

COMMENTARY

On the Ways of Knowing and Understanding Informality

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SUMMARY

In the mainstream international development discourse, one often finds a general dualistic outlook in classifying the concept of (urban) informality, seen to be strikingly different from the formal, regulated economic arrangements. Earlier definitions explaining informality in context of market arrangements across the Global south often failed to present a cohesive, inclusive framework vital for analysing (urban) informal, socio-economic arrangements as an integral part of rapidly urbanizing developing economies. This essay seeks to examine the extent of this epistemological conflict while reviewing some of the classical studies on urban informality. We argue how an inclusive framework to urban policy planning is needed to avoid a broader generalization of the subject. Since the developing countries of

South and South East Asia constitute a large share of workers being employed in the informal market arrangements; an inclusive perspective in understanding informality is warranted and emphasised upon in this essay.

INTRODUCTION

Over the last few decades, the existence of informal market segments across countries of the developing Global South (as well as in some cities of the Developed North) has become an intriguing subject of scholarly exploration. Studies have attempted to understand the nature, form and gradual expansion of unregulated,

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informal market spaces (as part of the informal economy⁴) as against the regulated, formal market structures in developing economies.

To study the role and normative reasoning behind urban policy formulations, we view policy as a functional expression of an epistemology or as a way of knowing, to indicate that policy approaches are not only techniques of implementation but also ways of knowing (Roy 2005).

In most countries, the state tends to design urban policies (with respect to market regulations, property ownership etc.) in ways that present a dualist view on formality-informality across socio-economic arrangements,⁵ i.e. considering them to be mutually exclusive from one other. There are two different emerging views on understanding (urban) informality from the recent academic discourse.

This essay reviews some of the classical studies explaining the concept of urban informality to (re)visit the dualist view and link it with a more inclusive perspective in understanding informality, drawn from empirical research. In the later part of the essay, we briefly discuss the Indian informal economy and emphasize the need for Indian states to take a more inclusive view towards designing urban policies while accommodating for social structures and human agencies (existing in the informal economy) as part of an overall economic structure.

The literature on informality can be broadly classified into two sets of academic discourses. The first discourse tends to highlight the distinctive aspects of both formality and informality (Hart 1973; Giddens 1984; Santos 1979; Jenkins 2001) and operationally views both formality and informality in isolation. We term this the dualist view.

The second discourse, drawing upon empirical findings from different socio-economic arrangements in developing countries (Portes 1983; Bhowmick 2005; Roy 2005; Daniels 2004), challenges this dualistic view and sees informality in a more inclusive way. We classify this as the inclusive view. Unlike the hostile policies under the dualistic discourse that favours formal arrangement and norms that embraces control and order and puts premium on legality, image building, and efficiency at the expense of economic needs and welfare of the affected populations, the inclusive view on (urban) informality accommodates for a hostile orientation of the labour markets and complexities present in the understanding of structure-agent relationships, within socio-economic arrangements present in different societies.

⁴ International Studies identify more than thirty different names for the term “informal economy”, including terms like parallel economy, black economy, shadow economy etc. For a simple understanding, we refer to informal economy as one, that encompasses all synonymous references to a part of the economy which generates income for residents (who are part of it) outside the regulatory principles set by the state (i.e. rule of law) and lies outside the purview of reporting to any tax authorities.

⁵ The word “socio-economic” often remains loosely used across various social science literature and prevalent public policy discourse. In context of understanding the concept of informal economy, we use the term using a more structural approach, explaining the presence of informality in social structures (example, economic policies) and human actions (example, resistance) and the inter-linked relationship between them.

The development of an inclusive view on studying urban informality (and its forms) remains evident from a closer reading of few recent studies (Waibel 2016; Recio 2017; Roy 2005; Bhowmick 2005; Chen 2005). Thus, in the intellectual exercise of theorizing informality in developing countries, there is a stronger emphasis on expanding the ways of knowing informality from different endogenous cross-country narratives, to avoid broader generalizations on the subject. This is vital for a robust urban policy making process.

THE DUALIST VIEW

The early informality literature in the field of international development studies and economics developed in the early 1970s to explain the differences in the nature of economic systems and socio-economic arrangements present in the developing Global South as against the developed Global North.

While studying the nature and form of informality existing in the socio-economic arrangements within developing economies, scholars like Hart (1973) invoked a dualist view by identifying formal and informal operational arrangements as independent of one another. The categorization of the formal from the informal was done in terms of regulatory principles (i.e. rule of law) and labour standards, distinguishing high-income earning opportunities as part of a formal market set up and low-income waged opportunities as part of an informal market set up.

British anthropologist Keith Hart⁶ formulated the concept of the informal sector in his study on low-income activities amongst low-skilled migrants from northern Ghana to the capital, Accra, who could not find wage employment. According to his study, the informal economy was the outcome of the dualistic tendency of the urban labour market, where despite facing external constraints, internal migrants in Accra were able to engage in “informal activities” (such as farming, gardening, shoemaking, working as street hawkers etc.) for their livelihood and sustenance.

Although the nature of work for most of these migrants existed somewhere between open unemployment and formal sector employment, Hart noted that migration was not the only factor responsible for the growth and persistence of the informal economy in developing societies. In adopting a wide-ranging employment inquiry scale, he described the presence of informal activities from marginal operations to large enterprises which were seen to be categorized as legitimate and illegitimate-form of activities. This dual conceptualization of informal (illegitimate) and formal (legitimate) activities saw them as being mutually exclusive in an employment landscape where even “self-employed” work was seen under the domain of informality.

Later, with a study of informal market arrangements in different Latin American and Caribbean economies, Tokman (1978) studied the interrelationship between the regulated, formal sector and the rest of the economy. Tokman accepted some of the

⁶ The study on Kenya was published by the International Labor Organization (ILO) in 1972 which mentioned the term “informal economy” for the first time.

apprehensions of Hart and sought to examine whether the reserve army of unemployed and underemployed constitutes itself as a passive, exploited majority of the informal sector. He also explored whether the sector can sustainably create employment for other people in the future. He identified the informal economy to be restricted in its growth potential because of the scope of market competition in formal, regulated sectors of the economy.

However, in current scenario, we see how the growth of informal markets and the informal economy has expanded across developing countries and have even found a way in parts of cities in the Global North (Daniels 2004; Crossa 2009; Recio 2010).

The dualist view of the formal and informal sector was further expanded by Moser (1978), Santos (1979), and Sethuraman (1981), amongst others. These authors observed that firms, in their process of reducing inputs and labour costs, pushed workers out from formal sector employment to the informal sector, which emerged as part of a survival strategy for poor, low-skilled labour. The shift in the labour force signals a disdain for the tight rules and regulations imposed earlier by the state for sustenance needs (i.e. in areas of land acquisition, property ownership, granting of licenses for new enterprises etc.), ultimately leading to the expansion of the informal economy.

This dualist view on formality-informality views the informal sector as an economic reality of low-waged, low-skilled labour (emerging from a lack of formal employment opportunities) that requires “formalization” with policy intervention as it has limited growth potential. The distinction seen in such conceptions of formality and informality in developing economies depends on the degree of adherence to regulatory principles (i.e. state rules or rule of law), evident from policy matters of income generation, property rights, taxation etc.

THE INCLUSIVE VIEW

The second discourse on informality takes a more inclusive view to explain the causes, consequences, and form of the informal sector in developing economies (Cooper 1987; Portes 1989; Jenkins 2001; Daniels 2004; Bhowmik 2005; Roy 2005; Anjaria 2006).

As noted in a 2002 study published by the Economic Social and Cultural Rights (Asia) Association (Recio 2017):

The perceived difference between the formal and informal economy is, in reality, artificial in nature. There exists only one national economy with formal and informal livelihood approaches. Those that are seen as formal economies are capital-intensive and growth-based, while those that are seen as informal economies are labor-oriented and people-centered. However, the truth is that these basically interact with one another under a single economy. The perceived difference lies in the fact that there is a lack of awareness and/or understanding of the mutual dependency of these two aspects of the economy.

Rezio et al. (2017) compare countries including Bangladesh, India, China, Thailand, Vietnam, Mexico, and Brazil using this inclusive view, emphasizing how a structuralist, inclusive lens can support a better understanding of the different government approaches to urban informal vending. The structuralist lens (explained below) used in their study employs the framework of “structuration theory” associated with the Giddens (1984) and Archer (1995). Rezio et al. note that the interlinked view of structure and agency is vital to informality because it captures how social structures and human actions form the causes, consequences, practices and benefits of informal transactions.

Thailand presents a useful example to understand the importance of informal markets in supporting employment. Warunsiri (2011) argues that as a result of Thailand’s development policy and the limitation of the formal sector in absorbing excess labor supply, the informal sector has played a distinct role in supporting the Thai labor market. The government seems to have taken an inclusive view on informality. In particular after the economic crisis of 1997, there has been a high degree of labor mobility into the informal sector.

The inclusive view on understanding the informal economy emphasizes the need to adopt a “post-dualist lens” to see informality in conjunction with formality, using methods for policy approaches to accommodate for existing, fragmented labour orientation scenarios across developing societies, where labour markets are still evolving. This is critical in designing robust urban developmental plans and policies in (developing) cities.

THE INDIAN CONTEXT

Given the size of developing countries in South and South-East Asia, it remains pertinent to study the governing dynamics of urban informality in these contexts. The informal economy constitutes more than half of the non-agricultural employment base in most developing countries, and as much as 82 per cent in South Asia (WEIGO), capturing a large share of economic units and workers that remain outside the sphere of regulated economic activities and protected employment. India represents a good example to study informality, given its population size and the traditional informal sector. Keeping aside the complexities involved in measuring informal employment statistics in countries like India (and elsewhere), Rustagi (2015), on observing the employment data in the National Sample Survey Office’s (NSSO) 68th Round, notes that: “79% of the informal workers⁷ do not have a written job contract; 71% are not eligible for paid leave; and 72% are not eligible for any social security benefits...and 80% of the workers are engaged in activities which have no union or association.”

In most urban cities across India, the urban poor and lower-middle income class group find livelihood opportunities within the informal sector; informal activities ‘employ’ a significant portion of the overall labour force and make up a significant portion of the economic structure of India. With rapid urbanization into the metropolises

⁷ Rustagi (2015) includes data on employment available for workers from both agricultural and non-agricultural sector.

(Delhi, Bombay, Calcutta, Ahmedabad, Chennai etc.), the scale and size of the informal economy in these cities has proliferated.

The increase in the expansion of the informal economy across Indian cities has resulted from increased rural-urban migration because of a lack of employment opportunities in rural areas. Migrants, typically with lower skill levels and lower education levels, come in search for higher-income opportunities in cities. Hawking or street vending⁸ is one means of earning a livelihood in the informal economy that requires “minor financial input” and low skills (Bhowmik 2005). Several studies on street vending and informal markets across the metropolises of Delhi, Bombay, and Calcutta (Roy 2003; Bhowmik 2005; Bose & Mishra 2013; Bromley 2000) explain the causal factors responsible for the expansion of informal market segments in these cities, often seen in proliferation of slums and unregulated land use.

There is a perpetual conflict in the relationship of street vendors with local development authorities and the state in matters of land use, access to state-regulated resources (such as power, water etc.) which warrants policy approaches by agencies of the state across the country to study the nature and role of street vending and accommodate for it in the state’s design of urban planning.⁹

The total volume of commerce out of street vending in cities like Calcutta, Bombay and Delhi is significant and it is critical for the state, in its urban planning process, to accommodate and allocate space for the market of street vending to thrive, as an economic activity.

Roy (2005) studies the contemporary nature of urban informality (a rural/urban interface) by examining policy responses to informality via slum upgrading and land titling—two pertinent areas of focus for most urban planners today. The study offers comparative cases from Mexico, Bangladesh, Brazil and India and explains the key causal forces responsible for the recent expansion in the development of informal, unregulated spaces within cities. Informality can be seen “not as the object of state regulation but rather as produced by the state itself” through state policies on existing ownership models of land.

As Roy (2005) argues: “Informality also indicates that the question of to whom things belong can have multiple and contested answers”. One can argue that it would be a mistake by the state to study instruments of informality, such as street-vending/hawking/informal markets in the Global South, in isolation from formal market spaces under a framework that is identified by the “Global North-oriented formal rule of law” (Recio 2017). An inclusive, endogenous view is vital for urban planning in addressing challenges related to urban informality.

Mohan, Sekhani and Medipally (2018), in a forthcoming study, present an empirical study on Cambodia, focusing on the capital Phnom Penh. The authors pose

⁸ Here we use “street vending” and “hawking” interchangeably.

⁹ Urban planning includes plans, formulated by the state which help in allotting urban spaces for public use. The spaces include public educational institutions, parks, markets, hospitals etc.

that the informal economy absorbs the increasing labour force migrating from rural to urban areas as the growth in the formal sector is far behind the increase in the country's labour force. In addition, the informal sector also offers opportunities to seasonal migrants; many people in the formal economy are also involved in the informal economy to complement their income. Around 80 percent of the city's 400,000 slum dwellers earn their income from informal sources. Many children are also involved in informal sector activities as shoe cleaners, sellers, rag pickers or even beggars. The structural connection of the formal and informal sectors across developing countries calls for an inclusive view in urban planning.

ON AN INCLUSIVE VIEW ON POLICY APPROACHES TO (URBAN) INFORMALITY

Three issues that emerge from the two discourses on understanding urban informality (in India and elsewhere) include:

- a) a critique of policies on land use and acquisition and its role in distributive justice;
- b) a need to rethink the object and subjects of development, in praxis; and
- c) a need to replace the so-called best models of economic development with a realistic critique, in argument for a framework that accommodates hostile socio-economic arrangements within cities.

Most scholars advocating for an inclusive view on informality see the presence of informal sectors and spaces as a natural feature of developing societies and as a complement to the formal, regulated sectors-under a fragmented orientation of (existing) labour markets with segregated skill sets, operating under an accommodative environment. In this way, most developing economies are seen to have informal institutions facilitating mediums of exchange that remain strongly embedded in the socio-economic and socio-political landscape.

In India too, we see an increasing tendency amongst people to view informal institutions and market arrangements as legitimate sources of livelihood (Roy 2005). The state, however, continues to adopt a more dualistic view and considers formal-informal spaces as being mutually exclusive from each other. Policies¹⁰ are designed to "formalize" the informal sector without understanding the nature and the form of existing socio-economic arrangements (Bhowmik 2005).

Across developing economies, there is an urgent need for the state to accommodate an inclusive view in urban planning. This can be accomplished by paying closer attention to the structural roots of the formal-informal divide and going beyond the previously categorized regulatory aspect of the difference between the two sectors

¹⁰ Bhowmik (2005) notes that Malaysia, India and Philippines have policies for regulating street vending. However, Malaysia is the only country which is sincere in effective implementation of the policies, including provision of credit for street vendors. Philippines government refuses to recognize most of the street vendors and it takes harsh measures to clear them off the pavements. The street vendors in India constantly suffer from harassments and the rent seeking is very high. Overall, most of the street vendors are not unionized.

(via legal standards and rule of law). The mutual interdependence seen in the governing dynamics of economic exchange (for example, in manufacturing-selling commodities and services) and political arrangements (as evident in cases of land use) requires a tolerant atmosphere in the policy approach to accommodate for hostilities in the orientation of dynamically evolving labour markets and socio-economic arrangements.

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