

ONLY CONNECT: UNEMPLOYMENT AND POVERTY;
FORMAL AND INFORMAL ECONOMIC ACTIVITY
IN A DIVIDED WORLD

THE ROLE OF THE INFORMAL SECTOR IN ALLEVIATING
UNEMPLOYMENT AND POVERTY IN THE THIRD WORLD

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“There is no sight that so impressively advertises the existence of poverty as does that of the garbage picker at work. If anything represents the employment and income problems of a developing economy then it is – ‘bone grubbers’ or Cali’s ‘vultures’ as they sort through what other people have chosen to throw away –. But what is strange is that we tend to look at this occupation as an expression of poverty and not as a cause of it. We see the garbage picker as being forced into this activity by the lack of opportunities elsewhere in the urban economy, whilst we tend to forget that he is working”.¹

Strategies against poverty should, it is often argued, focus primarily on expansion of employment in the formal sector of an economy. But there are a number of assumptions underlying this view which require examination. Work itself does not necessarily guarantee a way out of poverty. The income received from many kinds of jobs is below the locally relevant poverty line. The further implicit assumption that unemployment should be reduced because work has an inherent moral value of its own is derived from the

¹ Chris Birkbeck, ‘Garbage, Industry, and the Vultures of Cali, Columbia’, in Ray Bromley and Chris Gerry (eds.), *Casual Work and Poverty in Third World Cities* (Chichester, 1979), p. 161.

theological understanding of the human calling to participate in the process of creation.² But this does not apply in all circumstances. Compelling children to work long hours in harsh and dangerous conditions is widely regarded as morally wrong. Hence the legislation in country after country, starting with Britain in the mid-19th. century, to declare it illegal even though (as opponents of the legislation like to point out) it reduces employment and increases the poverty of the households concerned. Nor is the argument confined to the 19th. century. On the threshold of the 21st century we realise that work in the formal sector may also produce its own kind of poverty, through low paid jobs, long working hours, unhealthy environments and the use of unprotected labour. Finally, before assuming that formal sector employment is always preferable to work elsewhere, one must note that some informal sector activities are not only financially more rewarding but also less vulnerable to political and economic crises on the macro level.

Moreover an expansion and acceptance of the informal sector in the so-called developing countries may create more income for the poorer part of the population than new and more costly jobs in the formal sector. In the context of the industrialised world the informal sector is seen as a symbol of the past.³ But the present reality in the developing world is very different in both in economic and cultural terms.

Analysis of the relationship between the formal and the informal sector with regard to employment as a major strategy for poverty reduction must include not only a historical understanding of the impact of the industrialising process in the developing world compared with what happened in the developed world. What is also needed is a political and ethical understanding of the forces set in motion when an employment strategy is proposed as a desirable social change. Industrialised countries need to sort out their motives for pushing the growth of the formal sector in the developing countries. Is this but another Western solution to a Western way of thinking? Is this a better way to expand Western modes of production and increase Western markets? Or, is this a genuine strategy to reduce poverty in the developing countries? It may well be all three. But if a new strategy for poverty reduction is to be successful, it has to be built on trust and the conviction in the developing world that reduction of poverty is the major goal, not the transfer of Western ideas about how the third world can be transformed to suit a Western economy.

² Johannes Schasching S.J., 'Catholic Social Teaching and Labor', *Pontificiae Academiae Scientiarum Socialium Acta* - 2, p. 61.

³ Keith B. Griffin, *Studies in Globalization of Economic Transition* (Houndmills, 1996), p. 137.

THE NEED FOR CONCEPTUAL CLARIFICATION

Some of the fuzziness in the global poverty debate stems from lack of clarity of definition. Many of the concepts used represent a complex spectrum made up of several variables which are dynamically related and partially intertwined. At times, these variables interact across the spectra making the analysis still more complex.⁴

The formal sector may be the easiest to define. Essentially, it is linked to a contractual agreement between an employer and an employee which guarantees a regular wage in exchange for the labour provided. However, the variations on this theme are manifold, and the entire history of the labour movements bears witness to struggles to define the rights of the workers and the contents of their contracts. Another approach has been to define the formal sector as composed of larger and well established units with many employees and standard contracts setting out rights and duties of the workers. The income generated in the formal sector can be measured and makes part of national budgeting. The formal sector is that part of the economy where people are either paid wages or earn money for work done in an enterprise which keeps proper records, pays taxes at whatever threshold is legally required, and is publicly accountable.

The concept of employment is closely tied to the concept of the formal sector, that is, a person's labour, knowledge and expertise is exchanged for a regular income under terms which show a large variation. They range from formal contracts on wages, health benefits and workers' rights, regulated by the state or the labour unions, to no protection against sudden dismissal, unreasonable wages, an unsafe industrial environment or no provisions concerning the right to strike and expression of discontent.

The concept of non-employment covers all those who are at present not employed, those who are not employable, and those who find their income in the heterogeneous informal sector. Although many of the people in the informal sector are working hard, their labouring is not officially termed 'work'. In South Africa definitions of unemployment have tended to vary between 'narrow' (e.g. counting as unemployed only those persons, aged 15-64, if male, and 15-59, if female, who had worked not more than five hours in the previous week; who had actively looked for work in the previous month; and who were willing to start a job in the next week) and 'broad' definitions which, in addition to all of the above, include persons even if they have not actively sought work in the previous month but still

⁴ Op. cit., p. 174.

want it if they can find it. But even the narrowest of definitions is subject to ambiguity depending on what exactly the person concerned counts as work in the five hours that may or may not have been undertaken in the previous week. Since there are many ways of defining unemployment, its precise measurement will depend on the definition used.⁵

Poverty vs. non-poverty is another difficult concept to dichotomise. The spectrum can only be divided through the cut-off point used by official sources on poverty, which are always arbitrary. Otherwise poverty is a conglomerate of several variables, most of which are continuous. So far at least two hundred different definitions of poverty have been identified.⁶ The choice of one definition over another changes any poverty analysis, and sometime dramatically so. For those who choose to see poverty as purely an economic issue, employment of the poor in a formal sector which is forbidding in terms of political expression or which offers an unsafe environment, may seem a good prospect because they are likely to overlook those other aspects of poverty which come across when we listen and hear the assessments of people who themselves endure the conditions being described or defined. "Poverty", said Mrs. Witbooi in a much quoted answer to a question posed by a visiting researcher to a small community in the isolated Karoo of South Africa "is not knowing where your next meal is going to come from, and always wondering when the council is going to put your furniture out and always praying that your husband must not lose his job. To me that is poverty".⁷ At the heart of that hard-earned insight is the gnawing uncertainty of daily life: vulnerability, and recognition of the fact that poverty can not be reduced to a single number but is a reality with many dimensions or faces.⁸

While much analytical work has been done on the previous concepts, the concept of the *informal sector* was first defined as a "residual" category, that is, all those income generating activities that did not take place in the formal sector belonged to the informal sector. As it turned out, the major-

⁵ For further discussion on this issue see F. Wilson and M. Ramphela, *Uprooting Poverty: The South African Challenge* (Cape Town, 1989), pp. 84 ff.

⁶ David Gordon and Paul Spicker, *The International Glossary of Poverty* (CROP International Series in Poverty Research, Zed Books, London 1999).

⁷ Recorded by Mary-Jane Morifi, 'Life among the Poor in Philipstown' (Carnegie Conference Paper no. 33, Cape Town, 1984), p. 34.

⁸ Including, for example, malnutrition; lack of access to clean drinking water; inadequate housing; lack of education. For a global discussion see Else Øyen, S.M. Miller and Syed Abdus Samad (eds.), *Poverty: A Global Review. Handbook on International Poverty Research* (Scandinavian University Press and UNESCO, 1996), pp. 620. For recent South African discussion see the *Report on Poverty and Inequality in South Africa*, 1998, especially pp. 39-42.

ity of the world's population could be found in the informal sector. In the developing countries home based activities or the 'backyard economy' (i.e. the home production of vegetables and other plants on a small plot of land in the city or elsewhere for home consumption and bartering, but also different kinds of small-scale home production and sale of items generated, for example, through garbage picking) forms a significant and so far invisible contribution to the national economy. Small landholders, self-employed people, occasional labourers, people living off criminal and semi-criminal activities likewise form part of the informal sector. Use of child labour in the formal economy is likely to be referred to the informal sector, partly to make it invisible to the regulations of the formal economy. The unpaid work women perform in the home and on the farm can be defined as belonging to the informal sector. Only during the feminist revolution did unpaid housework in the Western world become visible through a new kind of accounting which showed its significant contribution to the national economy.⁹

Although sufficient data are not available, it can be argued convincingly that a very large part of the incomes which sustain poor people are largely found in their activities in the informal sector. Let it be added, that many non-poor people likewise find their income in the informal sector, whether it be through criminal activities or within legally defined activities.

The International Labour Organization, writing in the Asian context, drew attention to the fact that the whole concept of the 'informal sector' was loose and could mean different things depending on the circumstances. It, "*manifests itself in different ways in different countries, in different cities within the same country, and even in different parts of the same city*".¹⁰

Like "unemployment" the concept of the "informal sector" seems to have been given two meanings: one broad; the other narrow. In terms of the broad definition the informal sector is defined in the literature to include virtually all unrecorded economic activities both large and small scale,¹¹ both legal and illegal.

Without going as far as those who exclude rural activities from the

⁹ United Nations, 'Methods of Measuring Women's Participation and Production in the Informal Sector', *Studies in Methods*, Series F No. 46, New York, 1990.

¹⁰ ILO, 'Development of the urban informal sector: Policies and strategies, Paper prepared for the Asian Sub-regional Seminar on Employment policies for the urban informal sector in East and South-east Asia, Bangkok, October 1992' Cited by Christian M. Rogerson, *Rethinking the Informal Economy of South Africa* (DBSA, Halfway House, 1996), p. 2.

¹¹ Janet MacGaffey, *The Real Economy of Zaire: The Contribution of Smuggling and other Unofficial Activities to National Wealth* (London, 1991), p. 1.

narrow definition of the informal sector, it is nevertheless clear that a working definition of the term can not usefully be as broad as to include all that is covered in MacGaffey's study¹² which includes trade in stolen fuel, poaching, and smuggling on a massive scale. One useful approach was that adopted by Natrass in a South African field study. "*In most cases*", she writes, "[T]he informal sector has been described as consisting of all those people outside formal wage employment in the large-scale officially recognised and regulated sector, as well as all enterprises which function outside government rules and regulations and which operate on a small scale using labour intensive technology ... [A]s a general rule, one should argue that an informal sector enterprise must manifest at least two of these three characteristics".¹³

Rogerson equates the concept with what in the 1990s has been identified as the 'micro-enterprise economy'.¹⁴ In Zimbabwe, Kaliyati, arguing along similar though not identical lines, identifies the informal sector as a sub-set of the small-enterprise/business sector. By 'informal' what is meant that its operations are not registered and "normally escape official statistics".¹⁵

For the purposes of this paper we shall work with a narrower definition of the informal sector which will not encompass the full range of "second economy" activities as described by MacGaffey and by Maliyamkono and Bagachwa.¹⁶ Nor shall we include organised crime but will concentrate on that narrower definition of the informal sector as the micro-enterprise sector which is seen by many writers as containing the potential for generating the jobs necessary to reduce the massive levels of unemployment and poverty found in so many parts of the world. Broadly speaking the focus is on small-scale, labour intensive economic activity whether within or beyond the scope of official rules and regulations. Note that there is no suggestion that all such informal sector activities must be confined to the urban areas although it may well be that the majority of them are in practice concentrated there.

¹² MacGaffey, *op. cit.*, p. 8.

¹³ Nicoli Natrass, 'Street Trading in Transkei: A Struggle against Poverty, Persecution & Prosecution' (Carnegie Conference Paper No. 237, Cape Town, 1984), p. 6.

¹⁴ Christian M. Rogerson, 'Rethinking the Informal Economy of South Africa' (Development Bank of Southern Africa Development Paper 84, Halfway House, 1998).

¹⁵ Jacob Kaliyati, 'The Informal Sector and Small Business Development', in Minnie Venter (ed.), *Prospects for Progress: Critical Choices for Southern Africa* (Cape Town, 1994), p. 153.

¹⁶ MacGaffey, *op. cit.*, and T.L. Maliyamkono and M.S.D. Bagachwa, *The Second Economy in Tanzania* (London, 1990).

THE CASE OF SOUTHERN AFRICA

The following table provides a brief economic profile, over the past thirty years, of the 12 mainland countries¹⁷ which in 1999 are members of the Southern African Development Community (SADC).

Table 1. *Southern Africa: Population, Urbanisation and Economic Growth* (Av. Annual Growth: GNP per capita).

Country	1965-1984	1985-1994	Population 1994 Millions	% Urban
Botswana	8.4	6.6	1.4	30
Mozambique	N.A.	3.8	15.5	33
Namibia	N.A.	3.3	1.5	36
Tanzania	0.6	0.8	28.8	24
Lesotho	5.9	0.6	1.9	22
Sub-total			49.1	
Zimbabwe	1.5	-0.5	10.8	31
Malawi	1.7	-0.7	9.5	13
Congo (Zaire)	N.A.	-1.0	42.5	N.A.
Swaziland	4.1	-1.2	0.9	N.A.
South Africa	1.4	-1.3	40.5	50
Zambia	-1.3	-1.4	9.2	43
Angola	N.A.	-6.8	10.4	N.A.
Sub-total			123.8	
TOTAL			172.9	

Source: World Development Reports, annual.

¹⁷ i.e. Excluding Mauritius and Seychelles.

This table reflects a number of realities – and masks others. First we should note the enormous variation between countries even in one region of the so-called Third World. There must inevitably be considerable scepticism about the usefulness of any economic generalisation across a sub-set of countries whose populations range from less than 1 million to over 40 million; whose average annual growth rates vary from over 8% per annum over 20 years to a continuing decline of almost 7% per annum over the same period.

Secondly, that over the past thirty years, throughout virtually the entire region there is likely to have been an increase in unemployment as population has risen faster than jobs in the formal sector. This includes industrialised South Africa.¹⁸

Thirdly, the reduction in GNP per capita in over two-thirds of the population of the SADC points to the failure of the economy to halt the steady impoverishment of the region with the exception of Botswana and, in more recent years, of Mozambique whose economy finally seemed to touch bottom at the end of the 1980s.¹⁹ Elsewhere on the continent the economic record is similarly mixed; but universally the impact of war has been devastating. Statistics²⁰ are hard to come by and are not always reliable but in Angola three decades of virtually uninterrupted civil war, both caused and fuelled in large measure by the battles for control of the country's diamond and oil resources, continues to devastate an economy with vast potential.

One important conclusion is that despite all the hopes pinned upon political independence from the beginning of the 1960s on; despite all the analysis and proposals by developmental economists and others; and despite all the practical efforts by governments, business people, workers, and farmers (whether large- or small- scale) economic well-being has not been fostered amongst the bottom 25% to 50% of the population of the 12 countries of Southern Africa, with the possible exception of Botswana whose total population is less than 1.5 million and for whose poorest fraction the spectacular economic growth of the past quarter century seems to have done surprisingly little.²¹

¹⁸ Peter Fallon and Luiz A. Pereira de Silva, *South Africa: Economic Performance and Policies* (The World Bank, Washington, 1994), p. 37.

¹⁹ E. Tarp and M.I. Lau, 'Mozambique: Macroeconomic Performance and Critical Development Issues' in Lennart Petersson (ed.), *Post-Apartheid Southern Africa: Economic Challenges and Policies for the Future* (London, 1998), pp. 288-309.

²⁰ World Development Report, 1997.

²¹ For discussion of this point (from different perspectives) see papers on Botswana delivered at two CROP workshops on the role of the state in poverty alleviation held in Gaborone (1997) and Cape Town (1998) including those by K. Good and P. Molutsi; by Arnon A. Bar-On; and by C.K. Kerapeletswe and T. Moremi.

But the statistics themselves do not tell the whole story.²² Indeed the very definition of the informal sector discussed above warrants our taking into account that economic activity which is excluded from the official accounts. At the same time it is important to recognise that the fact that a significant informal sector (or even second economy) may exist does not necessarily imply that it does. We are thus driven to recognizing the importance of estimating the relative size of the informal sector, which may vary considerably from country to country.

There are two further changes affecting the whole region whose impact is not yet captured in the economic profiles of the 12 countries.

The first is the extent of HIV infection. The evidence now available points to a "new wave of impoverishment"²³ particularly in Sub-Saharan Africa. Life expectancy throughout the region is falling dramatically. In 18 of the 22 (mainly) Sub-Saharan African countries studied "*HIV/AIDS would reduce life expectancy by at least 10 years and in 14 it would push child mortality up by at least 50 deaths per 1000 live births*".²⁴ There is no doubt now, write the authors of the World Development Report, "*That AIDS is closely linked to poverty. Poverty offers a fertile breeding ground for the epidemic's spread, and infection sets off a cascade of economic and social disintegration and impoverishment*".²⁵ In the absence of a breakthrough in the treatment of HIV infection, the emerging scenario of populations (led in many instances by the young, economically active, better educated sections) dying en masse of AIDS requires a paradigm shift in strategic planning, whether with regard to job creation, the role of the informal sector, or anything else.

The second major shift in any new thinking about unemployment and the informal sector is the acceleration in the process of globalisation. This has happened in the 1990s through the combination of a number of factors including the establishment of the World Trade Organization with the ending of the Uruguay Round of GATT in 1994; the information revolution including the development of the internet (based on the diffusion of personal computers); and the not unrelated growth of the global financial market in a world that no longer sleeps.

From the perspective of the informal sector, or of job-creation generally, the impact of globalisation can be felt in a number of important ways including (on the positive side) the possibility of accessing wider markets.

²² MacGaffey, *op. cit.*, p. 7.

²³ *Human Development Report* 1997, p. 67.

²⁴ *Ibid.*

²⁵ *Op. cit.*, p. 67.

More immediately, and on the negative side from the producer's point of view, is a downward pressure (due to competition resulting from the lowering of tariff barriers) on prices of some of the goods most likely to be made in the informal sector. Another type of impact relates to the macro-consequences in individual countries of the sudden, relatively large flows of short-term speculative capital either into or out of the local stock market. These flows over which the individual country has little if any control can wreak havoc with the most careful plans regarding appropriate exchange and interest rates to stimulate economic growth so as to generate more jobs.

It is against this background that the struggle of entrepreneurs in the informal sector is played out. In Southern Africa, as in many other parts of the world, there is a growing belief that the small enterprise sector has great potential to alleviate unemployment and to spur economic growth in times of recession.

There have been a number of attempts to gauge the relative size of this small-enterprise informal sector in the various countries of Southern Africa.²⁶ How significant is the informal sector in South Africa, for example?²⁷ Working with the narrow definition which focuses on small enterprises and tends to ignore criminal activity such as robbery or drug dealing whilst including all those enterprises which, because of tax evasion, operate effectively on the wrong side of the law, the consensus has been that the contribution of the informal sector is somewhere under 12% of GDP with Rogerson suggesting a best estimate of 9% and an absorption of some four to five million workers.²⁸ However the estimates vary widely with some ranging as high as 40% of GDP, though most observers believe this figure is far too high.²⁹ The absence of reliable and meaningful data is widely recognised and is referred to by the ILO, "as a core problem in employment planning for the informal sector".³⁰

But there is one part of the informal sector in South Africa about which there is now (post-1993) considerably more information than in the past. This is that part of the economy made up by the self-employed.³¹

²⁶ See for example Jacob Kaliyati *ibid.*, Kirsten and Sindane *op. cit.*, and Christian M. Rogerson *op. cit.*

²⁷ E. Preston-Whyte and C. Rogerson (eds.), *South Africa's Informal Economy* (Cape Town, 1991).

²⁸ Kirsten and Sindane, *op. cit.*, pp. 167-168; Rogerson, *op. cit.*, p. 40.

²⁹ Rogerson, *op. cit.*, p. 5. See also Kirsten 'A Quantitative Assessment of the Informal Sector' in Preston-Whyte and Rogerson, *op. cit.*, pp. 148-158.

³⁰ *Ibid.*, p. 12.

³¹ H. Bhorat and M. Leibbrandt, 'Poverty Amongst the Self-Employed', *J. Stud. Econ Econometrics*, 22(3), (1998).

Whilst there are significant numbers of self-employed persons (such as doctors and lawyers) who are clearly not part of the informal sector, there is nevertheless considerable overlap between the self-employed and the informal sector, particularly at lower income levels. The total number of self-employed individuals in South Africa in 1993 is estimated from the Saldru random sample survey of 9000 households³² at 1.1 million which compares with the Central Statistical Services' estimate of 1.2 million persons employed in the informal sector. But this is very different from the Rogerson estimate of four times as many. Of the 1.1 million self-employed estimated from the Saldru survey, two-thirds (66.6%) were found in only five occupations: street-seller (23.3%); shopkeeper (12.8%); shebeen³³ operator (11.4%); sewing/selling clothes (9.8%); artisan (9.3%). Bhorat and Leibbrandt point also to the 'notable' fact that less than 1% (0.77%) of the self-employed works in manufacturing.³⁴

Given the lack of systematic information about the informal sector as a whole (including ventures employing more than one person) can anything meaningful be said about it? Rogerson, for example, drawing on the empirical studies that have been done draws attention to two fundamentally different types of activity in the informal sector: bare survival activities, on the one hand, and dynamic expansionist enterprise, on the other. "The mass of informal enterprises in South Africa's large cities, towns and rural areas fall within the category of survivalist enterprises. Typical examples are urban cultivators, child-minders, street barbers or garbage scavengers, rural collectors of traditional herbs and the ubiquitous township retail operations of spazas and hawkers. Also included in the category of survivalist enterprise are the rash of urban rural co-operatives that have appeared over the past decade" [1984-1994]³⁵ One further finding that seems to hold true in all the South African studies is that, relative to other countries (including those of the SADC), manufacturing activities are relatively under-developed in the micro-enterprise or informal sector, especially in the urban areas. Thus it is estimated that in urban South Africa manufacturing accounts for only 17% of micro-enterprise activity whilst in Malawi, Swaziland and Zimbabwe the shares are 28%, 33% and no less than 65% respectively.³⁶ The

³² *South Africans Rich and Poor* (Baseline Household Statistics, Saldru, Cape Town, 1994).

³³ A shebeen was the name given to the illegal bars or pubs operating largely in the black townships of the old South Africa. The name has stuck and is used for bars patronised primarily by blacks.

³⁴ Bhorat and Leibbrandt, *op. cit.*, p. 27.

³⁵ *Ibid.*, p. 7.

³⁶ *Ibid.*, p. 10.

major reason for this urban backwardness within South Africa seems to be the repressive legislation of the Apartheid era which discouraged black initiated economic activity in the urban areas of the economy until as late as the 1980s: by 1992 however these regulatory constraints were no longer seen as important obstacles.³⁷

The precise impact of the informal sector on unemployment in South Africa is by no means clear. Consider the following table.

Table 2. *Unemployment in South Africa, 1993 [%].*

	African	Coloured	Indian	White	Total
All	39	21	11	5	30
Male	34	17	8	4	26
Female	44	25	17	6	35
Rural	42	10	–	4	40
Urban	35	26	10	4	26
Metro	34	19	12	5	22
16-24yrs	65	41	24	11	53
55-64yrs	20	9	5	2	15

Source: *South Africans Rich and Poor* (Baseline Household Statistics, Saldru, Cape Town, 1994).

Assuming that those who were employed in the informal sector in 1993 declared themselves to be employed and not 'looking for work' these figures represent the level of unemployment in the country, including those who said that they wanted work but had given up looking for it. The level averaged 30%. It is possible that, in the marginal world where work in the informal sector may imply waiting at home for somebody to come and buy some apples, the figures may not be quite as precise as they look.³⁸ The

³⁷ World Bank Study cited by Rogerson, p. 21.

³⁸ Issues of measurement are discussed in Charles Simkins, 'Employment, Unemployment and Growth in South Africa 1961-1979', Saldru Working paper No. 4, Cape Town, 1976, and

findings, confirmed by other studies, are striking. Overall unemployment is high and, compared with earlier years, rising. But it varies widely by race; by gender; by age; and by urban versus rural geographic location. Variations range from a mere 2% for white males, in the last decade of their economically active lives, to no less than two-thirds (65%) for young black men and women under the age of 25, not studying and in need of work.

SOME COMMENTS ON STRATEGIES AHEAD

These figures drive home the fact that the need for expansion of the informal sector varies widely even within one economy, certainly one as fragmented as South Africa's. In outlining a possible strategy for encouraging the development of the informal sector in South Africa we can start from the macro-perspective which is very clear.³⁹ For a whole combination of reasons including poor educational and training policies and a failure to invest appropriately, growth of the South African economy by the end of the 1970s had slowed dramatically. This trend continued during the 1980s until by the end of the decade growth it had virtually ground to a halt, so that *per capita* income was falling and the gap between new jobs in the formal sector and the net number of new people coming onto the labour market each year was widening alarmingly.⁴⁰ In this situation of massive unemployment and in the absence of any kind of social security for new entrants to the labour market and for many older job-seekers (particularly women), the only recourse was to some form of informal subsistence activity.

Despite some improvement in the economy following the political settlement and the successful transition to democratic rule in 1994, this trend of a widening gap between net additions to the labour market as a result of population growth and the tiny number of new jobs in the formal sector (including government) seems to have continued. Meanwhile the pressure for expanding the informal sector continues unabated as more unemployed people crowd in to existing activities such as commuter taxis, for example. But this very process implies that less workers are being employed in the formal sector, hence the demand for taxi services decreases at the very moment that people are trying to provide more. This implies a falling level

Charles Simkins, 'Measuring and Predicting Unemployment in South Africa, 1960-1977' in C. Simkins and D. Clarke, *Structural Unemployment in South Africa* (Pietermaritzburg, 1978). Also Charles Simkins, 'Structural Unemployment Revisited', Saldru Fact Sheet No. 1, Cape Town.

³⁹ Fallon and de Silva, *op. cit.*, especially pp. 53-72.

⁴⁰ In this analysis we draw heavily upon Rogerson, *op. cit.*, p. 14.

of profitability in such informal sector activities. Thus, paradoxically, the very pressures leading to an increase of the informal sector eventually lead on to its contraction.

Rogerson identifies a second factor in the growth of the informal economy which is also due, to some extent to pressures on the formal sector. This is the process of 'informalisation' where, by circumventing labour regulations and avoiding trade union monitoring, "formal factory jobs are increasingly displaced by jobs in unregistered plants, and in homeworking".⁴¹ In the shoe industry, for example, during the 1980s, if not earlier, major manufacturers were deliberately organising the expansion of at least part of their production on a "putting-out" or "cottage-industry" basis. By the mid-1990s it was estimated that no less than 20% of total output [some 10 million pairs of shoes *per annum*] was being produced in the informal sector in this way.⁴²

The debate about the value of expanding the informal sector in this manner is riven with contradictions. At one end of the spectrum informalisation could be a process whereby ruthless employers evade hard-won (but costly) protective factory legislation against dangerous and/or environmentally damaging production methods by sub-contracting to small groups which may work at home or elsewhere. At the other end, informalisation could be a process whereby unnecessarily high production costs (including wages pushed well above market rates by militant trade union action) are cut sharply thus leading to significantly increased sales and hence employment. In practice any process of informalisation is likely to lie somewhere between these two ends of the spectrum. But there is one further consideration. Costs in a particular sub-sector of a national economy may be such that the product is undercut by one from some other country as a result of a reduction in tariffs due to agreements with the World Trade Organisation. This particular impact of globalisation can benefit consumers as a result of lower prices, but this can be at the expense of a massive loss of jobs by producers. The pros and cons of increasing trade by means of lowering tariff (and non-tariff) barriers requires careful assessment in terms of the particular circumstances and also of the timing.

There is evidence to suggest that whilst an increase of trade can be shown theoretically to increase general welfare this does not necessarily imply that a particular group (or even country) will benefit as a result. In this context it is worth noting that preliminary analysis of the impact of the conclusion of the Uruguay Round of GATT negotiations [December 1993] and the

⁴¹ Rogerson, *op. cit.*, p. 15.

⁴² *Ibid.*, p. 16.

establishment of the World Trade Organisation under the Marrakesh Agreement in April 1994 suggests that Africa stands to lose rather than to gain, at least in the short run.⁴³ But the continent has virtually no power at the international bargaining tables and can do little other than accept the terms which others have set. In this context it is surprising to find South Africa pursuing trade liberalisation (by reducing tariffs) at a pace faster than that required by the agreements in the multilateral trade negotiations.⁴⁴ It is also worth noting that a century ago when its economy was much weaker relative to that of industrialised Europe, the United States passed the McKinley Act [1890] to ensure heavily protective tariffs [of the order of 50%] against imports of all types of industrial goods which Europe could, at that stage, produce more cheaply. But it is clear from the South African case study that the impact of globalisation on unemployment, particularly of unskilled workers and hence on the informal sector, is such as to require very careful strategic policy objectives being developed at a macro-level with regard to tariffs, labour market policy, social security, and taxation.⁴⁵

Despite the ambiguities and despite the assessment of some analysts that the advance of flexible specialisation in South Africa holds greater potential for the 'informalisation' – or break-up – of large enterprises into low-cost, non-unionised sweatshops than for the clustering of small enterprises that are engaged in constant innovation⁴⁶ there is widespread consensus about the necessity for government policy to support the further growth of the informal sector.

But a crucial distinction is drawn between 'survivalist' enterprise (which is estimated to constitute 80% of the small enterprises in South Africa) and viable or growth micro-enterprises. With regard to the former the argument is that state assistance should be considered primarily as "a form of poverty relief or welfare support"⁴⁷ which should be sustained until such time as the economy picks up and such enterprises acquire a new dynamic of their own or people find they no longer need them as they move into an expanding formal sector. With regard to the latter there are a number of practical sug-

⁴³ P. Evans and J. Walsh, *The Economist Intelligence Unit Guide to the New Gatt* (London, 1994), p. 118.

⁴⁴ N. Nattrass, 'Globalisation and the South African Labour Market', *J. Stud. Econ. Econometrics*, 22(3), (1998), p. 87 citing T. Bell and N. Cattaneo, *Foreign Trade and Employment in South African Manufacturing Industry*, Occasional Report No. 4, Employment and Training Dept., I.L.O., Geneva, 1998.

⁴⁵ Nattrass, 1998, op. cit.

⁴⁶ *Ibid.*, p. 29.

⁴⁷ *Ibid.*, p. 30.

gestions as to how supportive intervention might take place particularly in the construction industry and in the manufacturing sector. To these we would add the belief, not widely shared by those concerned with development in South Africa, that rethinking the use of the land for the expansion, not least for export purposes, of small scale agriculture and horticulture holds considerable potential for job creation at reasonable levels of income.

CONCLUSION

There is room to draw together a few conclusions.

1. Differences not only between countries, such as those of Southern Africa (to say nothing of the wider 'Third World') but also within individual countries are such as to render virtually useless any general analysis as to how best to develop the 'informal sector'. Strategies have to be devised which are specific to particular circumstances in each case.

2. Contrasting South Africa with other countries in the region, it is obvious that, for policy purposes, a clear distinction needs to be drawn between those which are largely industrialised, with a majority of the population in the urban areas, and those which remain largely rural, with farming – whether for subsistence or for commercial purposes – as the major occupation.

3. For an industrial country like South Africa, whose citizens are under pressure from widespread and increasing unemployment, intelligent and meaningful support of the urban informal sector is vitally important. At the same time it is necessary to recognise that expansion of the informal sector is not enough. Even (perhaps particularly) in the more industrialised countries such as those in western Europe and elsewhere there is recognition of the fact that not even a combination of the formal and the informal sectors will provide sufficient income for all citizens in the 21st century.

4. Another possibility for income generation which is not necessarily classified as part of either the formal or the informal sector lies in the growth of grass-roots co-operatives. Whilst many have failed, there are some notable successes (such as Mondragon,⁴⁸ Amul Dairy,⁴⁹ or the Grameen Bank)⁵⁰ which can inspire hope for the poor.⁵¹

⁴⁸ Roy Morrison, *We Build the Road As We Travel* (Philadelphia, 1991).

⁴⁹ Amul, Gujarat Cooperative Milk Marketing Federation, Annual Report 1997-98 on <http://www.amul.com/annual.htm>

⁵⁰ Andreas Fuglesang & Dale Chandler, *Participation as Process: Process as Growth* (Dhaka, 1993).

⁵¹ Albert O. Hirschman, *Getting Ahead Collectively: Grassroots Experiences in Latin America* (New York, 1984).

5. Finally, for those who are unable to obtain jobs in the formal economy or to create them through either some form of micro-enterprise or some imaginative co-operative initiative, some support via the state seems increasingly likely to become a political necessity in the economies of the future. What forms that support should take – whether conventional public works programmes, negative income tax or other forms of a guaranteed minimum income, public subsidy of privately organised service activities such as care of the aged, or whatever – lie (as do the co-operatives) beyond the scope of this paper.

Our task has been to focus on the informal sector; to analyse its ambiguities; and to draw attention to its potential (and limitations) in reducing poverty through generating employment, particularly in poorer countries. While it is not possible to ignore the huge energy waiting to be tapped in the lives of poor people around the world, it is difficult to conclude that a transfer of the working capacity of poor people from the formal sector to the informal sector is the easy answer to effective poverty reduction.