

## □ Chapter 1

# Introduction: What Debate?

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*Contrapunto* n. Counterpoint, harmony.

*Velázquez Spanish and English Dictionary, 1974*

*Counterpoint* n. The combination of two or more independent melodies into a single harmonic texture in which each retains its linear character, vt. Use of contrast or interplay of elements in a work . . . to set off or emphasize by juxtaposition; set in contrast . . . (as in) opposing themes.

*Webster's Ninth New Collegiate Dictionary, 1987*

### Introduction

This volume<sup>1</sup> is about the informal sector, informality, and the informals—the people who engage in informal activities. It also is about the people who study, interpret, intervene in, promote, or attempt to regulate the sector. These include academics, politicians, planners and policy makers, economists, sociologists and anthropologists, labor unions and industrialists, development practitioners, representatives of private voluntary associations, nongovernmental organizations and international aid agencies, associations of informals, and so forth. It is about power, powerlessness, and empowerment; theory, ideology, objectivity, values, and politics; basic research, applied research, program evaluation, and policy making; subordination, exploitation, entrepreneurship, and opportunity; and about poverty and the cre-

ation and accumulation of wealth. It discusses controversial issues of an as-yet unresolved debate that began in the early 1970s—issues regarding what constitutes “work”; which types of “work” should be valued; which types of production and producers contribute to local, urban, rural, national, and international development; and who should share in the benefits ensuing from and privileges and subsidies that seek to stimulate development.

In keeping with the diversity of uses of these terms in the literature and among contributors, whenever the terms *informal sector*, *informal economy*, *informality*, or *informals* appear, they encompass any or all of the following: small-scale firms, workshops, and microenterprises with low capital inputs where production levels depend on intensive use of labor; nonprofessional self-employed, subcontracted put-out workers, disguised wage workers; unprotected or only partially protected work, illegal contractual arrangements, not fully regulated or registered or extralegal activities; activities that escape standard fiscal and accounting mechanisms; domestic service; cooperatives and associated activities with little or no separation between labor and ownership of the means of production; casual trade, street vendors, and market sellers, regardless of the source of goods; direct subsistence production. *Informalization* refers to the circumventing of regulations, benefits, payment of taxes, and so on by employers and the unequal and selective application of such by the state.

This book is concerned not so much with where the “truth” lies (if there is a truth), as with clarifying and comparing the different inputs to and outcomes of policy and intervention strategies; organizing and revealing the implications of competing paradigms that influence policy and intervention; and in particular, with reconciling the diverse roles of informal activities in economic development and of the state in organizing, regulating, promoting, or repressing these activities as part of its development strategy.

The book has both academic and applied objectives.

1. For academics, chapters are intended to provide an overview of conceptual and methodological issues and findings from selected empirical research.
2. For development practitioners and policy makers, chapters are meant to help clarify differing ideological positions, the links between macro and micro level issues, the relative advantages and disadvantages of distinct approaches and actors, and the constraints to policy formulation and implementation.

3. The book's strength is its emphasis of an analytic and theoretical, rather than empirical, treatment of the issues.

### Organizing the Debate

All authors address one or more of the following issues in their chapters:

1. In what ways do concepts, operationalization, sources of data, and research objectives influence findings and policy?
2. How does the heterogeneous nature of activities labeled *informal* affect policy making and research?
3. How are research, policy formulation, and programs affected by involvement of public agencies, international donor agencies, nongovernmental organizations, local business leaders, grassroots groups, academic researchers, or others?
4. What specific programs, policies, economic conjunctures, or other factors have had a significant impact (intended or unintended, positive or negative) on the evolution of the informal sector and the role it plays or could play in development?

These issues pull together bits and pieces of the long-standing debate about the informal sector, its role in economic growth and development, and its relationship to the lives and well-being of real people—the latter a common concern shared by authors.

### What Debate?

The informal sector debate emerged from disagreement over how Third World economies should develop and at what pace, the role state planning and investment or international funding and technical advising should play in economic development; and the relative importance and costs to the pace of economic development of addressing social problems such as poverty, rural-urban migration, rapid urbanization, and so forth. Each author in this volume contributes a strategic perspective to the debate, providing a necessary link between (what might otherwise have been merely) an academic exercise and the day-to-day realities of policy makers, practitioners, and informals.

Part One of this volume presents three background papers. Moser and Rakowski provide overviews of the issues at the core of the

debate, comparing the periods 1970–1983 and post-1983. De Oliveira and Roberts (sociologists) evaluate the contextual factors that influenced changing labor markets from 1940 to 1989—including factors external and internal to Latin American countries.

In this chapter and her earlier work, Moser (an anthropologist and consultant who was among the earliest voices to enter the debate) argues that the early debate emerged from studies of employment, unemployment, and poverty and focused on whether or not—and under what conditions—the activities identified as an informal sector could generate economic growth and employment. She discusses how progress on addressing this question got bogged down on three problems: the first conceptual or definitional (is the “sector” synonymous with poverty? one half of a dichotomy or a segment on a continuum of activities?); the second methodological (how to operationalize and conduct research on the sector—survey and census data sets, case studies, ethnographic research); and the third focusing on the type of linkages with modern activities (e.g., independent, subordinate). She argues that the third issue is the most important for policy making and is itself dependent upon definition and methods. Thus, Moser’s chapter gives voice to the critical issues between 1970 and 1983 and underscores their relevance for understanding the relationship between the state, capital-intensive development strategies, and the persistence of the informal sector.

The following chapter by Rakowski updates the general debate through 1993. She argues that one critical shift was from a view of the informal sector as resulting from the failure of development paradigms to a view of the informal sector as a potentially rational and efficient opportunity for genuine development. (She links this shift to the increasing exposure given the ideas of Hernando de Soto and to the greater visibility of NGO—nongovernmental organization—and other microenterprise programs.) The relevant academic and policy questions then became (a) which informal activities generate economic growth and employment, (b) which serve as a buffer against unemployment, and (c) what policies promote which informal activities? It is argued that this shift contributed to clarification of the different roles of the informal sector and encouraged debaters to talk with—not past—each other and avoid getting bogged down in an argument over semantics and labels. Another change discussed in this chapter is the growing attention allocated to people (“informals”) as opposed to a sector (e.g., subcontracted workers, workers—entrepreneurs—and owners of microenterprises, the under- and unemployed). The resulting policy debate, says Rakowski, split into a focus at the macro level on economic (reactivation) issues and how state bureaucracies hinder

entrepreneurship and at the micro level on the best means for promoting microenterprise development (e.g., through maximalist or minimalist service approaches).

De Oliveira and Roberts provide evidence of the economic context within which the debate originated and changed over time. They argue that shifts in the debate are explained in great part by the changing nature of industrialization, the changing characteristics of labor demand and supply, and the way the role of the informal sector varies under different economic and policy conditions. They use selected case studies—especially Mexico—to illustrate the variability of the context, but also point to common factors—nature of production, regulatory environment, and human capital variables, among others—that influence the demand and supply of labor and, hence, the role of the informal sector.

Subsequent parts of the volume focus almost exclusively on contemporary issues. Part Two presents the debate on macro policy issues and between macro level and micro level approaches. The section begins with Liedholm's (an economist) concise explanation of the types of government policies meant to promote investment and economic growth. He shows how these, unintentionally, disadvantage microenterprises, thereby limiting the informal sector's potential for economic growth. Liedholm, whose work has focused primarily on Africa, raises questions too often ignored in academic research and policy discussions in Latin America: the impact of the supply and demand sides of markets on microenterprise production of goods and services, the irony that measures implemented by the state to protect local ventures from foreign competition can create obstacles to efficient, small firms, and the problem of inadequate markets as an important obstacle to economic growth based on microenterprise development.

Whereas Liedholm focuses on the impact of state policies on firms, Franks (an economist and Latin Americanist) focuses on whether or not state policies will fail to achieve their intended objectives if macroeconomic models exclude informal sector responses to those policies. He criticizes the generally accepted practice of developing macroeconomic models only for the "modern" sector when an overwhelming amount of employment and production concentrates in the informal sector. Thus, both Liedholm and Franks agree that policy makers need to understand the interaction between the informal sector and macroeconomic policies (whether or not they are intended to impact the sector) if they are to assess and influence the role of the informal sector in development. Franks's engaging chapter extends to their logical conclusion two arguments, that informal firms are (a) an opportunity and (b) a problem for crisis economies. If both perspec-

tives are to some degree correct, then there could exist an “optimal” level of informality that could be manipulated through policy implementation.

Portes’s (a sociologist and one of the most influential academic voices in the debate) chapter focuses on the role of the informal sector under crisis conditions and in the transition from import substitution industrialization to export-oriented industrialization. His chapter brings into the debate a consideration of linkages between local conditions and global factors. Portes raises the question of whether or not labor standards (protection, benefits) should be enforced in developing economies. The first issue, he says, is that export-oriented firms require flexibility in employment to maximize competitiveness; in the face of rigid standards, firms and states both tend to “informalize” by only selectively applying accepted standards. The second is that failure to enforce standards can lead to a downward spiral in wages and work conditions for workers across the globe. The debate, as Portes sees it, is not *if* the state and firms should enforce labor standards, but *what* standards are critical and nonnegotiable and at what point (and under what conditions) can standards be upgraded.

Bromley’s (a geographer and well-known debater since the 1970s) assessment of the contribution of Hernando de Soto and the Instituto Libertad y Democracia presents the other side of the regulatory policy–labor standards debate. He says that de Soto argued against state intervention and regulation, preferring to leave wages, benefits, prices, supply of raw materials, and so on to market determination. He assesses the origin of these ideas, the impact of concrete policies and programs based on them, and their popularity among both conservatives (pro-privatization, debureaucratization, and a free-market economy) and liberals (pro-poverty alleviation and grassroots initiatives). Bromley’s discussion of de Soto clarifies broader concerns among those who advocate neo-liberal economic policies and state withdrawal of “interference in the market.”

Márquez’s (economist and consultant) chapter, written from an insider’s perspective, pulls together most of the preceding themes by explaining how they became popularized, for example, how PREALC (an ILO employment policy body in Latin America) became committed to a specific conceptualization of the informal sector. He also explains the shift among economists and policy makers in Latin America from an exclusively macro level approach to one that includes micro level policies; summarizes arguments from the debate that have the greatest practical relevance for policy making; grounds these in the concrete experiences and changing economic context faced by policy makers and their economic advisors in Latin America; and most

important, reconciles what appear to be contradictory policy recommendations and research findings. For Márquez, the arguments of the debate are not inherently important. What is important is making sense of the evidence and recommendations and retaining what seems useful and feasible for macroeconomic and social welfare planning.

Part Three of the volume provides an in-depth look at two micro level controversies: (a) what—if any—role should be played by the state versus NGOs in microenterprise development (Otero) and (b) what type of programs will be most successful at promoting growth, productivity, and employment in microenterprises (McKean). Otero (Washington director of ACCION International) zeros in on the critical issue of whether or not state intervention in microenterprise development will be framed by political and regulatory (e.g., increasing revenues) concerns. She lays out the reasons for and the advantages and disadvantages of state participation and explains three possible roles for the state. Her chapter is evidence of a shift in the NGO position from one that opposed state intervention (because of the danger of politicizing programs) to one supporting some kind of intervention (as a means to reach a larger population and guarantee the appropriate policy environment).

McKean (program and policy specialist at the Agency for International Development) takes a more critical look at the relative success of NGO experiences and the conditions (economic context, NGO organization, type of beneficiaries) that influence outcome. The major debates on which she focuses are (a) under what conditions and for whom are minimalist (credit only) or maximalist (credit, training, and some other services) the best strategy for microenterprise development, and (b) whether industry sectors and subsectors are important factors for microenterprise support strategies (an issue also discussed by Márquez). She evaluates the role played in program success by competition, markets for goods and services, and the capacity of individuals to benefit from programs.

Part Four of the volume takes a closer look at the issues of poverty, planning, and power. Cartaya (sociologist, labor market consultant and former planner) is critical of the widely held assumption that informality and poverty are synonymous. She presents evidence that the relative demand and supply of labor intervene in the link between poverty and informality, contributing to a relationship that is conditional and complex—not linear. That is, informality and poverty are associated only under certain conditions and for certain types of workers and households. Cartaya's work picks up on a theme common to many chapters—that the economic context must be considered when assessing the characteristics of poverty and employment (infor-

mal or modern). She asserts that these different conditions influence not only the role of the informal sector in economic development, but also that of the “modern” sector. This point can help to reconcile opposing arguments that either the informal sector or modern industrial activities is the most important strategy to achieve economic growth and increase productivity and employment.

The preceding chapters all consider to some degree the question of where funding and programs should concentrate and who should benefit. Implicit is the notion of power and the potential for a zero-sum game among the diverse actors. Uzzell (an anthropologist who greatly influenced the early research of Hernando de Soto and the Instituto Libertad y Democracia) addresses the issue of power explicitly. For Uzzell, the important issues are whether informality is deviant or normative and who has power in development planning and regulation (who benefits? whose interests are served? who pays?). He rejects as obfuscatory the common definitions and debates surrounding the informal sector and critiques the way in which they intersect with power issues. He questions the role and usefulness of research and formal planning on the informal sector. He argues the informal sector represents a rational and normative strategy for most actors and criticizes formal planning as not “reality based” and acting largely as a mechanism for maintaining the status quo, in contradiction to its expressed purpose of directing and achieving change.

Finally, the concluding chapter by Rakowski pulls together points of agreement among contributors and highlights the main policy issues emerging from the book. It suggests the direction for future debate, proposes guidelines for policies and programs, and summarizes the debate on the role of the state.

## NOTES

1. The idea for this volume dates from my 1982 frustration in working with the diverse definitions (and implicit ideologies) of “the informal sector” for policy tasks I had been assigned while a consultant in Venezuela. Many conversations with Gustavo Márquez and Vanessa Cartaya convinced us of the need for public dialogue on the “debate.” Marv Olsen encouraged me to pull together the debate in book form. I am grateful to all three persons for their encouragement and to Alejandro Portes for both his enthusiastic support of the idea and contributing the first paper (an act that sealed my commitment to the project).