% of the population of these regions were only “partially occupied” or in a situation of “hidden unemployment”.

Therefore, the so-called “development economics” would emerge linked to the discussion of employment and income, trying to understand the peculiar behavior of these “variables” in “backward” societies going through a process of dramatic transformation by virtue of industrialization.

The full employment hypothesis would be seen as a frontal attack to the empirical reality. Following Arthur Lewis’ words, the Keynesian theory, for countries with huge oversupply of labor, “would be not more than a footnote to neoclassical thinking” (Lewis, 1969, pp. 406-407). In fact, for Charmes (1992, pp. 18-19), the planner tended to look at the “informal sector”, not yet brought to life as a concept, as those spaces where the multiplier effects were considerably weakened.

Notwithstanding that, during the fifties and sixties, most of the development economists’ theoretical approaches, either from the South or the North, even when attempting to get closer to the new realities they were addressing, fell short of unveiling the main characteristics of what would be later named as the “informal sector” (Barbosa, 2008, pp. 151-154).

In this first part of the paper, we focus on the initial approaches of the informal sector developed under the ILO umbrella, whereas at the end we discuss some of the new ways of looking at this concept, which brought about the new ILO definition of “informal economy”.

The ILO, with the launching of the World Employment Programme, in 1969, was motivated by the need of understanding the nature of the employment problem in underdeveloped countries. What follows is a gradual revolution in the way of understanding the labor market in these countries. That had less to do with ILO’s institutional effort, which was fundamental as it fed into the political climate of the times, characterized by the decolonization process and the increasing prestige of organizations such as UNCTAD and ECLAC that voiced Third World countries’ concerns. The result was a very productive exchange of ideas and analytical tools between researchers from both

North and South during their geographical and theoretical expedition to unknown places and social categories.

Actually, if there was, on the one hand, a predominance of a sort of “technocratic ethos” as the conceptual tools were mainly borrowed from economics (Bangasser, 2000, pp. 2-6), on the other hand, the World Employment Programme activities – especially in the case of the multi-disciplinary employment missions - led to an almost anthropological immersion in the realities of the countries to be studied. The employment was seen as the center of a development strategy, not an abstract place for an ever self-adjusting market. During the Kenya Mission, for instance, researchers from University of Nairobi participated actively in the research. Furthermore, the practice of tripartism was enhanced through interviews with government representatives, employers and trade unionists.

During the seventies, employment work teams for different regions (Africa, Asia and Latin America) were created and research projects implemented, aiming at devising public policies, as in the case of the “Urbanization and Employment” Programme”, which produced reports on big cities of the Third World.

Three theoretical contributions from this time deserve special consideration: Paul Bairoch’s preliminary study on urban unemployment in underdeveloped countries; the paper by Keith Hart on the informal activities in Ghana; and the famous ILO’s Kenya Mission, held in 1972, under Hans Singer’s leadership. The first two, published in 1973, actually preceded ILO’s Mission.

Bairoch starts by questioning the use of the concept of unemployment for underdeveloped societies. The “unemployed” in these areas doesn’t have access to unemployment insurance, having the support of an usually extended family and performing secondary activities, some of them illegal, in order to make a living (Bairoch, 1973, pp. 47-48).

The traditional concept of unemployment required both the inexistence of income generation and the search for employment. To Bairoch, this should not be applied to these countries, as there is a striking difference among searching for a job and the willingness to work, which brings about an underestimation of unemployment levels for underdeveloped countries.

The author argues that unemployment levels in these countries, even though already high, had not increased in the sixties. It is his assumption that, above a certain threshold, the worsening of the labor market conditions would reflect upon the underemployment level (Bairoch, 1973, pp. 48-56).

Consequently, the “unemployment situation” in underdeveloped countries presents structural traits, related both with the productive structure and the population movements. In other words, there is a fundamental qualitative difference when a comparison is made with developed areas. The need of new concepts to address these specificities is urgent.

In a 1970 report, the ILO (1973, pp. 32-33) – after a detailed analysis of the Colombian case – would manage to distinguish different kinds of “underemployment”: occupied

population with an income below a defined threshold would make up the “invisible underemployment”; whereas the “visible underemployment” would encompass people willing to work more hours, if that was possible, but not going after it. The ILO report also depicted the “hidden unemployment” as the one affecting the non-active population, out of the labor market, but willing to show up in the case of lower levels of unemployment.

Bairoch (1973, pp. 63-67) would rather use the concept of “urban over-unemployment”. After enumerating several types of unemployment – cyclical, frictional, technological –, he presents a definition of structural unemployment, one arising from “the insufficiency of means of production in relation to the employment availabilities”.

Understanding the cyclical unemployment as unstable by nature and the structural one as more durable, Bairoch locates the levels of the former in underdeveloped countries around 3 to 5 %, whereas it would still be left a range from 7 to 15% for the latter. This “residual” amount would be 4 times higher than the existing figures for the developed ones. The urban over-unemployment is provisionally defined as a “high level of structural unemployment resulting from a disequilibrium between supply and demand caused especially by a massive inflow of an active population cast out of a rural environment” (Bairoch, 1973, pp. 66-67).

After throwing all these concepts without a careful analysis of the societies for which they were devised, he comes up with the need for a choice between the rural underemployment and the urban over-unemployment. He stands for the first one, as if the social equation of underdeveloped countries depended mainly on the pace of the urbanization process. The second option would necessarily transform the cities of the capitalism periphery in “Romes without empire”, “huge camps of destitute people” (Bairoch, 1973, pp. 69-70, 75-76, 81-82). The picture presented is strong, but the analytical results are shallow.

Much different is the case of Hart’s paper and the Kenya Missions’s report, the first one having launched the concept of “informal sector”, whereas the second made it “popular”. Published in 1973, Hart’s paper was presented in the *Conference on Urban Unemployment in Africa*, held at the Institute of Development Studies (IDS-University of Sussex) in September 1971. It is worth remembering the lots of members of the Kenya Mission belonged to the IDS cadres, as its coordinator, Hans Singer. Actually, as we will show, there was a sort of implicit dialogue going on between them.

In the introduction of his paper, Hart already puts forward a new way of looking at the employment problem in the underdeveloped countries: “price inflation, inadequate wages and an increasing surplus to the requirements of the urban labor market have led to a high degree of informality in the income-generating activities of the sub-proletariat” (Hart, 1973, p. 61). Concepts borrowed from economics and sociology are intertwined, enabling this social anthropologist to overcome the disciplinary barriers and to get deeper into the social reality of these “awkward” economies.

Still in the introduction, Hart (1973, p. 61) asks the central question that would underpin the whole article: “does the ‘reserve army or urban unemployed and underemployed’ really constitute a passive, exploited majority in cities like Accra”? And he completes his thread

of thought, “or do their economic activities possess some autonomous capacity for generating growth in the incomes of urban (and rural) poor”?

In order to answer these questions, Hart uses data from Ghana’s population census of 1960, compounded with a field research conducted in the end of sixties. He finds out that 40% of active males – and 95% of the females – are not touched by wage employment. Then, he questions about the amount of “true unemployed”, only to conclude that it is impossible to “isolate” them. As a matter of fact, the classifications breaking down into big groups of employed, unemployed and the non-active are fruitless here, due to the extreme fluidity of the positions in the labor market. What strikes the author is the extreme precariousness of life styles, the flexibility of the consumption patterns, the proliferation of the use of credit and a constant recourse to personal and kinship relations. To hold more than a job is a constant, being very risky the assumption “one man, one job” (Hart, 1973, pp. 62-63, 65-68).

Then, he focuses the analysis on the “world of economic activities outside the organized labor force”. According to Hart, the principal distinction between the formal and informal income opportunities is based on that between wage-earning and self-employment. The rationalization of work – whether or not “labor is recruited on a regular basis for fixed reward” - is a key variable. He also does not buy concepts like “the low-productivity urban sector”, “reserve army of unemployed and underemployed” and “traditional sector”, as they assume from the very beginning what should be demonstrated through research (Hart, 1973, p. 68).

The concept of underemployment is dismissed as meaningless. It doesn’t allow for the understanding of a complex and changing social reality (Charmes, 1992, p. 10). It confuses more than helps, as it stays halfway employment and unemployment. The informal sector, on the contrary, allows for a positive understanding of very diverse occupational modalities.

For Hart, informal activities encompass a vast array of occupations, from marginal operations to those linked to big enterprises. So, it’s impossible to see low productivity as the minimum denominator of them. He comes up with a typology of activities performed in the urban structure. A first sector groups together all formal income opportunities (private and public sector wages and transfers through pension funds; in the second, he locates informal income opportunities (in the primary, secondary and tertiary sectors, especially in the case of petty trade, general services and private transfer payments through gifts, credit and begging). This typology may be understood either from an individual perspective (people that fit in these various roles) or in an aggregate way through the income circulation in the urban economy (Hart, 1973, pp. 68-69).

The author proceeds by questioning many of the commonly held assumptions about, for example, the inexistence of barriers to entry in petty trade and other informal activities. He aims at showing that the informal activities develop through cooperation and trust-based cooperation between economic agents, which may control sources of supply and the access of information.

From the individual's perspective, there is an incentive for diversifying the sources of income opportunities. Wage labor works as an antidote against insecurity, that is, not in opposition to informal labor. The latter is pervasive, acting as a buffer against unemployment, leading to - mostly irregular - income opportunities. However, Hart concludes, poverty is not a privilege of these activities, affecting also an important part of wage earners (Hart, 1973, pp. 71, 77-79, 81).

In this seminal paper, questions that would nurture the debate in the following decades are for the first time raised, such as the complex relationship between informality and poverty; the inexistence of a perfect correlation between informal activities and low productivity; the employment potential of the informal sector; and the difficult choice of the unit of analysis – be it the establishment, the kind of activity or the labor relations.

Hart also disagrees with the current view – held by Bairoch and others – that underemployment and informality are curses that should be combated. It is not his intention to glamorize the informal sector either, as some would do later. The informal activities were recognized as a part of the concrete reality - related to deep structural problems found in these specific societies - that should not be blamed. One of its features, indeed, was the extreme heterogeneity. For instance, the income disparities here are much wider than the ones found in the formal one (Hart, 1973, pp. 86-88).

It would be totally nonsensical to believe in a sort of transition from widespread unemployment and underemployment to a situation of full employment in these societies. Informal labor was here to stay. The “true unemployed” were, to a great extent, those who could refuse to low income jobs, as in the case of a very small group of skilled youth (Hart, 1973, p. 83). In the words of Tokman (2004, p. 177), “if the informal sector didn't exit, we would rather invent it”. After Hart's effort, there would be no need to “prove” the existence of the informal sector in the underdeveloped countries any longer. Now, the issue at stake should be about theorizing the effects of this “discovery” for the functioning of these very specific and “difficult” labor markets.

In the end of the article, Hart (1973, pp. 84-86) opens up a discussion on several other issues that would need to be tackled in order to develop public policies to face the “problem” of informality. What is the relationship between both sectors in the urban economy? Do they evolve in parallel, or the informal grows only when the formal dwindles? What are the most important differences between the informal sector behavior in underdeveloped and developed countries? He also points out that the demand for the informal sector depends on the amount of sales to the formal one and on the internal multiplier of the informal sector itself, if one considers that the propensity to consume goods and services from the informal sector doesn't change over time.

From this interpretation, it is not possible to agree with Tokman (1977, pp. 2-3), when he depicts both Hart's and Kenya Mission's approaches as suggesting a “benign” relationship between both sectors. Actually, these views of the informal sector were very cautious, not seeing it as necessarily subordinated or autonomous - extreme views that would flourish later on. Without having a straightforward view on the fate of the sector – in fact, there



were many informal sectors - they seemed to call for more empirical research and for devising new policy tools to face the recently “discovered” dilemma.

The idea that these first papers depicted the informal sector as essentially marginal, encapsulated and not linked to the formal sector - representing, thus, a sort of a dualist view (Chen, 2004, p. 6) - does not stand after a careful reading of the papers here briefly summarized. As Altman (2008, pp. 6-7) points out, Hart was more often than not misinterpreted. His work was dedicated to unveil how livelihoods in underdeveloped countries are shaped through an analysis of the intertwining of different types of activities, never looking at the informal activities as belonging to a closed sector, but prioritizing the “plethora of ways that people engage sometimes simultaneously formally and informally”.

The preface to the Kenya Mission’s report starts by summing up the main findings assembled in the past five years. Unemployment is higher in underdeveloped countries – around 20% to 30%, as compared to 3 to 5% in rich countries (Singer, 1973, p. 413) -, presents a structural component, hardly can be said to cover the most fundamental labor market problems existent in these countries. Last but not least, it won’t be solved solely by virtue of economic growth (ILO, 1972, p. xi).

Three related problems account for the complexity of the employment issue in these countries: the frustration of job seekers unable to get the kind of work or remuneration they find reasonable; the low level of incomes obtained by many producers and families in return for their work, both in family and wage employment; and the underutilization and low productivity of labor force, which depends on the way labor is trained, deployed and linked to other resources (ILO, 1972, pp. 1-2). It is worth noting that the low income problem is not any longer exclusively related to the underutilization of the labor force (Hoffman, 1980, p. 63).

The report’s main focus revolves around the second problem, which in itself has a political meaning. We give just one example: “simply to provide more jobs with the existing framework of imbalance may make the problems worse” (ILO, 1972, p. 3). We are very much apart from the microeconomic basic disequilibria, in the neoclassical way. The imbalance mentioned refers to the pattern of land and income distribution and the corresponding productive structure.

The next step aims at cleaning up the theoretical ground, following Hart’s path. Unemployment should relate to people not engaged in economic activities, whereas underemployment is seldom mentioned.

Indeed, the data limitations pose a concrete problem. How to measure the participation rate if it is impossible to calculate the size of the labor force or the total level of employment from census statistics? However, this should not impede an in depth analysis on the composition and functioning of the informal sector in very peculiar societies.

Then comes the statement that would bring so much debate: “the popular view of informal-sector activities is that they are primarily those of petty traders, street hawkers, shoeshine boys and other groups ‘underemployed’ on the streets of big towns ...”; “... the bulk of the

informal sector, far from being marginally productive, is economically efficient and profit-making, though small in scale and limited by simple technologies, little capital and lack of links with the other (formal) sector". The report then claims for a new theoretical attitude, more open and less attached to the academic prejudices, pointing out, for instance, that the income levels found in the urban informal sector are usually above the ones found at small-scale agricultural production (ILO, 1972, p. 5).

The lack of support to informal activities is questioned, as it is not confined to employment on the periphery of many towns. On the other hand, it admits "the pervasive importance of the link between formal and informal activities". Therefore, it purports not only that the demand to goods and services produced by the informal sector should increase, but also that new technologies for labor-intensive activities need to be encouraged (ILO, 1973, pp. 6-7).

Probably, as the intention was to criticize the view of a "reserve army of unemployed and underemployed", the report exaggerated the potentialities of the sector, going the other way around. Let us look at another example: "though it is often regarded as unproductive and stagnant, we see it as providing a wide range of low-cost, labor-intensive, competitive goods and services" (ILO, 1972, p. 21). The informal sector could also supposedly correct the employment strategy adopted by the import-substitution model, seen as responsible for aggravating the trends toward inequality, use of capital-intensive technology, underutilization of productive capacity and disincentive to export (ILO, 1972, p. 18).

However, contrary to the popular view of the report – we should bear in mind that very few specialists read its original version –, the Kenya Mission also stood for a new development model. Growth with redistribution was the slogan at those times. It recommended also the implementation of tax policies (based on progressivity), income policies (wage control for skilled groups and rising wages for the ones in the bottom of the income distribution), price policies (assuring higher returns for the agricultural sector) and trade policies (higher tariffs for luxurious goods and alignment of capital goods tariffs to the others) (ILO, 1972, pp. 24-25).

This polissemic approach (Tokman, 2004, pp. 196, 199, 210) may explain why different authors, from the extremes of the ideological spectrum, thought they were voicing some of the concerns presented in the ILO report, responsible for lifting up the informal sector as a conceptual category of its own. However, proposing a new definition, even if somewhat loose, is one thing; totally different is to come about with a coherent theoretical framework. As it will be noticed later, there were many ways of pursuing this task.

In fact, the Kenya Mission report would in some respects go beyond Hart's effort, as it tried to depict the informal activities as a certain of "way of doing things", that is, a mode of organizing production, defined by ease of entry, reliance on indigenous resources, family ownership, small scale of operation, labor-intensive and adapted technology, being the skills acquired outside the formal school system and the markets mainly unregulated and competitive. The formal activities, on the other hand, were defined in opposition to the ones mentioned above (ILO, 1972, p. 6).

The above conceptual definition based on multiple criteria – which not necessarily were present at the same time in every informal activity – would cause many problems later on, especially as the new generation of analysts would rather go for a more thorough definition of the informal sector in their attempt at collecting data and measuring its actual size (Charmes, 1992, p. 19).

Notwithstanding that, it would mean an important theoretical step further, overcoming the modern-traditional dichotomy, as the central issue was not any longer the supposedly obsolete technology, but the many different ways of organizing production. The researchers got much closer to the real world (Sethuraman, 1976, p. 80).

The ILO report would insist also that inequalities of access to education and productive assets such as land, credit and capital (ILO, 1972, p. 97), conditioned the employment pattern, one which benefited few privileged groups (ILO, 1972, pp. 88-100).

In a technical paper integrating the report and dealing with formal and informal sector relationships, it can be shown how it was far away from the modern/traditional dichotomy. It confronts the popular view for which “the westernized modern sector is the source of dynamism and change while the traditional sector slowly withers away”. In the next paragraph, a new approach is launched: “the slums of Nairobi, Mombasa and to a lesser extent other urban areas are completely modern and due to the differences of wealth and income between different sectors of the economy” (ILO, 1972, p. 503). So, there is a modernization of almost the entire economy, drawing migrants from rural areas, but this process is not followed by the spread of wealth.

While some authors have argued that the ILO report brought about a new formal-informal dichotomy, it should be stressed that these were not understood as isolated. One needed not to grow in detriment of the other, many possibilities arising from this very complex relationship. Actually, the supposed dualism can be very dynamic, indeed, especially when we assume the existence of many informal sectors, establishing distinct sorts of interactions with the formal one, also heterogenous. That is, if we acknowledge the existence of gray areas, which undermine the current view of an abrupt discontinuity among the sectors. (Sethuraman, 1981, pp. 18-20 and Charmes, 1992, pp. 22 e 52).

However, it should be recognized that the ILO report (1972, p. 505), after this important step, was not able to fully develop the theoretical consequences it called for. If, on the one hand, it maintains that the differentiation among the sectors went beyond their relations with government, that is, illegality and informality should not be looked at as synonyms; on the other hand, the statement that “the informal sector is not a problem but a source of Kenya’s future growth” opens room for a dualist interpretation of its ideas.

Anyway, that the government could and should develop better institutions to support the informal sector didn’t mean necessarily that this was just a symptom of excess of regulation, as the legalist view held later by neoliberal scholars would seek to portray.

Therefore, the report could be read as defining the informal sector growth as exogenous, that is, linked to the formal sector, or as holding a potential for indigenous growth by virtue

of new government incentives. This seems to be the heart of the matter, the relationship established between both sectors, which may vary a lot according to the economic sectors, the country researched or the period of analysis.

Would the informal sector be able to grow autonomously (Hart, 1973, p. 87), especially if the public policies lost their pro-formal stance, or was it condemned - as the ECLAC structuralists would point out later on - to an “involutionary growth”? (ILO, 1972, p. 94).

The acceptance of the “informal sector” concept would mark just the beginning of the intellectual debate. A new history was under way, opening up new analytical fronts. This multiplicity of perspectives had to do in a way with the particularities of the informal sector within the underdeveloped countries, but also to its basic heterogeneity, to be found even in the same urban area. Tokman (2004, p. 196) quotes Hans Singer’s anecdotal answer to a question posed to him about the definition of the informal sector: “it is like a giraffe; when we got to the zoo, it’s very easy to recognize it”.

The problem seems to be that every zoologist has its own favorite species, describing them also in several different ways. Some prefer the street hawkers, other the petty enterprises, while there are those who stick to home-based workers. Some authors focus on survivalist strategies, while others would rather study small-scale establishments supplying a productive chain. Therefore, we face a heterogeneous sector, almost a non-sector, some may say, where individualism is rampant – sometimes manifesting itself through anomy, while other times through economic participation -, the work intensity usually high, being also very hard to fit its workers into the class structure (Tokman, 2004, 177-178).

Let us now to take a look on the very important debate held among Marxist authors during the mid seventies. Some of them would see a process of increasing satellitization of the “informal”. A “marginal mass” would detach itself from the reserve army, becoming afunctional to the needs of capitalist development. Nun (2001, pp. 19-29), in an article written in 1969, tried to position himself in a sort of middle ground between what he called a “leftist hyper-functionalism” and the more “rightist” view which perceived marginality as lack of social integration of individuals.

Other Marxists would characterize the informal-formal interaction as one based on unequal exchange, the latter extracting a surplus from the former. The subordination was assured through the purchase of expensive inputs from the formal sector and the selling of goods and services at cost prices to it. The rate of exploitation would rise, “helped” by the informal sector, through either cheap wage goods and personal services, or outsourcing and home-based work connected to “modern” companies, or even by the very pressure of the reserve army on the labor market. According to Gerry (1987, pp. 112-113), policies to foster the informal sector would mainly contribute for a larger transfer of surplus to both national and international capitalists.

In Souza (1980, pp. 47-49)’s view, this approach presented several shortcomings. First, goods and services produced by the informal sector are not necessarily cheaper than the capitalist ones, on the contrary. Second, the wage levels in the bottom of the wage structure are not conditioned by the informal sector. Actually, the opposite was more likely to

happen. The basic assumption being that, for Marx, capitalism didn't need an exogenous force to lower wages. For Souza, it could be the case that a significant part of the urban employment in the non-capitalist sector was not exploited at all, except for the subordinated own-account workers (1999, pp. 131-132).

After the Kenya Mission report, two interpretations of the informal sector would arise within the ILO umbrella: the first was carried on by the "Urbanization and Employment Programme", stressing the linkages between the urban informal sector and poverty; and the second by PREALC - the ILO regional body in Latin America - which developed the informal sector concept borrowing analytical tools from the labor market segmentation theory and the ECLAC school.

The first group, under the leadership of Harold Lubell and S. V. Sethuraman, concentrated its efforts on the urban areas, conducting research in several cities of the Third World. According to Bangasser (2000, pp. 11-12), it tended to reinforce the idea of the informal sector as a refuge of the formal one, exactly the opposite of what the Kenya Mission tried to convey.

Notwithstanding that, some conceptual progress was made. For instance, these authors tried to differentiate among two sub-sectors: one, irregular by nature, was made out of an array of marginal but licit activities usually performed by own-account workers; and, the other, the "proper" informal sector would bring together small-scale economic activities, mostly employing non-wage earners and family members (Sethuraman, 1976, p. 81).

In order to reassess the relationship between the informal workers and the urban poor/illegal urban settlers, they argued that two options existed: either looking at the income levels of these groups or at the main variables affecting their income (skills, kind of employment/occupation and establishment characteristics). They chose the latter, which allowed for tackling the main processes interfering in the income generation process, "more related to the establishments' constraints than to the individual's capacities". In so doing, policies to address the issue of the informal sector would come about (Sethuraman, 1976, pp. 82, 85-86).

The "enterprise" would be the main unit of analysis. The informal was defined by exclusion, as the formal units would be best captured through characteristics such as size of the establishment, access to credit, legal enrollment and employment of wage earners. A productive unit would encompass every worker, including own-account, even if they didn't employ others, didn't hold any capital and lacked a stable place of production (Sethuraman, 1976, p. 84). While this methodology enabled to measure the size of the sector, all the informal workers would be thrown once again under the same label.

The following statement speaks for itself: "by definition, the informal sector employs, in the first place, the urban poor, whether they are employers, own-account workers or wage earners" (Sethuraman, 1976, p. 85). The central aspect of the analysis shifts to the possibility of modernizing segments of the informal sector, which are there not due to their limited capacities, but by lack of support (Sethuraman, 1976, p. 89). The "rest" of the informal sector seemed to be pushed to survivalist strategies, sinking into poverty.

In another paper, Sethuraman seeks to qualify his viewpoint on the informal sector. Its distinctive features are related to the main motives of the “enterprises”. They show up, “not in response to investment opportunities, but through the need to create their own employment”. These productive units emerge “despite the lack of capital and skills” of their owners (Sethuraman, 1981, p. 16). In some cases, the author sees them as going through an evolutionary process, possibly turning into proper enterprises, if they manage to, by their own effort or through public support, to overcome the limitations mentioned above. However, this evolutionary growth was restricted to some units, whereas the others would stay in the informal sector as “refugees”. This analysis would open a vacuum between both sectors, reinventing dualism (Charmes, 1992, pp. 51-52).

A more thorough definition is also put forth: “the informal sector consists of small-scale units engaged in the production and distribution of goods and services with the primary objective of generating employment and incomes to their participants notwithstanding the constraints on capital, both physical and human, and knowhow” (Sethuraman, 1981, p. 17). The main divide separating both sectors is, once again, productivity, serving the income levels as good proxy of labor productivity.

The difficulty to develop a complex diagnosis of the informal sector - which is only possible if its linkages to the overall economy and labor market are fully traced - would make it easier for the neoclassical approach to emerge from behind the scenes. By 1984, an evaluation report of the ILO activities under the “Urbanization and Employment” Programme would emphasize the role of market imperfections. They were to be blamed for the pervasiveness of the informal sector in the underdeveloped countries, being fed by the lack of free access to credit, market, skills and the absence of consistent production and distribution systems (ILO, 1984, pp. 13-14).

Human capital formation is the new panacea, allowing the informal sector - in spite of consuming scarce resources - to create its own savings and increase the investment rate (ILO, 1984, p. 17). The informal “enterprise” loses its specificity and is interpreted as a potentially capitalist firm (Cacciamali, 1982, p. 25).

The other offspring of the Kenya Mission is the approach developed at PREALC/ILO through a joint effort of Victor Tokman, Paulo Renato Souza and many others. Although they shared some of the views of Lubell and Sethuraman’s group, their key assumption was based on the importance of the structural labor surplus to understand the evolution and the shape of the informal sector, one that would benefit from “some advantages opened by the market” (Souza, 1980, p. 29).

This approach, from the very beginning, tried to unveil the connections established between the formal and informal sectors. The informal – characterized by the lack of barriers to entry and the predominance of non-capitalist relations of production – was seen as integrated, but through different forms of subordination, to the formal sector (Tokman, 1978, pp. 11-12), sometimes acting in competitive markets, while in others setting itself on the basis of the supply pyramid of oligopolistic market structures.

In the latter case, prices are set up close to costs in small-scale enterprises, whereas the big ones, typically capitalistic, get oligopolistic profits due to lesser costs. This is the case, for instance, of the commercial sector, which “combines” street vendors, small shops and supermarkets (Souza e Tokman, 1976, p. 134).

Considering there is just one market, the fate of the informal depends on the economic space opened or left unoccupied by the formal sector. This one, through its expansion, limits and redefines the range of activities of the informal sector, deprived of autonomous growth capacity (Souza, 1980, p. 30). This approach dismisses, then, the possibility of an evolutionary growth put forward by Hart and Kenya Mission report. Even in these papers, it was conditioned by the stabilization of the propensity to consume goods and services from the informal sector from both sectors, which required a merely quantitative expansion of the capitalist economy.

The PREALC’s approach was influenced by ECLAC’s conception of the functioning of Latin American productive structures, trying to understand how they managed to assure the transformation and reproduction of the informal sector. This is regarded, as in the Kenya Mission report, as a by-product of the development of modern activities (Souza e Tokman, 1976, p. 130). However, these authors wouldn’t “buy” the later ILO assumption – developed in the eighties as we mentioned above – which considered market segmentation as a distortion. They would rather seek to understand why within “peripheral capitalism” the modernization process doesn’t spread to all the layers of the productive organism.

This particularly complex productive-technical structure is matched by social heterogeneity, being the labor relations that characterize the informal sector one of its striking features. Another one would be the expressive differentiation of wages within the formal sector, sometimes even within the same economic activities (Souza e Tokman, 1976, p. 131).

Thus, Tokman (2004, p. 2007) defines the informal sector as a way of organizing work derived from a specific form of organizing production. The key question seems to be determining the level of subordination of the informal sector to the formal one, which is fundamental to evaluate its growth possibilities even if somewhat constrained. That is, even if subordinated, there is some margin of autonomy, depending on the market structures (Tokman, 1978, pp. 11-13).

In oligopolistic situations, informal activities cannot grow indefinitely after reaching a certain threshold. They are affected by the growth of aggregate demand, minimum scales of production and the existence of scale economies. In the long run, informal activities tend to lose markets, even if not totally swept away, getting confined to some sectors through outsourcing links.

There are also cases where the markets tend to become increasingly oligopolistic. This seems to occur in some segments of manufacturing, when the informal sector sticks to a productive space up to the point where the market dimension allows for the establishment of larger and more productive enterprises.

In market structures not tending to oligopolization, at least in the mid turn, as in the case of personal services, the expansion of the informal sector may be restricted by the low income elasticity of demand. However, differences may arise even within the unorganized sector, as in the case of two people with similar skills, living in distinct parts of the urban territory and attending diverse demand profiles. An example would be the hair-maker in a fancy neighborhood, able to access, following this thread of thought, oligopolistic “profits” (Souza e Tokman, 1976, p. 134).

The case of petty traders - activity in which usually predominate a low level of technological change and a lack of a decisive trend towards complete oligopolization – is typical of a situation that would bring about differentiation of goods and services according to demand profiles, assuring a certain level of stabilization for the informal sector as long there is no pressure for new entrants.

The main assumption of this framework is that – given the composition of informal sector’s balance of payments – it would face in the long run a deterioration of the terms of exchange with the formal sector. This would happen by virtue of the informal sector’s shrinking participation in the market – to which we should add the further increase in labor supply – being more feasible to forecast a general trend towards an involutory growth of the informal sector, one that could be only partly counterbalanced by public intervention.

Nevertheless, for public policies to be successful, they should be implemented alongside changes in structure of the international trade and in the internal mobilization of surplus, in order to carry on a new development model. In other words, the evolutionary expansion of the informal sector is conditioned by changes in the dynamics of the formal sector itself (Tokman, 1978, p. 14).

Two ideas are key for this interpretation. First, the informal sector occupies the economic space set by the formal sector, not competing directly with it. And, second, the definition of the economic space doesn’t mean that the occupational dimension is rigidly determined, as it may assume different configurations. That happens because in some situations the income levels need not to be inversely correlated with the labor supply, especially if the premise of inexistence of barriers to entry is discarded (Souza, 1980, p. 31).

This reformulation opens room for selecting, from the simple commodity production activities, those that, through market reserve or clientele relations, manage to secure income levels above the ones found for unskilled workers in capitalist activities. This may be the case of familiar-based small-scale production. On the other hand, for own-account workers in general, where the market entry tends to be free, the oversupply of labor brings about a reduction of income levels, sometimes even for those subordinated to capital. For domestic employees, this also happens, but one should consider the influence of clientele relations and also the importance of different demand profiles according to the purchasing power and the status held by the “employer”.

In the case of capitalist quasi-enterprises, dealing with wage labor and in which the employer also works, if we assume that they don’t compete with other capitals, the key variable for its behavior is the total revenue of the employer. Profit is residual and the wage



relations are not fully formalized. Here also some protection against the entrance of new producers may take place (Souza, 1980, p. 32-36).

Following this differentiation, PREALC would diagnose three groups making up for the total informal sector: unskilled or non-professional own-account workers, domestic employees and workers and employers in small-scale establishments with up to 5 employees (Tokman, 2004, p. 198). Even though these segments could be characterized as low productivity ones, this was not necessarily because of the lack of technology, depending strongly on their respective position in the labor and product markets.

Two points may be stressed, in order to grasp the originality of this theoretical effort. First, the formal/informal dualism is shattered into pieces as the connections between both are scrutinized, as well as the supposed internal homogeneity of each sector contested (Souza e Tokman, 1976, p. 131).

Secondly, the conception “a labor market intrinsically heterogeneous” explains what seems anomalous for the neoclassical view: the existence of differences between the wage of unskilled workers of the formal sector and the average income of those located in the informal one.

Otherwise we would need to assume a labor market in which rising wages lead to falling levels of employment, flooding an informal sector that plays the role of a shadow price. In this case, there would be no room for labor market segmentation, the income differences arising from individual’s abilities, unrelated to the productive space and the economic conditions of the many distinct “enterprises” in both sectors. PREALC showed there was no empirical evidence of these outcomes for Latin American countries. The opposite assumption would be closer to reality indeed (Souza, 1980, 142-143, 149).

This debate on the functioning of the informal sector would find a fertile soil in the structuralist and Marxist views that proliferated in Latin America in the sixties (Tokman, 2004, p. 199). The “sector” approach would vanish, opening space for a true capitalist nucleus, one that through its quantitative expansion and qualitative transformation “creates, destroys and recreates” the spaces to be filled in by non-capitalist petty production (Souza, 1999, pp. 88-89). This process of constant redefinition and reshaping of informal activities is not due to their lesser microeconomic efficiency or to the lower quality of their goods and services. What stands out is the capitalist nucleus’ ability to constantly dominate and alter the functioning of the market.

The non-capitalist segment is best depicted by its labor relations marked by individualization, irregularity, multiplicity of functions and roles, being subordinated in different ways to the movement of capitalist activity. Capitalist penetration in some niches may lead to an integration of some informal workers now turned into wage-earners, but it can also push them to other informal activities or expel them temporarily or definitely from the productive space and even from the labor market (Cacciamali, 1982, pp. 28-29).

This framework of analysis is consistent also with the constant recreation of new hierarchies within the “informal sector”, as to conquer the space set up by the capitalist

nucleus, certain forms of ownership and control of the means of production, as well as minimum levels of skills and work experience, may be of great value, excluding the totally dispossessed. In a dynamic fashion, this realm of informal activities may host new sources of dislocated wage earners as well as small entrepreneurs excluded from the market but seeking other ways of increasing their profitability (Cacciamali, 1982, pp. 33-35).

In the eighties, the informal sector concept would travel around the globe, losing gradually touch with its earliest formulations. To Bangasser (2000, pp. 13-16), during these “dispersion years”, at least at the ILO, the focus was switched from research to concrete actions. If there was any coherence within these new proposals it belonged to the old-fashioned view regarding the informal sector as made out of poor and miserable workers, doing away with the Kenya Mission main inheritance. Simultaneously, the association between informality and illegality was reinforced. The informal had become a loose measure without a theory to uphold it (Cortés, 2003, p. 603).

The main result of this new approach is that, after the 90th ILO Conference, the “informal economy” concept brought to life as to include the unregistered and unprotected workers, as well as those suffering a high level of vulnerability, lacking security in the workplace, in terms of skills, income and union representation (Tokman, 2004, pp. 215-217). This enlargement also brought about an increasing in specificity for the recently born concept. However, it is not necessarily a problem in itself as long as the heterogeneity of the economic and social forms faced by these very different workers was empirically and theoretically addressed.

The motivation for this new concept of informal economy stems from the attempt to capture the new dynamics of labor markets in different parts of the world, incorporating the variety of labor relations affecting mainly the working poor (ILO, 2002, p. 11).

According to this new conceptual framework, the typical informal jobs in informal enterprises are added to informal workers, mainly temporary and non-registered ones, under the control of medium and big enterprises. Thus, the informal economy now encompasses self-employed and wage earners, that is, all forms of remunerated work out of reach of the social and labor legislation and also non-remunerated work in income generating activities. The assumption being that every economic activity in every country “tends to fall at some point on a continuum between formal relations (i.e., regulated and protected) and informal relations (i.e., unregulated and unprotected) (ILO, 2002, p. 12).

From our viewpoint, the problem is not with the concept itself, especially if it allows for detecting the various interactive dynamics developed between formal and informal activities; but with the return of the legalist approach, despising the contributions made by Hart, the Kenya Mission and the PREALC group. The informality seems to denote the part of the working class without recognition, regulation and protection (Chen, 2004, p. e).

Using another concept, Samir Amin (2008, pp. xvi-xvii) gets to a similar reasoning. He differentiates among the “stabilized popular classes” from the “precarious popular classes”, the latter including “workers weakened by their low capacity of organization, as well as non-wage earners (the formally unemployed and the poor with jobs in the informal sector).

The difference between the “center” and the “periphery” of global capitalism expressed through the percentages obtained by the second and more vulnerable group of the working class, reaching the figure of 40% and 80%, respectively.

Going back to the new definition of informal economy adopted by ILO, in spite of a dynamic and interactive view of these activities, it seems to assume that the existent schools of thought – defined as dualist, legalist and structuralist – could each explain specific segments of the informal economy, generating then a set of complementary policies (Chen, 2004, p. 9 e Chen e Vanek, 2005, pp. 21-25). From theoretical in specificity, we jump into eclectic empiricism.

However, the theoretical effort undertaken by ILO, with the important support of WIEGO (Women in Informal Economy: Globalizing and Organizing), should not be dismissed. It shows how the degrading working conditions are not exclusive to the once called informal sector, as the capitalist system manages to engender new forms of precarization/flexibilization/outsourcing of work both in developed and underdeveloped countries. It also points out to the need for understanding the various processes that lead to the weakening of the organization power of the working class.

Our intention is to acknowledge that it, nevertheless, mixes the different origins and processes responsible for undermining workers’ conditions. On the one hand, there is the non-capitalist informal sector under different forms of subordination to the predominant capitalist nucleus. On the other, a reorganization of the production process is under way, worsening the quality of the capitalist labor relations Altman (2008, pp. 7-8), for instance, raises the point whether or not we should call the latter just “precarious employment”, as it is best defined by the insecurity and lack of social security in “formal” jobs.

Summing up, we don’t see this debate as a dispute over semantics. On the contrary, we try to see how these different concepts may help to elucidate the understanding of the distinct dynamics of the capitalist and non-capitalist activities, as well as their interactions. To put the focus on precariousness – a recent trend faced by developed countries – may divert us from the specific features of informal activities, which are not new and assume particular historical meanings, in underdeveloped societies.

The informal economy concept was influenced by the contributions made by Alejandro Portes and Manuel Castells. Below we seek to present an overview of these author’s basic ideas.

According to Castells and Portes’ view (1989, pp. 11-12), a deep nexus connects both “sectors”, which stems from the profitability requirements. The examples chosen by the authors are borrowed mainly from outsourcing relations. In spite of survivalist strategies, the informal economy is best understood, in their view, as a form of disguised wage relations.

For Castells and Portes (1989, pp. 13-15), the informal economy only exists in relative terms, that is, deriving its existence from the shape of the formal economy based on a certain institutional structure. When one enterprise overlooks this institutional regulation, it

affects not only the labor status, but also the working conditions, leading to new forms of management. Thus, it shall be understood not as a marginal sector, but one arising from economic and political processes, linked to the functioning of these societies.

The fact that the informal sector is seen as depending on the institutional context may bring these authors' view close to the traditional legalist approach spearheaded by the Peruvian economist Hernando de Soto. However, a striking difference emerges, as for Castells and Portes the informal economy is an universal phenomenon, being found in regions with distinct levels of economic development, as it gives capitalism the flexibility it needs to overcome the series of profitability crisis it faces on its way ahead. So, the problem is not with the "excessive" State as in the neoliberal tradition.

The theoretical redefinition of the concept led by these authors is, indeed, informed by a concrete process: the productive restructuring that developed countries have gone through since the seventies. A new political, social and economic context had brought about a renaissance of the informal economy in these countries. This conservative reaction had the purpose of weakening the bargaining power of trade unions and undermining the role of the State as a way to defend these enterprises from the increasing competition of labor-intensive goods produced in peripheral countries (Castells and Portes, 1989, pp. 27-29).

As a result, a new decentralized model of economic organization was responsible for establishing new links between the informal and the formal economy. The allegedly low productivity of the informal sector is also questioned. If this "sector" may tend to a lower labor productivity, it may allow for a larger capital productivity by virtue of the leaner structure of these "enterprises" (Castells and Portes, 1989, p. 30).

This universalist approach on informality criticizes PREALC's methodology for underestimating the informal sector, as it doesn't include the unregistered wage earners. The amount of "informal" workers would then increase by around 20 percentage points for the Latin American countries (Castells and Portes, 1989, p. 18).

However, it can't be assumed that these workers are unregistered solely because of the capital requirements (Tokman, 2004, pp. 205-208). If it is true that global chains of production engender a new informal labor, connected to capital, in developed countries – what happens also in Latin America and other underdeveloped regions –, there is no empirical evidence to consider, for instance, every unregistered, self-employed or home-based worker everywhere as subordinated to capital. As, summarized by Tokman, it is not feasible to consider the bulk of street vendors as disguised wage earners (Tokman, 2004, p. 207).

In sum, the analysis put forward by Castells and Porter fails to recognize the historical specificity of the informal sector outside the developed regions, where its shape is more complex and diffuse, and the labor relations present very different configurations, even more so today than in the past.

After this review, it may be tempting to point out some theoretical avenues that could be pursued in the future, in order to allow for empirical analysis without losing ground to

social and political processes. As suggested by Coutrot (1991, p. 164), to fully grasp the meaning of concepts like underdevelopment and dependency through new lenses, it is important to understand the “truncated and partial penetration of capitalist relations of production” in these countries. Indeed, as we try to develop further in the next topic, these internal factors are strategic if one seeks to explain the maintenance and renewal of dependency relations from within and not as functional to abstract and general processes with no historical basis.

Actually, according to Coutrot (1991, p. 167), low wages and lack of skills may be seen as the factors lying behind the unwillingness towards higher productivity levels in several economic sectors from the underdeveloped world, not the other way around. As a consequence, the accumulation process is distorted, benefiting from the pervasiveness of the informal sector, which also locks the potential for the increasing participation of wages in the national income of these societies.

In other words, the non-generalization of wage relations and the consolidation of external dependency are two sides of the same coin, helping to explain the weak technological dynamics in these countries and the difficulty to unleash a virtuous circle, one that would not oppose economic development and the regulation of labor relations (Marques-Pereira, 1998, pp. 320-331).

One last point needs to be made. The above discussion, concentrated on the field of economics, would be significantly enriched by the new occupational stratification models developed by neo-Weberians and neo-Marxists (Crompton, 1993, pp. 142-144, 147-148), as they may raise important questions about the diverse class positions held by the informal workers and their role for redefining the understanding of the very specific class structures found in underdeveloped societies.

### **The Urban Informal Sector in Brazil, India and South Africa: a Preliminary Overview**

It is our purpose, in this section, to establish a strong connection between the realities of underdevelopment and informality. In order to capture it, we need to look at the particular processes of historical development in countries located in the periphery of the international division of labor, which is constantly reshaped by the very forces of the capitalist system.

At first, we put forward our understanding of the concept of underdevelopment, to show, secondly, how very different societies transformed their economic structure, by virtue of their industrialization processes, without being able to overcome inequality.

The main outcome was the improving of the structural heterogeneity, not because of the survival of the inheritances of the past. The modernization itself brought about a redefinition of the non-capitalist relations of production that would relate in different ways to the newly developed productive forces. The proliferation of informal activities is here understood as a result of these very specific socio-economic processes, which assume different forms in these three different countries.

There is no attempt to dig very deep into these rather complex social configurations. We would rather stress what is common and what is unique in each of them. To make things easier, our effort aims at selecting independent causes – the role of the State, the importance of the rural question, the position of the country in the international division of labour and the class structure – that may give rise to different modalities of underdevelopment-*cum*-informality in these countries.

As a third step, we seek to show how the liberalization of these diversified industrial economies not only expanded the range of the informal activities but made them even more diverse. Through the data collected for the urban informal sector in these countries, we may pin down the particularities of each country, stressing also the impossibility of using the same concept for them and their counterparts in the developed world.

Let's start with the concept "underdevelopment". In the very beginning, it was almost synonymous to "backwardness". The latter was brought to life theoretically through the insightful analysis pursued by Gerschenkron (1961, pp. 4-9) after the Second World War. The author's main purpose was to show how backwardness was overcome in the nineteenth century by Western countries of Continental Europe. Their development was not as "spontaneous" as in England, especially in terms of the speed of the industrial growth and with respect to the productive and organization structures. They also depended upon fundamentally new institutions – the State and investment banks – and on a new "developmentalist" ideology. Even though there was a gradual reduction of backwardness – in Germany, France, and also in the case of Russia – the newly developed industrial countries had their own specificities arising from the very dynamics of the development process.

The problem with this viewpoint was to think of "stages of backwardness" – as it was always relative to a state of advanced industrialized society. It was not a category in itself, but a burden to be overcome by steps – even though every development process established new routes and the end of the road was somewhat different as well. The premise is that "everybody" would be able to get to a higher road by virtue of industrialization.

Apart from these limitations, Gerschenkron (1961, pp. 20-21, 26-27) paved the way for a rupture with neoclassical economics for capitalist development was not equal everywhere and to promote development became a political task as much as an economic one.

The first attempt to depict underdevelopment neither as a syndrome nor a malady that should be cured was Furtado's one. The Brazilian economist thought the concept deserved a further elaboration. He then managed to fill the void: underdevelopment should not mean the lack of something others had managed to acquire, but an autonomous field of inquiry (Mallorquin, 2005, pp. 122-123), allowing for the understanding of the socio-economic realities of the countries located at the periphery of capitalism.

In Furtado (1965, pp. 157-159)'s view, the development models lacked a historical dimension. The Industrial Revolution should be seen as qualitative turning point in the development process. In European countries, economic growth had become endogenous by virtue of the technological progress that opened the room for an increasingly diversified

demand structure. In the other end of the international division of labour – where we find countries under the plantation system or the ones that were forced to open their trade routes – the penetration of capitalism was not complete.

Even though, in this first paper, Furtado (1961, p. 173) talks about “hybrid structures” and “dualist economies”, he touched upon the most important matter: “underdevelopment was an autonomous historical process, not a phase that all countries should overcome before reaching the highest levels of development”. That happens because the capitalist activities while advancing through these areas generated a mass of profits that didn’t lead to a complete transformation of the local economies.

As he would sum up latter, development and underdevelopment are different historical configurations, both derived from the same initial force, and they tend reinforce mutually. So underdevelopment should be seen as a part of an integral movement, an expression of the dynamic economic system brought about by industrial capitalism. In the first group of countries, we had a transformation of the social structures by virtue of development, whereas in the other group “modernization” of life styles prevailed. Consequently, mass consumption, lessening inequality and hypothetical full employment was possible in the developed societies; whereas in the underdeveloped ones, hidden unemployment and urban marginality – the informal sector was implicit in the argument - became more the rule than the exception (Furtado, 2000, pp. 27-28). This “model” does not rule out the space for politics; on the contrary, he tries to grasp the possibilities and obstacles posed by the very structure of these different societies.

In his book written in the early sixties, Furtado sees the underdeveloped social and economic structures as made out of three sectors: the subsistence sector; the export-oriented; and internal market-oriented one. In the more complex underdeveloped structures the industrial core, aimed at the internal market, can be indeed very dynamic, bringing about considerable changes. However, it expands mostly in the sophisticated sectors dominated by the developed economies, being consequently unable to integrate completely the great reservoir of the workers expelled from the non-capitalist activities. In one word, the industrial output increases rapidly without changing correspondingly the occupational structure. As a consequence, any reasoning by analogy with the experiences of industrial advanced societies is prone to misconceptions and should not be looked at as model to be imported by the underdeveloped ones (Furtado, 1965, pp. 184-185).

Therefore, “backwardness” and “underdevelopment” are not synonyms. Following Pipitone’s analysis, backwardness was a product of Europe, whereas underdevelopment in a result of a failed historical transplant. In the underdeveloped countries, society, economy and politics march asynchronously (Pipitone, 1995, pp. 23-25).

The other famous ECLAC economist, the Argentine Raúl Prebisch (1981, pp. 39-42) would put forward in the seventies another concept: “peripheral capitalism”. It had a constrained dynamic, even though underdeveloped countries could face moment of very rapid industrial and economic growth. In his view, capitalist segments coexist with non-capitalist ones, generating different “styles of development”. The main changes in the technical structure of the economy, carried on by the capitalist sectors, lead to a movement of labor force from

the subsistence sectors to the modern ones, impeding the wages to follow the productivity levels. The surplus doesn't manage to go back to the economy in order to feed the accumulation of capital. They tend to be filtered through conspicuous consumption or to be applied in a non-reproductive way.

Thus, economic efficiency and social inefficiency go hand in hand. Despite the increasing diversification of these economies - that could have led to an increasing purchasing power of the low-income groups - an extremely segmented demand structure takes place. At the top, we find a "privileged society"; at the bottom, its mirror image, an "infra-consumption society". As if the boundaries between social classes and strata were deeply sharp and the social mobility just a way to fill the empty places opened by the modernization process. This structural heterogeneity helps to internalize the same pattern of unequal distribution of the technical progress gains once located in the international trade arena (Prebisch, 1981, pp. 59-60).

The so-called "dependency school" would take some of these hypothesis and rework them from a Marxist perspective. The result was somewhat mixed as very different threads of argument would follow under the same label.

The first group of authors led by Andrew Gunder Frank had the intention to establish a "theory of Latin American underdevelopment". The two leading ideas were: these societies had always been shaped by capitalism, so there is no dualism; and the dynamic of the capitalist system demanded a continuous surplus extraction from the peripheral countries. Thus, within capitalism, the only possibility for these societies is the "development of the underdevelopment". This iron law would turn this interpretation into a mecanico-formal model, which would undermine the flow of history and submit the internal dynamic of these societies to powerful external forces (Palma, 1978, pp. 898-900). The over-emphasis on the structure of international networks pushed the class analysis to the backyard. It was managed in a way to preserve the model, not allowing for more complex historical configurations (Peet, 1991, pp. 52-54).

Cardoso and Falleto would follow a different path, focusing on "the concrete situations of dependence". In the words of Palma (1978, pp. 909-910), according to these author's view, industrialization and dependency ceased to be contradictory. The interplay between internal and external factors would be more complex, requiring an empirical analysis. The first ones were not any longer subordinated to the second ones. The external forces would not determine the final outcomes, but find concrete expression in the internal dynamics which could assume a variety of forms.

This second reasoning is complementary to the ECLAC's analysis and does not profess a general theory, but a methodology for understanding concrete situations - substantially different from the patterns observed in developed societies. This is only possible through an analysis of the interaction between economic forces and social and political outcomes in very specific and changing historical contexts in which international forces - through their economic and political interests - exert a strong influence. This is not a small theoretical accomplishment. As Joseph Love (1998, p. 32) has put it: both schools of thought - ECLAC

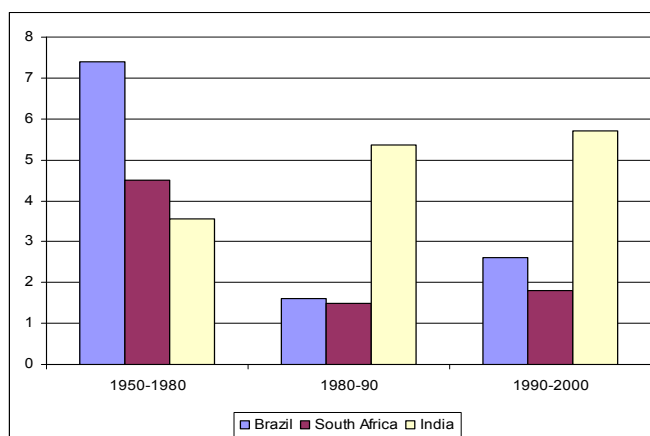


and dependency theory - represent the most influential contributions from the Third World to the development theory.

This brief summary sought to convene three basic ideas: first, underdeveloped societies and informal activities are profoundly interlinked, even though the connections vary a great deal from one country to another; second, even though their main focus was the Latin American countries, we hold the view that these theoretical tools may be even improved if applied to other underdeveloped countries; and, third, we believe that these concepts are far from outdated, as the implementation of neo-liberal policies in most countries of the periphery has led to a furthering of the structural heterogeneity of these societies, revealing the uniqueness of their functioning. The same argument holds for the specificity of the informal activities in these societies.

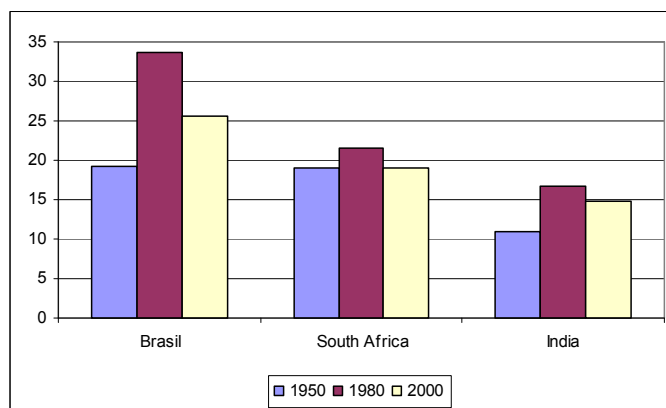
Before turning to this subject, we intend to get a glimpse of the nature of the industrialization process in Brazil, India and South Africa. We present below some general data that may help us to stress the most striking differences.

**Graph 1: Rates of Real GDP Growth for Different Periods (% on a Year Basis)**



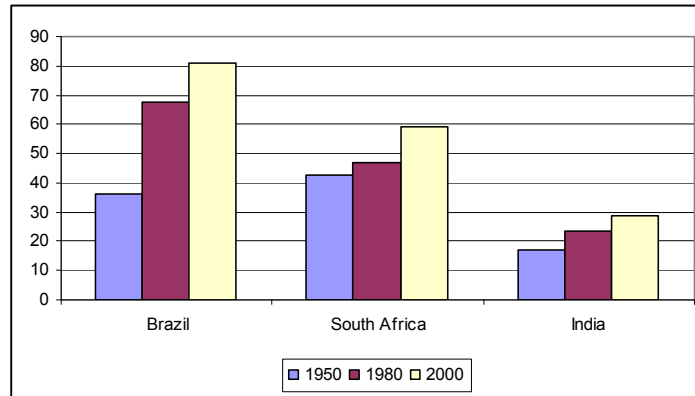
Source: IBGE (Brazil), UN, Lipton (1989), CSO (India), SSA (South Africa)

**Graph 2: Share of Manufacturing in Total Output (in %)**



Source: IBGE (Brazil), UN, Lipton (1989), CSO (India), SSA (South Africa)

**Graph 3: Urbanisation Rates By Period (in % of Total Population)**



Source: IBGE (Brazil), UN, Lipton (1989), CSO (india), SSA (South africa), UNDP.

It would not be exactly correct to label the industrialization process experienced by these countries as following the so-called import-substitution model, usually understood in an over-simplistic way.

Even in Brazil, it may have been the case only up to mid-fifties. After this period and up to the end of the seventies, Brazil would diversify dramatically its industrial output structure, opening space for consumer durables and capital goods. This was managed due to a strong autonomous investments pursued by state-owned companies and multinationals (Tavares, 1974, pp. 38-41). The latter shaped the industrialization pattern, whereas the former played the role of setting up basic infrastructure conditions and offering intermediary goods at subsidized prices to feed a rapid process of structural transformation. In the lower levels of this very sophisticated industrial structure were the Brazilian private companies, also dominating important sectors like agriculture, trade, civil construction. Underneath this tripartite alliance - state-owned, multinationals and big private national companies - was a group of small enterprises, some of them family-owned, and a huge stream of own-account and casual workers pushed by the rural concentration of ownership in the rural areas and pulled by a dramatic urbanization process.

The very fact that the investment rate has not increased significantly to promote a further diversification of the economy, compounded by the mounting of inequality, has led to what may be depicted as an industrialized underdeveloped model (Bresser Pereira, 1998, pp. 71-73). Thus, even if Brazil managed to be within the period 1950-1980 one of the most dynamic economies in the world, achieving at the end of the process the highest industrial GDP within the so-called Third World, it didn't impede the country to be hit hard by the international crisis of the early eighties, as it was highly dependent on foreign financial capital and not able to start its own process of technological development.

The performance of the labor market, for the whole of the country, revealed some positive aspects. Formal salaried work had grown more rapidly than the economically active

population (EAP) (at 6.2 per cent and 2.6 per cent annual averages, respectively) between 1940 and 1980, according to IBGE data.

As one of the outcomes of the industrialization process, Brazil was able to give birth to a national working class protected by labor legislation, even if such legislation did not benefit all workers. Meanwhile, the salaried middle class expanded, with technicians and professionals with a college degree and company and public sector managers gaining space.

Still, and regardless of these features indicative of the structuring of a relatively ‘modern’ labor market, Brazil would present distinctive features in relation to the pattern of employment prevalent in developed countries: significant disparity between income levels, presence of working poor even for protected wage workers, high percentage of occupied workers in non-organized sectors and the inexistence of a universal system of social protection. Not only that, the country’s landless rural workers, small land holders “were still there”, and the big cities’ mass of own-account and casual workers in a permanent precarious state had increased in absolute terms (Jakobsen and Barbosa, 2008, pp. 116-117).

Taking a look at the table below, which comprises economically active population in urban and rural areas, the Brazilian case seems to stress the limits of overcoming “informality” even in a very dynamic economy, if reforms in income and land distribution patterns and in the model of development are not undertaken simultaneously. The State paved the way for the private sector allowing for greater profitability rates –using all the tools it could manage –, which also benefited from a sort a labor heaven in the seventies: no union action, low wages and an ever pressing and growing labor supply. Still, in the end of the process, 40% of the labor force was in the informal sector if we add to the non-protected wage-earners. Besides, within the formal sector, wage disparities were huge and functional inequality on the rise.

**Table 1 – Distribution of Economically Active Population in Brazil (in %)**

	<b>1940</b>	<b>1980</b>
<b>I. Organized</b>	<b>18,5</b>	<b>59,2</b>
Capitalist Enterprises	16,1	47,5
Employers	2,3	3,1
Protected Wage Earners	9,7	37,5
Protected Own-Account	4,1	6,9
Public Sector	2,4	11,7
<b>II. Unorganized</b>	<b>75,3</b>	<b>38</b>
Non-Protected Wage-Earners	29,9	13,6
Own-Account Workers	25,7	15,2
Non-Wage Sector	19,6	9,2
<b>III. Unemployed</b>	<b>6,3</b>	<b>2,8</b>

Source: Brazilian Population Census, in: Pochmann et al. (2005).

In the urban sector, 75% of the economically active population was made out of wage earners, 1/3 of them non-protected, being around 20% of the work force positioned as own-account and family workers (Cacciamali, 1989, p. 39). And if manufacturing represented 16% of the total level of employment in 1980, the agriculture sector was still responsible for 30% of the jobs. Within both urban and rural areas and between them the informal and formal sectors were linked in a variety of ways, the supposedly “traditional” helping out the “modern” to conquer the economic space and to magnify the levels of inequality across the country. As one author has summarized, it is a kind of capitalism whose growth is achieved by the expansion of internal peripheries (Oliveira, 2003, 42-43, 54-60). There is neither “marginality” nor over-tertiarization - at least in the way many authors have claimed – but a sort of capitalism where “informality” is structural, undermining the improving of the working class situation.

The case of India is different in many ways. The economic growth was not as dramatic in the period 1950-1980 and the urbanization rates increased very slightly. Manufacturing led the output growth, spurred by state enterprises located specially in the heavy industry sectors. At the end of the period, only three out of the 25 largest enterprises would be private. That is, public planning meant industrial planning with the five-year plans aiming at consolidating the capital goods production. There was a sort of structural flaw as the indexes of capacity utilization were low, especially because the light industries were not as much developed. (Pipitone, 1993, pp. 290-293). Even if the industrial sector was very dynamic it didn't manage to overcome the inter-sectoral industrial balances. Moreover, as the agrarian reform didn't become reality, there was no stimulus for improving the agricultural productivity. Had it happened an Indian economy could have improved faster both economically and socially.

Brazil and India both may be characterized as intermediate states, the in-between category devised by Evans (2005, pp. 94-105), in order to differentiate these countries from the “predatory” States and the “developmental” ones. The mixture of independence and partnership between the State and the private sector didn't make it possible for the launching of new national projects capable of changing the countries' economic and social structure profoundly. It can be said, though, that Brazil accomplished more than India in terms of “partnership”, probably going much further than what was reasonable, whereas India did better in areas where a coherent bureaucracy was needed. The inefficient combination – or the lack of a “developmental” State, which is somewhat related to the class structure and their political interests – would pose a structural threat, as it gave ideological support for forces trying to weaken the transformative role of the State (Evans, 2005, p. 105).

After the second half of the sixties, the country would experience a change in its policy regime (Nagaraj, 2008, pp. 7-8). The decline in public investment slowed down the industrial output. On the one hand, the food constraint led to the promotion of the “green revolution internally”. On the other, policies were implemented to stir regional development and small-scale industries.

This sort of “low-income-slow growing economy” was very specific: while it managed to build up a modern manufacturing industry, it was unable to disseminate itself to the rest of

the country and to take full advantage – as in the Brazilian case – of the flow of cheap labor. The inequality was more assets-based than generated through a sort of deregulated capitalism from below. In the period 1961-83, the rural share in the additions to work force still represented around 70% of the total (Sundaram and Tendulkar, 2002, pp. 2-3,8). The secondary commodity producing sector amounted to one fifth of the new employment. It basically meant that the informal sector was more non-capitalistic than casualised, and that it hadn't become fully urbanized.

In 1983, the agriculture sector employed 205 million people, 70% of country total figure. The unorganized sector made out of 92% of total jobs in the country, reaching almost 100% in the agricultural sector, 80% in the manufacturing sector and 60% in the trade sector. However, this definition includes as unorganized sector not only the self-employed and casual workers, but also the regular/salaried workers who are temporary, part-time and are not receiving provident fund benefits (Sakthivel and Joddar, 2006, pp. 2108-2109). The very low unemployment levels can be seen at best as “a spurious measure of full employment” (Nagaraj, 2008, p.5), that is, it doesn't touch the dynamics of this very specific labor market.

To look at the Indian labor market in the beginning of the eighties as composed by three main sectors: the first, a tiny one, amounting to 8% of the labor force, representing the organized sector, which is virtually separated from a huge agricultural low-productivity sector by an ever growing informal sector, may be a sort of exaggeration. It neglects the relationship between formal and informal sectors in the urban areas.

Actually, taking only the urban workers in non-agricultural enterprises, the manufacturing and repair services accounted by 35% of the total jobs in 1980, following the Economic Census data (Kundu, 1999, pp. 8-9).

Kundu (1999, pp. 28-29), sees the urban informal sector in India as increasingly insulated, because it mainly survives at a low level of productivity “not responding to economic stimuli or the demand factors”. According to (Sundaram and Tendulkar, 2002, pp. 1-2) the problem would be a “low average productivity traceable to a backward technology and deficiency of reproducible tangible capital relative to labor”.

Even if these statements hold part of the truth, they seem to lack an understanding of the way a specific underdeveloped structure reshapes constantly, as it evolves, the formal-informal relationships. If this theoretical orientation is not pursued, we may start the analysis with the low-productivity premise and conclude this is the fundamental problem.

Anyway, the Indian urban informal sector may be differentiated from the Brazilian in the sense that the involution threat is more present due both to the limited size of the capitalist sector in the urban space and by the fact that the supply of rural labor is still huge. However, all the parts of the informal sector are somehow intertwined with the formal one and between themselves. Were not the self-employed and the casual workers so abundant and probably the home-based workers as well as the non-registered salaried workers – more closely linked to the formal sector - would be not as precarious and pervasive.

**Table 2 – Distribution of Employed Persons in Urban Areas by Gender and Principal Status – 1983  
(in %)**

	<b>males</b>	<b>females</b>
<b>regular employes</b>	44,5	31,8
<b>self-employed</b>	40,2	37,3
<b>casual labor</b>	15,3	27

Source: National Sample Survey Organization, in: Kundu (1999)

The table above shows the urban data for Indian labor market from another perspective, as it shows that regular employees were not as small as a percentage of the totally occupied in the beginning of the eighties. The non-registered wage workers represented a great deal of the wage earners, which didn't have much to do with the supposedly rigidity of labor laws (Sharma, 2006, p. 2080-2081). It is more related to the difficulty – or lack of interest - to enforce them and to a huge surplus of disposable work force.

The case of South Africa, taken aside its social and economic peculiarities, in some regards bears similarities with the other underdeveloped countries reviewed above. The result is somewhat different but it may enrich our comparability effort.

Since its very beginning, the industrialization process depended upon the gold and mineral exports (50% of the total external sales). The foreign capital – British, but also German - was fundamental for the structuring of the industrial sector, focused on the internal market. The public sector played a decisive role through state-owned enterprises - like Eskom (electricity), Iscor (iron ore and steel and Sasol (oil). It also managed to support the private sector through the Industrial Development Corporation (IDC). The private sector was, indeed very powerful, and most striking feature was its level of centralization of capital. Anglo-American, the important mining company, would take a hold in a variety of sectors like chemical, textile, steel, real state and so forth (Sampson, 1988, pp. 86-91, 107-110).

The so-called “racial capitalism” would be very dynamic up until the sixties, when the rate of GDP growth jumped to 5,7% in average throughout the decade. In the following decade, it would slow down to 3,3%, due to the limits imposed by the internal market and the international crisis. The worsening of the export structure, the interruption of foreign investment and increasing political instability may help to understand this new economic behavior.

Wolpe (1995) discusses the requirements of the capital accumulation process and its contradictory relationship with the *Apartheid* regime. At first, as established by the Native Lands Act, from 1913 – which allocated 13% of the country's total land to the black population, living now in the so-called “reserves” – capital accumulation took advantage of the low wages in the mining sector. This was made possible through the provision for the subsistence of these workers from their original rural areas, where they should go back after one year, as they were employed as temporary workers.

The acceleration of the industrial process would bring a different situation. In 1971, for instance, 40% of the urban population was already made out of blacks, living in the so-

called *townships* and subdued to the infamous Pass laws (Wolpe, 1995). The greatest achievement of this system was to allow for the existence of capitalism without a true labor market. There was no industrial reserve army indeed. The wages were decided politically – that is, in an authoritarian way, as there was no union action for blacks, at least up until the end of the seventies. The work force movements were directed from regions with excess of labor supply to the ones in the need of it, always controlled by the State.

Contradictions would emerge sooner than one could expect. In the seventies, capital was not requiring only unskilled cheap labor, but also some segments of the business class would voice their concerns that black workers could perform much cheaper some semi-skilled and skilled occupations if a “free labor market” was allowed to operate (Lipton, 1989, pp. 5-7, 365-366).

Turok (2008, p. 249) would sum up South African capitalism as one shaped by an internal colonialism, by virtue of the domination/exploitation of the black people by white capital and the State, that was able to establish connections with imperialist powers and to assure income and status privileges to white workers.

Looking from the labor market perspective, it was a very segmented system. The whites would hold the better paid-jobs. The blacks, forced into “townships” and “homelands” would perform the tasks, respectively, of a precarious wage-earners and non-capitalist subsistence petty production. The segregated schooling system would fit into this cruel equation perfectly. No need of an informal urban sector generated by the very functioning of the combined process of industrialization, urbanization and land ownership concentration. The cheap black labor force would show up everywhere in the seventies, especially in the mining, agricultural and manufacturing sectors, but not through the operation of a labor market.

Even though it was found that 30% to 50% of the households in townships located in Durban and Johannesburg were engaged in some form of informal activity, the barriers of entry enshrined by the *Apartheid* regime prevented against the development of a typical informal sector. To compound with that, a highly capital intensive structure of production, penetrating in all markets, would militate not give much space to a hypothetical informal sector, at least up to the eighties (Altman, 2008, pp. 14,17-18).

Let us remind that in 1980 the urbanization rate of the black population was still very low, one third of this population group, whereas the white population’s rate reached almost 90% (Lipton, 1989, p. 401). This basic feature was essential for impeding a huge surplus of labor, one of the requirements for a genuine urban informal sector to settle down.

The data below show how the black labor force - without rights, citizenship, discriminated against, segregated in the space and only partially allowed to undertake union action -, was already in the early eighties spreading to the urban sectors of the economic structure. Of the total blacks, 60% of them were occupied then in the manufacturing and service sectors, mostly in the urban areas, whereas the figure was little above 40% in 1951. The end of *Apartheid* helped by the sluggish economic growth during the nineties would breed a “small and burgeoning informal economy” in Altman (2008, p. 14)’s words.

**Table 3 – Distribution of Black and White Workers Employed by Economic Activity (in %)**

	<b>Whites</b>		<b>Blacks</b>	
	<b>1951</b>	<b>1980</b>	<b>1951</b>	<b>1980</b>
<b>Agriculture</b>	15,2	5,5	41,8	29,0
<b>Mining</b>	6,0	4,8	15,0	13,3
<b>Manufacturing and Construction</b>	26,2	24,9	12,0	19,1
<b>Services</b>	52,7	64,7	31,1	38,6

Source: elaborated with data presented by Lipton (1989).

It is not the purpose of this paper to give a detailed account of how the economic liberalization pursued in these economies was not unable to do way with underdevelopment. In fact, we hold the premise that structural heterogeneity across many economy sectors was magnified, bringing about new social outcomes, one of which is the broadening of the realm of informal activities and workers in the urban areas.

The chart below tries to summarize these outcomes for each country. The attempt here is to launch some hypothesis that may be – or not – confirmed in further analysis.

In general, we can say that in Brazil and South Africa, as the liberalization policies followed more closely the lines set by the Washington Consensus, the shrinking of the industrial and productive base was responsible for higher unemployment and informality rates. The case of India is more complex as economic growth accelerated in the eighties pushed by industrial growth, whereas in the nineties the pace was even higher due to another force, a service sector booming (Nagaraj, 2008, pp. 8-9). The liberalization process was more gradual – concentrated in reducing import and foreign investment restrictions and providing export incentives - and the capital account opening more cautious.

The effects of the economic liberalization policies on the labor market in the Indian case are also somewhat mixed. A group of authors holds that there was jobless growth in the nineties and a faster expansion of the unorganized sector compared to the organized one (Sakthivel and Joddar, 2006, p. 2108), while others maintain that the level of employment and even real wages went up in the same period (Sundaram, and Tendulkar, 2002, pp. 11-12,15-16). However, both acknowledge a higher share of casual workers in the work force, what may be responsible also for a little higher unemployment rate, even if the figures are much below the ones seen in other underdeveloped countries. Another interesting trend in the case of India is the stagnant size of the work force employed in agriculture, to which we may add another fact: an increase of the rural share in the expansion of the employment in manufacturing, which already is concentrated in the non-factory-non-formal segment (Sundaram, and Tendulkar, 2002, pp. 8-9, 12).



**Chart 1 – Economic Policy, Labor Market and Urban Informality in the 90’s (Brazil, South Africa and India)**

	<b>Economic policy</b>	<b>Results</b>	<b>Labor Market Outcomes</b>	<b>Informal Urban “Sector”</b>	<b>General Characteristics</b>
<b>Brazil</b>	Real Plan (1994), very tight monetary policy and exchange rate appreciation up to 1998 followed by depreciation	Low levels of economic growth, stagnating investment rates and strong competitive pressure on local companies	Mounting unemployment and informality levels	Important with a predominance of casual and non-registered workers and a important participation of self-employed	Diversified urban economy with an elastic informal sector and a medium to high open unemployment
<b>South Africa</b>	GEAR Plan (1996), very tight monetary policy and devaluation of the rand during the Asian crisis	Low levels of economic growth, stagnating investment rates and strong competitive pressure on local companies	Mounting unemployment and informality levels	Small and burgeoning informal economy, with a growing participation of casual and non-registered workers	Concentrated urban economy, very high levels of unemployment and relatively small but increasing informal sector
<b>India</b>	New Economic Policy, gradual economic opening with exchange rate depreciation	High investment rates and levels of economic growth	Low unemployment, growth of both organized and unorganized employment	Trend towards casualisation with astonishing presence of self-employed	Modernizing urban economy surrounded by a huge informal sector and presenting low levels of unemployment

Source: the author.

Thus, it seems the formal-informal linkages have become more dynamic in the case of India, even though it seems inappropriate to assume a “tightening of the labor market” as Sundaram and Tendulkar (2002, pp. 15-16) profess. However, what makes India a specific case is the very high share of self-employed, being an over-simplification to assume that the 39 million urban self-employed (see the data in Sundaram and Tendulkar, p. 57) are disguised wage workers, as some of the propagators of the “informal economy” concept would argue.

In the Brazilian case, during the nineties the open unemployment rate would treble, surpassing the 9% level, and the rate of informality would jump up to 55% percent, if we group together the non-registered wage workers and the own-account workers. Considering just the metropolitan areas, the informality would go to around 40% in 1999 as opposed to 34% in 1992 (ECLAC/UNDP/ILO, 2008, pp. 30-31, 52-53). The fact that 80% of the population live in the urban areas pose a huge burden on the shoulders of these workers, not able to act fully as a buffer when the capitalist sector is dwindling. So the survivalist strategies found new space to develop, whereas the so-called organized sector took advantage of the situation to disguise typical employment relationships.

Even though in South Africa the informality is probably underestimated due to problems related to the way the data is gathered and to growing casualisation and outsourcing (NALEDI, 2004, pp. 41-42). For 2001, almost 30% of the total employment – excluding agriculture and including domestic work - was considered informal. On the other hand, a

third of the workers in the formal sector had no written contracts at all and no access to social benefits (Altman, 2008, pp. 13-14, 19, 23-25). Altman also points out that 45% percent of the working poor in the country are wage-earners from the formal sector, which points out to the difficulty of relating informality to poverty.

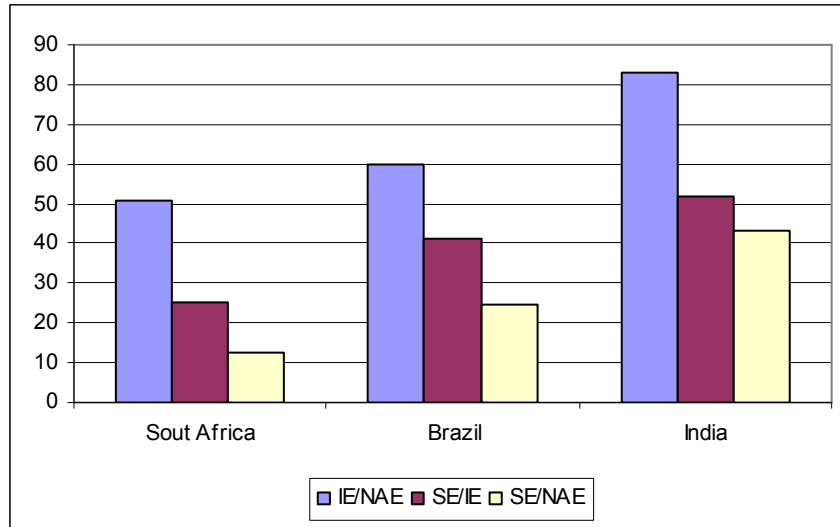
Finally, we use the data assembled by ILO to stress the different size and role of the urban informal sector in each of these countries. As we have highlighted, India has the largest urban informal sector, being South Africa in the lower end, whereas the Brazilian figure is halfway both countries. What makes up for the difference between these three countries is not exactly the size, but probably the role played by the self-employed workers, minor in South Africa, important in Brazil and widespread in India. Actually, there is not a unique role for this segment in each country, but a variety of ways of connecting these self-employed workers to the existent social and economic opportunities.

Graph 5 almost speaks for itself. The self-employed share in the total non-agricultural informal employment has risen for all underdeveloped regions, remaining stable in the developed world. This outcome invites two different answers. The first is that casualisation has grown everywhere, both in the developed and the underdeveloped world. The difference is that in the latter it shows up in a disguised fashion: the self-employed.

This paper has tried to put forward an alternative view. Own account workers are not necessarily linked to modern enterprises, its existence stemming from the labor surplus and from the non-generalization of wage labor in these societies.

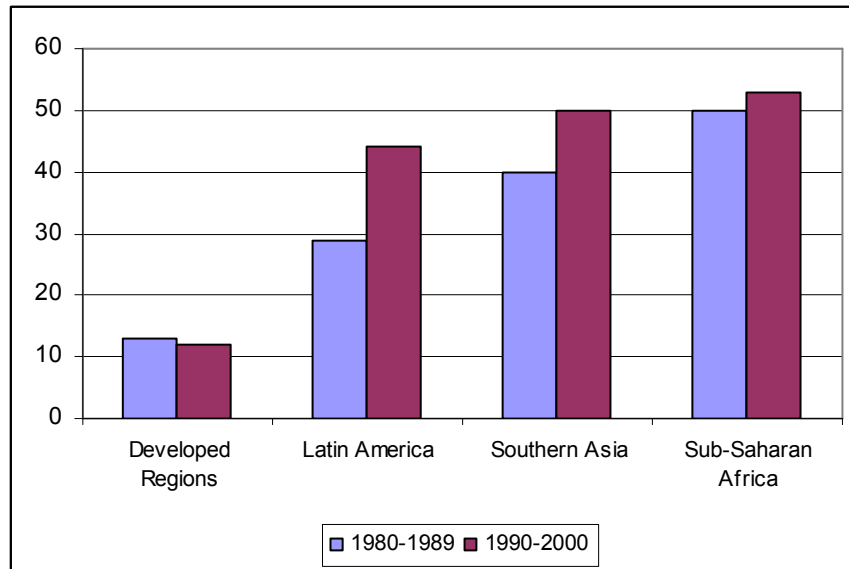
Without neglecting the importance of casualisation, we argue that the specificity of the underdeveloped economies and societies lie in the way they manage to promote changes, connecting themselves to an ever renewed international division of labor, in the same time as they manage to maintain inequality in the distribution of income and wealth. By doing this, they reproduce dynamically their past technological, economic and social structural heterogeneities. To see informality only as a feature of a global chain of production is to undermine the historical process that underpin these social structures and impose a “developed country view” into a different kind of soil. Now we turn to the implications of this analysis for the discussion of concrete policies.

**Graph 4 – Shares of the Informal Economy (IE) in the Non-Agricultural Employment (NAE), of the Self-Employed (SE) in the IE and of the SE in the NAE (in %) – 1994-2000**



Source: elaborated with data presented by ILO (2002).

**Graph 5 – Share of the Self-Employment in the Non-Agricultural Employment by World Region (in %) – 1980-1990 and 1990-2000**



Source: elaborated with data presented by ILO (2002).

## **The Labor Union Agenda: Going Beyond the “Fight Against Informality”**

This paper has attempted so far to stress the need to understand the informal – be it a sector, an economy or a group of activities - from a broader perspective. That is, we don't want to propose a theory of informality. Our intent is to address the informal economy in underdeveloped countries as resulting from different processes and historical realities than the ones encountered in the developed ones. However, by saying that, we don't hold the view that the size of the informal sector is related to the level of development as Tokman (2007, pp. 117-118) has done in a recent paper.

We tried to show that there is a connection between the development model and the inner structures of the underdeveloped societies - that should be grasped through a historical analysis - and the specific shape of the informal sector. Talking about level of development implicitly brings back a gradation analysis of the development process that we sought to discard.

It is our concern also that the view of the “informal sector” developed by Hart and the Kenya Mission is usually misinterpreted. It was neither dualistic, nor tried to purport the informal as separated from the formal. From these papers, we don't see any conception that the informal sector should fade away as the development process gains ground in the underdeveloped countries. In fact, this is the main assumption of neoclassical economics, which understands the informal sector as a distortion. A sector that would vanish as labor and fiscal regulations are relaxed.

As Breman (2004, p. 5) correctly points out, the mainstream view is based on the premise that the legal protection of formal workers is detrimental to the so-called informal, as it enhances the entrenchment of an ‘aristocracy’ within the workforce. It raises costs that need to be compensated through a growing informalization suffered mainly by weaker workers.

However, the alternative view, in our regard, is not appropriate either. It tends to look at most of the self-employed workers as disguised forms of wage labor (Breman, 2004, p. 4). In Gallin (2001, p. 533)'s view, “the growth of the informal sector since the 1980s has two main causes: the global economic crisis and the way production is being organized by transnational capital”. In other words, all the informal activities are modern or linked to the restructuring process that has swept across the capitalist system.

This functionalist analysis overlooks the specificities of underdeveloped countries, where the informal labor has followed the very process of capitalist development. It didn't emerge as a requirement of the deregulated financial capitalism, even if this new accumulation regime may have transformed the formal-informal linkages in the underdeveloped world. However, their social and economic dynamics is much broader than a global productive chain deciding the livelihoods of everyone everywhere.

We agree with Gallin (2001, pp. 536-537)'s criticism on the naïve view that the informal sector should either be eliminated or absorbed by the formal sector. What we dispute is the claim for overcoming a false dichotomy formal-informal, putting in its place a simple distinction protected-unprotected. If the central point is to expand rights for everybody in

the workforce, as to undo the precarisation process lying underneath the global production chain dynamics, we then might ask: if and when this is accomplished, can we say that the informal sector has been destroyed? Is it feasible in countries like Brazil, South Africa and India?

Needless to say, workers and labor unions should fight to protect and enhance rights, to mobilize unregistered wage workers and to incorporate policies to approach workers in the non-capitalist sector. However, to do so, there is a need to understand the shape and dynamics of informal activities in each different country. Actually, there are different best ways of addressing these workers' problems and regulating these activities in order to increase the share of the labor income in total GDP and to expand social policies, not restricted to wage-earners.

Gallin's remarks on the problems arising from the very nature of the union organization and the new forms of organization of the work process point to the need of developing new forms for approaching these ever-rising segments of the workforce. As he makes clear, it should become a priority for the labor union movement, who should bear in mind that "organizing in the informal sector is not missionary work amongst an amorphous and passive mass of individuals" (Gallin, 2001, pp. 531-532).

To no organize them, or to not let them organize themselves, also brings even more threats to the unionized workers of the formal sector. But, the question seems to be, how to organize, to be followed by another one, to organize for what?

Both questions should be taken into account. According to Gallin (2004, pp. 538-540), workers from the informal sector are already being organized, either through existing union structures, or by establishing their own unions or associations, usually described as NGOs. An interesting case is mentioned, the Self Employed Women's Association (SEWA) in India, which has created a infrastructure for its members, comprising the provision of training, microcredit and service cooperatives for health and housing.

This interesting case leads us to the second question: if not all the self-employed are disguised wage earners, the "fight against informality" should not intend to do way with these small-scale activities. That doesn't mean that we should seek to modernize the informal sector as some authors have naively conveyed. For most of them, the matter is one of assuring their access to universal social provisions and protecting them from the "market", which more often than not hides behind the scenes a struggle for power and social control.

In the case of the "false self-employed", the disguised wage earners – which concerns, for instance, the home-workers acting as subcontractors – it is much complex than simply legalizing them as regular wage-earners. How to empower them to negotiate with the subcontracting "part"? The recognition of a subsidiary responsibility from the subcontracting firm may be only a part of the process.

In the two cases above mentioned, social campaigns should aim also at pressing public bodies and civil society to take these workers into the negotiating arena, not letting them to remain invisible.

The heart of the question seems to be the following: how to establish different regulating structures that recognize the diverse possibilities of the production units as well as the linkages that exist between them, without creating dual systems of labor regulation (Tokman, 2007, pp. 106-107). Any attempt to internalize in underdeveloped countries the “flex-security” schemes enhanced in the developed countries would do more harm than good, as in these societies the labor markets’ main feature is already flexibility, that is, an astonishing easiness of moving labor and wages according to the needs of capital.

Another following distinction should be made between the workers under hidden employment relations and the ones that confront the new atypical “formal” contracts developed in the nineties in different countries of Latin America (Tokman, 2007, p. 110) and elsewhere. These workers face the problem of the uncertainty of their employment relations, being located in a sort of half-way between the regular and irregular wage earners.

In the case of the unprotected wage earners and the casual workers, it is important to stress that the problem is much wider than simply enhancing the law. If, on the one hand, there is no empirical findings on a negative relationship between the labor cost and the level of formal employment – being the macroeconomic factors and the industrial policy usually more important for the final outcomes; it is a fact that, in the countries we are dealing with in this paper, there is a huge surplus of labor that opens this avenue for the employers. Social policies should tackle these problems, but they depend on the macroeconomic equation for being able to fund them.

In sum, there are many ways of protecting and enhancing the rights of the workers in the different parts of this huge pool named “informal economy”. They shouldn’t – and couldn’t – pretend to do way with small-scale, family enterprises and self-employed workers. Most of the time, it’s not even a matter of fighting for the same rights found in the capitalist-based economy. In many cases, protecting this sector may be a way of limiting the reserve army of unemployed, which could even bring some stimuli to the aggregate demand.

When this informal economy is closely linked to very modern enterprises, empowering these workers to fight the strategies pursued by global, national and local capital – which some times are intertwined – should aim at distributing income from capital to labor. This fight should be taken at all levels as well.

In order to address all the challenges faced by these very different workers that make up the “informal economy” is fundamental – as we tried to convey in this paper - to complement the case studies’ research with a macro view aimed at conceptualizing the different shapes of the informal sectors especially in the underdeveloped world and the relationship they hold with the overall labor market and the macroeconomic conditions (Altman, 2008, 5-6, Kundu, 1999, pp. 1-2).

In this regard, it is relevant to take into consideration the point made by Chen and Vanek (2005, pp. 500-501), when they argue that an effective policy for dealing with the informal economy should promote three basic types of interventions: employment-oriented economic policies; a combination of employment-oriented programs and policies; and employment oriented institutional reforms.

However, for the informal economy concept to be manageable through concrete sets of policies, we should recognize that what may work for some workers in some parts of the economy or in some countries may not for others. As the shape of the informal urban sector varies a great deal, as we intended to show, this very fact may lead to different combinations of the above mentioned policy tools. A new concept should not only bring about a new measure but also a new way of looking at different realities, that is, a theoretical basement. We hope to have contributed a bit for this collective endeavor.

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