



# RETHINKING INFORMALIZATION

POVERTY, PRECARIOUS JOBS  
AND SOCIAL PROTECTION

Editors: Neema Kudva and Lourdes Benería





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## Introduction

This volume includes a large portion of papers initially presented at the conference, *Rethinking Informalization in Labor Markets*, which took place at Cornell University in October 2002. The objective of the conference was to bring together academics, researchers, and practitioners working on issues of labor market informalization, urban informality, poverty, and social protection with the purpose of discussing these issues as they were unfolding at the dawn of the new century. We brought together an interdisciplinary group that could approach these questions from different angles and experiences with a focus on different geographical areas. This collection represents many of the papers presented at the conference, though the gathering also included other participants who enriched the debates and discussions beyond what is being published here.

We were especially interested in understanding the processes and reasons behind the increasing use of the expression “informal economy,” instead of “informal sector,” when referring to the large range of activities that take place outside, or at the borderline of what tends to be viewed as “formal economy.” The first of these reasons was the tremendous growth of informal activities experienced across countries during the past two decades. Contrary to the expectations of those who initially focused on the informal sector in developing countries in the early 1970s, its extent and importance had been on an increase over time rather than absorbed by the “modern sector” as expected.

Globalization, deep economic restructuring across countries, and neoliberal policies have led to increasingly informalized and decentralized processes of production, transforming labor markets and the world of work, both in the North and the South. Productive activities that used to be performed in core firms have been relocated to the periphery of smaller and often geographically distant firms in search of lower production costs, often avoiding different types of regulations and even reaching production levels at the borderline of illegality. Thus, outsourcing and subcontracting have typified the increasing capacity of firms to segment out production in order to meet the pressures of global markets. This has transformed labor markets and generated growing informality, precarious jobs for a large proportion of the population, and rising economic insecurity. Informality has reached many levels of activity ranging from mid-size subcontracting firms to microenterprises, workshops, sweatshops, and home-based production.

Alongside these processes of informalization tied directly or indirectly to core production, developing countries have continued to experience the growth of subsistent activities generated by the inability of their economies to absorb the unemployed and underemployed. These constitute the more traditional urban informal activities in developing countries, as typified by the street vendors in many urban centers, and represent an economy in which, in the words of Pérez-Sáinz in this volume, “the poor produce for the poor,” including some of the most precarious forms of survival for individuals and households. To be sure, there is a high level of fluidity between different forms of informal activities, as well as between formal and informal jobs and between paid and unpaid work, the latter being particularly the case for women.

The result has been the tremendous heterogeneity of informal activities. Far from being the low-productivity, “backward” sector described in the early literature, the informal economy has proved to be dynamic and a source of growth in many areas and sectors, even if representing extreme forms of precariousness in others. Its fluidity has led to the increasingly blurred differentiation between the formal and the informal, even between the legal and illegal across countries. It is no longer possible to clearly delineate where the formal ends and the informal begins; on the contrary, the high degree of integration and linkages between the two is what led the ILO, in its 2002 annual conference, to emphasize the notion of the “informal economy.” Due to the processes of labor market flexibilization and deregulation that have taken place under neoliberal policies, working conditions and labor standards have deteriorated for a large proportion of the working population, affecting both formal and informal activities. This has led to a new regime of labor-capital relations in which labor has lost much of the hard-won bargaining power that had resulted from years of struggle. Levels of unionization have decreased worldwide, not to mention the absence of bargaining power for the millions of unorganized workers involved in informal activities.

A different objective for the conference was to explore the need to link poverty eradication strategies to macroeconomic and labor market policies, emphasizing the generation of decent jobs and the importance to focus on distribution. In addition, some papers focused on the connection between informality and poverty while others examined the need to rethink social protection under the circumstances prevalent in informal economies. Neoliberal policies have represented a massive redistribution of income and resources from the social to the private sector, from labor to capital, and from low to high skill labor. The increasing reliance on the unregulated market has not been accompanied by any effort to address the corresponding rise in economic and social inequalities while concerns about distribution and redistribution have been neglected. Programs of social protection have been limited to targeted populations, often temporary and insufficient, de-emphasizing the notion of universal protection despite the many voices calling attention to its importance. In many ways, the state has retreated from these responsibilities, and social protection has been privatized and left at the level of the individual, the household, and social organizations, as exemplified by the experience of SEWA (Self-Employed Women’s Association in India) examined in Mirai Chatterjee’s talk at the conference, which was later transcribed for this volume.

Almost three years after the deliberations of the original conference, the debates and discussions that took place are as relevant as they were then. The world needs a “global labor movement,” following the model of the environmental movement initiated in the early 1970s, to reverse the direction set by the great march towards informalization and the loss of bargaining power of labor. The papers presented in this volume provide illustrations of the multiple layers through which this discussion takes place.

I want to thank those without whom the conference would not have been possible. Neema Kudva was a major contributor and co-organizer, and she took primary responsibility for moving the edited volume forward. Many thanks also to Ravi Kanbur, who provided the funds through Cornell’s Program on Inequality and Development that covered conference costs, as well as subsequent costs of translation, editing, and publication. The Department of City and Regional Planning at Cornell provided generous help with conference logistics and graduate student assistants. We decided to make this publication an open

source volume that would be available freely by working with Cornell's electronic publishing initiative. However, to maintain established standards of scholarly publication, the majority of papers in this volume have been through a blind peer-review process. We would like to extend our thanks to the reviewers, to Julie Simmons-Lynch for her careful editing, and to graphic designer, Deepa Kamath, who took a collection of papers and produced the electronic volume. Last but not least, our deepest appreciation to all conference participants; in different ways and levels, they contributed to its success with their ideas and interest.

Lourdes Benería  
Ithaca, New York  
May 2005

# Distribution, gender, and labor market informalization: A conceptual framework with a focus on homeworkers

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## I. INTRODUCTION

This paper is based on the notion that the nature and depth of labor market informalization across countries requires rethinking in order to guide action and formulate policies for eliminating poverty and reducing economic inequality and job insecurity. Using homework as a case in point, it explores the dynamics of informality and its distributional aspects by demonstrating the interconnectedness of job precariousness, vulnerability, and gender relations. The paper develops a conceptual framework for our comparative study of urban, low-income households with home-based workers in four countries: Bolivia, Ecuador, Thailand, and the Philippines. It builds on some of our empirical findings in the 2002 sample survey data based on the Latin American and Thailand parts of the study.

During the 1970s and early 1980s, studies on the informal sector often assumed that, with economic growth, it would tend to be absorbed by the modern economy. The tremendous growth of informality since then has reversed these expectations, pointing to the strong tendencies in the global economy to generate precarious jobs that provide unstable incomes. According to ILO figures, informal employment represents one half to three-quarters of nonagricultural employment in developing countries. Regional and country differences are significant but the growing importance of informality has been registered in high-income countries as well; self-employment, part-time work, and temporary work represent 30 per cent of overall employment in 15 European countries and 25 per cent in the United States (ILO, 2002).

For a variety of reasons, women are disproportionately represented in informal employment, which accounts for 60 per cent or more of female employment in developing countries. In OECD countries that reported data, women represented 60 per cent or more of the part-time workers in 1998. In some labor categories such as home-based work, their participation ranges between 30 and 80 per cent of all workers, while 80 per cent of industrial homework is carried out by female labor (ILO, 2002). Our empirical work is based on qualitative insights and interview surveys carried out in urban, low-income communities during 2002. The study's overall objective is to evaluate the ways in which labor markets' liberalization and informalization affect home-based workers in urban, low-income households by analyzing household dynamics linked to household survival, coping strategies, finances, and gender relations. Thus, our focus on urban households provides a window into informality from the specific angle

of how poverty is lived by home-based workers and their families. It illustrates how economic vulnerability affects not only their decisions regarding employment but also their risk burden and well-being.

## II. THE INADEQUACY OF THE FORMAL/INFORMAL DIVISION

Since its inception, the notion of the “informal sector” has been subject to debates and criticisms, particularly in terms of the heterogeneity and artificiality of the formal/informal division. The implication of the initial 1970s formulations by Keith Hart—and of the ILO mission to Kenya in 1972—was that modernization and economic growth would facilitate the absorption of the “informal sector” by the modern sector (Hart, 1973; ILO, 1972).<sup>1</sup> By contrast, the literature during the 1980s emphasized the links, rather than the divisions, between the two sectors, pointing to the dependency of the modern sector on the informal sector, as a way of lowering costs; thus, implying that there was no incentive for the modern sector to absorb informal activities (Benería and Roldán, 1987; Portes and Castells, 1989). The 1990s saw a deepening of these processes and an expansion of informality under neoliberal policies, thus increasing the need to further understand the factors that have reversed the initial predictions. To date, there have been continuing debates on the topic, especially in the context of understanding the persistence of poverty and the increasing vulnerability amidst an expanding global economy (Rakowski, 1994; de Soto, 2000; ILO, 2002).

This raises questions regarding the differences between earlier and current stages of informalization. Have conditions changed and, if so, in what way? Several observations can be made in this respect.<sup>2</sup> First, since the 1980s, the macroeconomic context has changed significantly due to the implementation of neoliberal policies in many countries.<sup>3</sup> Privatization, market deregulation, and economic restructuring have contributed to set up the conditions for an expansion of informal activities and precarious working conditions. Second, the expansion and deepening of markets has extended the links, direct or indirect, between formal and informal activities while the distinction between the two has become increasingly blurred (Pérez Sáinz, 2000). Large firms have developed, directly or indirectly, increasing links with informalized production through outsourcing and subcontracting while other forms of informal work remain disconnected from the more formal productive activities. We provide specific examples related to home-based work in subsequent sections.

Third, informal activities are no longer viewed as the anomaly that eventually will disappear. On the contrary, the trend has been the opposite; the decline in formal employment in many countries, particularly in the public sector, and the dynamism of the informal economy in many cases has enhanced the relative attractiveness and predominance of the latter.

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<sup>1</sup> Hart's study, published in 1973, was based on a 1971 study of urban Ghana.

<sup>2</sup> For a more elaborate version of these arguments, see Benería, 2001.

<sup>3</sup> Along these lines, the literature on structural adjustment policies has provided ample evidence on the effects of deregulation and labor market flexibilization across countries since the 1980s. For a summary of this literature, see Benería, 2003.

Fourth, although the traditional association of informal work with low skills and low productivity still holds, the last two decades have introduced many changes that produce new modes. With the increase in outsourcing and subcontracting under globalization, many informal activities have their center of gravity in the core firms that generate them. In this sense, they may not be associated with low productivity if technology transfers take place through different organizational forms and modern equipment.

Fifth, increased job insecurity and the deterioration of working conditions in developing countries during the past two decades have taken place in a climate that has emphasized citizenship, political rights, individual agency, and democracy. Hence, the contradictions and social tensions between these discourses emphasize empowerment and equality on the one hand, and the realities of precariousness, poverty, and powerlessness associated with informality on the other. Finally, globalization and the accompanying economic restructuring have intensified these tensions by enlarging their scope and sphere of reference, and by contributing to the factors that generate informality.

As a result, nonstandard forms of employment have multiplied, thereby introducing a greater diversity in situations and working life patterns for both men and women workers. There is wide variation in the range of activities, skill requirements, and the terms and conditions of work experienced by these workers. Among home-based workers, this tends to include a wide range of labor-intensive production activities such as in garment work, crafts, furniture construction, and shoemaking. Others work in capital, and information-intensive professional activities such as data processing and providing software technical assistance. The result is a great heterogeneity in terms of work arrangements but also in its income generating capacity.

These changes have raised new questions about how to best reconceptualize the informal economy in order to understand its nature and consequences. In this paper, we want to further this discussion by focusing on the distributional aspects of informalization. There have been recent efforts to expand the concept of informality and to rethink its nature and functions from a socioeconomic perspective. The ILO analysis, for example, emphasizes an “expanded concept” of the informal sector by introducing the notion of “informal economy.” The latter concept demonstrates the widening and deepening of the informalization process and thus “incorporates the whole of informality—including both enterprise and employment relations—as manifested in industrialized, transition, and developing economies.” Thus, the notion of informal economy captures “the real world dynamics in labor markets today, particularly the employment arrangements of low-income workers.” (ILO, 2002: 11).

From a different perspective, the work of Peruvian social scientist Hernando de Soto (2000) has emphasized the importance of informal activities and of their entrepreneurial initiatives in developing countries. Focusing on the legal/illegal divide, de Soto argues that the official recognition of legal titles for the land and dwellings occupied by the poor could be used to generate large sums of capital and contribute to a take-off in entrepreneurial activity and growth in developing countries. Once officially recognized, the value of informal assets among the poor could then be converted as loan collateral thereby facilitating the growth of credit for development. Unlike the ILO approach that focused on labor and working conditions, de Soto’s main

concern is centered around the generation of capital for investment and is based on the premise that this will automatically benefit labor, particularly the workers in the informal sector, and generate economic growth. What might happen to labor and the subsequent distribution and control of income and resources is not addressed in his work. Given this gap in the literature, we shift our attention to the distributional dimensions of informality, including assets, income, credit, and factors affecting gender inequality, such as work burden and risk distribution.

### III. TOWARDS A CONCEPTUAL FRAMEWORK OF DISTRIBUTION AND INFORMALIZATION

Low earnings and precarious working conditions associated with informal labor can be attributed to economic, institutional, and sociopolitical factors. In an unorthodox economic analysis, low earnings are explained by the dynamics of labor supply and demand—more specifically, on an abundant labor supply relative to existing demand. In addition, low earnings are explained through the prevalence of low skills and low productivity. Insufficient labor demand can result from scarcity of local capital a la de Soto, reinforced by the inability of many developing countries to effectively mobilize domestic savings and attract foreign investment.

Thus, within an orthodox neoclassical model, low earnings and precarious working conditions associated with informality represent a labor market “equilibrium” that can only change to the extent that these explanatory factors can. The shortcomings of this approach become evident when “market equilibrium” generates below subsistence incomes and working conditions that undermine human capabilities. This is in fact the grim situation for a large proportion of the population in developing countries today. Here is where the institutional and sociopolitical factors affecting earnings and working conditions become even more relevant. We consider a focus on distribution essential to understanding their effects; antipoverty programs that have proliferated at many levels during the past decade will not make a lasting impact unless distributive and redistributive issues are considered. In what follows, we focus on key areas relevant for an alternative analysis of the distributional dimensions of labor market informalization, all of which are part of the rising inequality between capital and labor

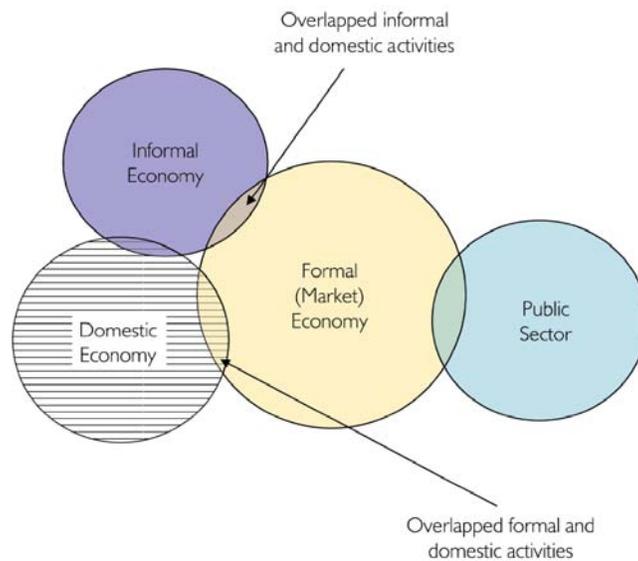
Growing labor market informalization amounts to a regressive process of redistribution. It has functioned as one of the channels through which capital has been able to lower labor costs. Additionally, it has contributed to increasing labor market insecurity and to the creation of precarious jobs without social protection. The result has been, as many authors have already pointed out, the weakening of the bargaining power of labor relative to capital. There are four related aspects to this process namely: (1) increasing labor market flexibilization, (2) growing inequality in income distribution and diminishing bargaining power of workers, (3) institutional factors such as forms of ownership, production, and distribution, and (4) socially ascribed positions in society and within the household.

I. Much has been written during the past quarter century about *labor market flexibilization*. The rapid integration of national markets and the global economy through trade and financial market liberalization

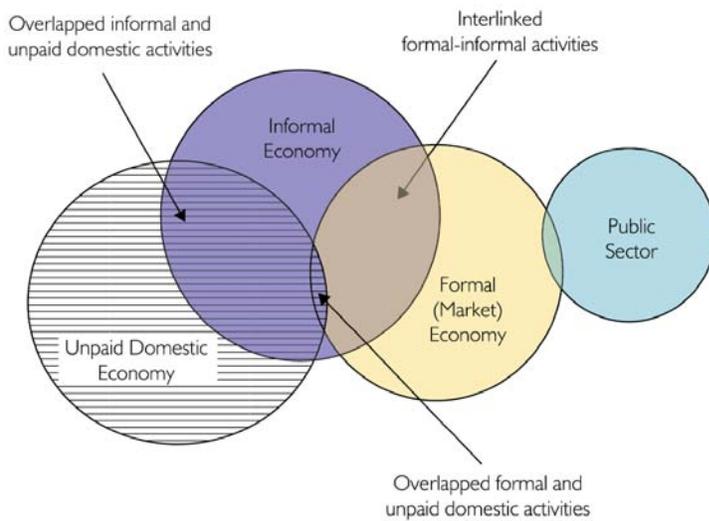
and the accelerated competition among firms have contributed to the increasing share of the market requiring a flexible labor force in order to maintain low production costs. This has contributed to the profound economic restructuring of production of the past decades, both in high- and low-income countries, with enormous changes that range from the microlevel of the firm to the structure and nature of labor markets (Benería, 2003). In developing countries, increased flexibilization, together with chronic unemployment and underemployment generated by structural adjustment policies have shifted the labor force towards increasingly more informalized production.

An increasing number of global firms and domestic enterprises have become involved with workers outside the “traditional workplace” through the process of decentralization, outsourcing, and subcontracting, that extend the link between the formal and informal sectors. They have also tapped further into the seemingly abundant female supply of labor by creating new forms of “putting out systems” whereby workers produce goods or perform tasks in their homes (Benería and Roldán, 1987; Portes and Castells, 1989; Prugl, 1999; Carr, Chen, and Tate 2000; Freeman, 2000; Buechler, 2002). This has led to the evolution of adaptive mechanisms by firms such as the vertical and horizontal chains of production networks in garments, footwear, toys, consumer goods, and handicraft industries. Production is carried out by multilayered networks of parent firms, subsidiaries, contractors, subcontractors, and home-based workers that make finished goods for buyers across the world (Gereffi, 1998). This also enables them to maintain a high degree of “veiled” competition among workers that regulates wages and disciplines the workers in the formal economy.

The labor discipline impact of informalization results from the fluidity of movement by labor between formal and informal activities. This forces workers (and their households) to be fully responsible for their own survival and reproduction when demand conditions change. Figures 1a and 1b show the four main sectors of economic activity namely: formal economy, public sector, informal economy, and the unpaid domestic economy. They depict the fluidity of labor and the areas of overlap. The multiplicity of work arrangements in the formal and informal economies include activities of home-based workers that combine their livelihood with domestic responsibilities, as well as subcontracting and outsourcing activities that link formal and informal work in a production chain. Figure 1b shows how, during economic crises, informal activities and the unpaid domestic economy expand to pick up the slack of the formal economy and that of the public sector as fiscal austerity brings about reduction in social services.



**Fig. 1a:** Areas of Economic Activity and Labor Use During Economic Growth



**Fig. 1b:** Areas of Economic Activity and Labor Use During Economic Crisis

It is important to distinguish between two main types of informal activities, i.e., those that represent bare subsistence, such as street vending, and those linked directly or indirectly with formal production. Both tend to reduce consumption goods prices and therefore contribute to maintaining low wages. As firms hire and lay off workers in order to adjust to market fluctuations, informal activities and the informal sector

provide the cushion that supplies much flexibility for capital while shifting the burden of survival on to the individual worker. In addition, under neoliberal policies, governments have adopted labor laws that tolerate, and even promote, labor flexibility without much concern about safety nets and unemployment compensation schemes during periods of high unemployment and underemployment. Unpaid household or domestic activities and the unpaid labor of family members are assumed to be flexible and can be stretched so as to shoulder the subsistence of unemployed and underemployed workers. Thus, global competition has generated the typical race to the bottom even in countries with strong welfare states but particularly in developing countries.

2. The growing inequality in income distribution and diminishing bargaining power of labor run parallel to this flexibilization and are reinforced by labor market deregulation. The last three decades have witnessed a *weakening and individualization of the labor contract* in many productive processes, resulting in what has been called “the new labor contract” in formal production (Stone, 2001; Benería, 2003). With the exception of high-skilled and professional labor, this has led to the diminishing bargaining power of labor, either individually or collectively through, for example, the absence or decreasing power of unions. Informalization can be seen as an extreme form of this tendency in which it is not the weakening of the labor contract that prevails but its absence. In many ways, informalization highlights the unequal nature of the labor/capital exchange. The owner of labor *is free* in the sense that he/she can accept or reject work, move from one firm to another, and even from one sector to another, but ultimately, he/she depends on the employment-creating capacity of capital for survival. As Marx and other authors have pointed out, this creates an exchange between unequal parties.

In the case of informal labor in which there is no labor contract *per se*, such as in the case of self-employed work in microenterprises, a weakened position in market exchanges, negotiations, and social contracts results from the insecurity and precariousness in which these firms operate in the market. At the same time, these firms also contribute to market flexibilization by quickly adapting to market conditions. For example, micro- and small enterprises typically use family labor that can be brought in and out of production at much ease and absorb some costs of production (such as in the case of electric costs whenever production is done within the home space).

During the past three decades, these tendencies have resulted in a deterioration of relative incomes and living standards for a large proportion of informalized labor. Neoclassical theory typically assumes a high degree of competition among the suppliers of labor and it rarely relates this to the question of the workers' relative bargaining power—in the same way that it tends to ignore the issue of power relations in production processes. Yet, it is quite obvious that flexibilization and informalization tend to improve the relative advantage of capital over labor, at the same time setting the parameters under which self-employed labor, and home-based work, operate.

One consequence has been the tendency to rising income inequality and worker differentiation. The growing informalization of jobs alongside stagnant growth or decline of regular, core and protected jobs imply that employment adjustments concentrate the burden of shift on those workers who either become unemployed or part of the informalized “periphery.” These trends also shift some costs of adjustments

associated with market volatility and fluctuation onto many of the self-employed workers and the unpaid workers engaged in household maintenance and reproduction of both the unemployed and periphery workers.

It is therefore not surprising that we have observed growing income inequalities, first, between owners of capital and owners of labor input and, second, among workers themselves. A flexible labor force and increased individualization of contracts not only undermine the bargaining power of workers and make the maintenance and enforcement of workers' rights more difficult; they also enable owners and managers of capital to reap higher returns and/or to absorb lesser risk. The way in which owners and managers of capital/firms restructure the organization of the production process and adjust their work force has important implications on how the costs of adjustment and associated risks—those resulting from market instability and cyclical fluctuation—are distributed between labor and capital, and also across the working population. They also have implications for the relative vulnerability of the different groups of workers to job loss and joblessness.

Among the work force, increased wage dispersion has been registered across skills, age, sectors, and ethnicity (Wood, 1991; Freeman and Katz, 1993; Fontana and Wood, 2000). For instance, those with higher skills and high-end jobs are employed in expanding sectors and are likely to earn relatively high, if not rising, wages while those with less skills, work in low-end jobs and/or employed in displaced sectors are likely to face low, if not declining real wages. Likewise, workers who are hired on a casual, subcontracted, or part-time basis and who have little or no labor protection are likely to earn less and have less benefits than those with regular full-time jobs. Workers with means of expressing their voice in collective bargaining are likely to earn more than those without. These mark the growing division within labor and increased differentiation in economic well-being among the working population.

Along these lines, gender becomes a major axis of differentiation around these processes of labor flexibilization. Female workers tend to earn lower wages than their male counterparts, are more likely to be in low-end jobs, and hired as casual, subcontracted, or part-time. This pattern results from discrimination and gender norms that permeate in economic and social institution. However, we have also observed increasing income differentiation among women (McCrate, 1995; Lavinias, 1996).

The relative weakening of labor power vis-à-vis capital and the growing individualization of labor contracts have contributed to the unequal income distribution and social inequalities observed across countries—and to the persistence of poverty amid plenty. Informal labor prevails among the world's six billion people who live on less than one dollar a day, and poverty has been increasing in many areas (World Bank 2000/2001). As argued by the World Bank report, the distribution of income is an important factor in dealing with poverty: "Other things being the same, growth leads to less poverty reduction in unequal societies than in egalitarian ones" (p. 55). Further, the report dismisses the often mentioned assumption that inequality stimulates individual initiative and fosters competitive and entrepreneurial spirit. In fact, based on an analysis of 65 developing countries sampled, the report also argues that: (1) high inequality reduces the possible impact of a given rate of economic growth, and (2) lower inequality can increase efficiency and

economic growth. It is our contention that given the increasing importance of the informal economy, the conditions faced by these workers are key in dealing with distribution and poverty.

3. Institutional factors such as entitlements and ownership rights, as well as privatization, also contribute to rising inequalities between capital and labor. The issue of distribution is not simply a question of how much people earn but how they earn it. The latter involves the identification of “who” owns what factor of production and the basis for the returns that the “owner” receives for their use. It requires an understanding of how the “owners” of factors of production relate to each other, thus affecting control over the production process and distribution. The overwhelming imposition of neoliberal policies during the past three decades has discouraged the analysis of the connections between ownership of factors of production and the distribution of income/resources, bargaining power, and risk. It's time to resume this debate, and to connect it to our understanding of informality.

At the level of the informal economy, an institutional analysis of the prevailing forms of production and distribution reveals their heterogeneity—in terms of earnings and social composition as well as the degree of vulnerability and bargaining power of informal workers. Far from being uniform, the informal economy parallels its formal counterpart in terms of organizational forms and capital/labor divides. There are at least four main categories of production modes: (a) the use of hired wage labor; (b) self-employment and the use of family labor; (c) cooperative forms of production; and (d) hybrid forms combining different institutional and distributional arrangements.

The presence of these different production arrangements in the informal economy has been analyzed quite extensively (Benería and Roldán, 1987; Portes and Castells, 1989; ILO, 2002, 2004; Rossell, 2002; Freeman, 2000). These studies have shown that a large proportion of labor working in precarious and informalized activities tends to shift regularly between these types of production arrangements. Subsistence activities such as street vending or hawking typically represent self-employed labor and include some of the poorest social groups. Microenterprises tend to be very heterogeneous; while some use family labor, including that of children, others hire wage labor and become profitable firms, while still others barely provide returns for survival.

Wage labor in informalized settings is also subject to institutional variations, depending on different factors, such as the type of work (time or piecework, part-time or full-time, with or without contract); the form of employment (direct contact with employer, subcontracting, family member, etc.); the legal/illegal conditions (in terms of occupational safety and forms/level of payment); and market destination (local, regional/national, foreign, etc.). Income distribution also reflects the differences between these various informal arrangements and between wage income and hybrid forms of payment to labor. The earnings received by the workers are affected by their placement in the different productive forms and by their relative bargaining power. Those with few labor resources and assets are dependent on the employer for raw materials, equipment, and other inputs; they are likely to have less bargaining power than those who own capital, equipment, and other resources. Workers with low-skill levels, short work contracts, and/or are dependent on a single contractor or employer may be especially vulnerable, and their low-bargaining power is likely to affect their incomes and working conditions.

4. Finally, certain groups of workers, by virtue of their socially ascribed roles and positions in society and within the household, may have lesser bargaining power over their earnings and over the conversion of their income into particular functioning, including economic security (Benería and Roldan, 1987). The relationship between income and capability is an important subject that Sen and others have explored extensively (Sen, 1992; Nussbaum, 2003). It is one that is strongly affected by social norms and gender ascribed roles that influence a worker's choice of work location (whether working at home or with others in a workplace), level of schooling, and ownership of assets (Antonopoulos and Floro, 2004). Some of these social factors are not clearly tangible, such as self-esteem, ability to be assertive, and consciousness about one's own interests. Some of them are highly related to gender constructions. Given their isolation and, to the extent that they are mostly women, home-based workers tend to be at the low end of the labor hierarchy and of income scales. They are also likely to have little or no employment security and are more vulnerable to the fluctuations of flexible markets.

Whether or not a worker is able to translate his/her earnings into capability functioning depends upon the structure of household relations and decision-making processes and not just on the terms of employment and level of earnings. As feminists have pointed out, at the fundamental level, the worker's role in the labor market is linked to their role in household work and social reproduction. Home-based work in particular, enables women to resolve the contradictions between women's socially defined roles as wives and mothers and the demand for cheap, flexible labor needs of capitalist economic growth. This form of employment reconciles the productive and reproductive roles such as childcare and market work, thereby maintaining the notion that the "owner of labor is free in the sense that he/she can accept or reject work and move even from one sector to another... but ultimately, he/she takes responsibility for her/his survival and reproduction (Foley and Michl, 1999)."

Thus, it is no surprise then that, first, women are disproportionately represented among home-based workers across countries and, second, home-based work has increased in all regions (Benería, 2001). It has become an important source of livelihood for those who have no other choice but to combine it with their domestic responsibilities (ILO, 2002; Carr, Chen and Tate, 2000). Home-based work demonstrates the "spillover" mechanisms through which insecurity associated with informality of work shift some elements of market risk and volatility onto the informal sector and particularly to women workers.

The next section examines how the growing precariousness of jobs translates into increased vulnerability of those with little or no resources (other than their own labor) to help smoothen their consumption and design household and labor strategies.

#### **IV. POVERTY, VULNERABILITY, AND RISK SHARING**

Over the course of our empirical research, we have come to realize the importance of distinguishing between poverty and vulnerability. The insecurity of the informal work environment has far-reaching effects in terms of inducing vulnerability among homeworkers and their households. For example, in the

case of Bolivia and Ecuador, we have found a high degree of income variability which leads to spillovers into the social and economic spheres that affect the workers ability to manage risk (Benería and Floro, 2005) Even though average household income does not fall into poverty levels, the degree of variability can be very high, creating problems of borrowing, debt, and risk that need to be managed. In our study of urban households in poor communities in these two countries, the majority of jobs held by both men and women are characterized as moderately or highly precarious. The shortness of the work contracts (mostly on a day-to-day basis) of those employed as casual or temporary workers demonstrates the instability and the extent to which their livelihood is at the mercy of their employers. The majority of the workers in our sample, however, are self-employed and the variability of their incomes is high especially among self-employed women workers. This can affect their use of credit (to smoothen consumption rather than for productive investment) and it can alter the fallback level of assets and savings (Messier, 2005; Floro and Antonopoulos, 2004). In the long run, it can also affect the vulnerability of later generations so that the cycle of poverty and capability deprivation is maintained.

While vulnerability is defined in a number of ways (Sebstad and Cohen, 2001), we consider it in terms of the household and its members' ability to deal with risk and hence their attitude towards it.<sup>4</sup> Risk induced by the possibility of income decline or loss generated by "low sales" or a "slow work contract" season, leads to concerns regarding particular functionings including being nourished, sheltered, educated, and cared for in times of illness. This translates into such commonplace concerns as being able to afford school fees for children, to seek medical assistance when ill, and even to pay for marriages and funerals. Vulnerability relates to the claims or rights over resources in dealing with risk, shocks, and economic stresses. The lesser claims or rights over resources a household or an individual has, greater is her or his vulnerability. The mere existence of employment does not define the economic status and ability of the worker to function in the capability space. It needs to be seen as acting together with a number of other factors, the most crucial being access to and control over resources—mutual support networks, credit, savings, and physical assets—in the face of income shortfalls and consumption expenditure shocks.<sup>5</sup> As the following discussion will demonstrate, there is a strong propensity for households with irregular and variable sources of income to become increasingly differentiated, depending on a host of social, economic, and demographic factors. There is also a tendency for risk burden to be shouldered unequally among household members.

The degree of social cohesion and trust prevailing in a given community can help, to some extent, in providing insurance to homeworkers and their households. A village, kinship group, or other social networks may share each other's risk through some community mechanism or institutional arrangements in a given setting. These include death benefit societies such as those in Indonesia and informal savings groups in Thailand (Nguanbanchong, 2004). Systems of 'generalized reciprocity' exist as well, in which

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<sup>4</sup> In the literature on risk and poverty, there is a distinction made between precautionary strategies towards risk and ex-post strategies after a shock or economic crisis. Both ex ante strategies (precautionary) and ex- post strategies (managing a loss) for dealing with risk involve a mix of intrahousehold measures (self-insurance) and interhousehold measures (informal and formal insurance) See Morduch, 1992 and Sebstad and Cohen, 2001 for examples.

<sup>5</sup> Findings from a number of studies show that although household incomes may fluctuate widely as result of weather, price, and employment- related shocks, consumption doesn't necessarily follow such patterns of variability. Household members make use of different mechanisms to smoothen consumption (Bardhan and Udry 1999; Morduch, 1992).

those whose income temporarily is relatively large provide gifts or loans to those whose income temporarily is relatively small. Relatives, friends, and neighbors are approached for loans, especially in times of need as shown in the credit patterns of urban poor households in Ecuador (Floro and Messier, 2004). Loan provision in this case is part of the income maintenance schemes and mutual support systems that have evolved to cope with the basic requirements and contingencies of life. Women have played an important role as participants in these types of networks.

The limits of such risk-pooling mechanisms within communities and social groups in the context of labor market restructuring and increase in income irregularity suggest that vulnerable workers and their households often will have to deal with job-related risk themselves. Recent studies on the effects of negative shocks or crises on poor households show the critical role of informal credit in consumption smoothing and in managing loss from shocks such as family emergencies (Boris and Prugl, 1996; Boonmathya, Praparand, Leechanavanichpan, 1999; Sebstad and Cohen, 2001). In addition to relatives and friends, there are pawnbrokers, moneylenders, traders, as well as employers, who provide loans. Boris and Prugl (1996) point out that homeworkers in Mexico are often in debt to merchants and traders. The same pattern exists in countries such as Brazil and Indonesia (Abreu and Sorj, 1996; Susilastuti, 1996). A growing number of studies on microenterprises (Sebstad and Cohen, 2001; Boonmathya et al., 1999; Rossell, 2002; Messier 2005) suggest that informal credit is the principal source of loans, even in areas where microfinance institutions are well established. In fact, microfinance institutions typically target the self-employed or microentrepreneurs; however, there is little participation of the vulnerable poor households such as those engaged in homeworking.

In some cases, poor households have made use of assets as buffer stocks to smoothen their consumption and designed other household strategies in the face of irregular income streams. As long as the household has positive savings, temporary income shortfalls can be smoothed by drawing on their savings. However, once the household's past saving or wealth falls to near zero, the possibility of further smoothing shrinks and consumption can become quite volatile (Bardhan and Udry, 1999). This pattern has been noted extensively in the literature on famines (Watts, 1983; Sen and Dreze, 1995). This also seems to be the case for a number of households in our 2002 Thailand sample survey whose past savings and assets have been either pawned or sold. Urban, home-based workers in Thailand make use of jewelry, transport, and even shop assets as collateral in pawnshop loans to meet household needs (Floro and Antonopoulos 2004).<sup>6</sup>

There can also be important effects on future income from job insecurity if the assets that are used to buffer current consumption from income fluctuations are themselves used in the production process. Homeworkers who may need their own resources to pay for raw materials, equipment, and other inputs in their job, can find themselves severely capital-constrained. As a result, their income in the next period would be lower or more precarious as a consequence of the loss of assets; hence, the importance not

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<sup>6</sup> The probit analysis performed in the study shows that the probability of asset pawning is higher for women than for men. The results are significant at the 10% level and 5% level respectively. Moreover, the employment dummy results suggest that working as a contracted homeworker or regular worker instead of being self-employed, is likely to increase the probability of asset pawning.

only of access to low-cost loans but also of adequate social and public policy to facilitate their economic activities and survival.

Finally, the poor can rely on other types of strategies for their survival, such as the use of extended family networks to relocate household members, decrease housing and other costs, and to redistribute domestic responsibilities and migration. Such is the case with shifts in the care of older family members that we have encountered in our fieldwork or with changes in childcare responsibilities and their distribution among extended family members. This suggests that income variability can alter the intrahousehold relations and patterns of decision making and influence a worker's control over his/her labor time and access to household resources. As for migration, since the financial crisis in 2000, Ecuador has registered a very high migration rate—to the extent that remittances have become the second largest source of external currency (Herrera, 2004). Bolivia is also experiencing a similar trend although at a lower level.

## V. INTRAHOUSEHOLD GENDER RELATIONS AND VULNERABILITY

Ethnographic and feminist research and household studies have demonstrated that resources are unequally shared within families in many parts of the developing world (Dwyer and Bruce, 1987; Doss, 1996; Hoddinott and Haddad, 1995). In fact, when intrahousehold inequality exists, poverty among women is likely to be seriously underestimated in households not necessarily classified as poor. This suggests the importance of examining the effects of labor informality, not only in terms of the worker's access to productive resources, but also in terms of how each household member's relative contribution to household income affects her/his bargaining position and work burden within the household.

The critical role of women homeworkers in household maintenance, social reproduction, and social asset building (or networking) has implications on their gender identities and roles, both as income earners and primary caregivers. Factors that alter the level and regularity of income flow, access to social insurance mechanisms, and level and claims to assets have a significant impact on both the welfare of and distribution within the household. For example, the importance of women workers as predominant income earners can shift the 'borrower role' from men to women.<sup>7</sup> It can also burden women with greater responsibility of debt repayment, as we have found in the case of Ecuador (Floro and Messier, 2004). To the extent that informal loan arrangements rely heavily on personalized ties and social networks, this raises the question of whether a woman borrower is likely to borrow at different terms than a male borrower.

The above tendencies highlight the interconnectedness of the homeworker's productive and reproductive roles. The extent to which the risk associated with market fluctuation and changes in demand conditions are absorbed by the household can lead to more or less unequal debt burden and differences in the well-being of its members. Certain members end up devoting more labor resources—such as with the intensification of work among home-based workers in the Thailand sample—to stabilizing the incoming

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<sup>7</sup> Majority of the designated borrowers in a study of credit patterns among urban poor households sampled in Ecuador are women (Floro and Messier, 2004).

stream of income in order to protect the household from the dire consequences of substantial income fluctuations (Pichetpongsa, 2004).<sup>8</sup> The result can be an increase in tensions among household members. The distribution of work burden within the household depends on the interplay of gender norms and intrahousehold negotiations, which implies that it can change over time and is affected by the relative bargaining power of household members.

This raises the question of whether a worker's increased contribution to household income translates into greater bargaining power (Benería and Roldan, 1987). If this is the case and a renegotiation of household division of tasks occurs, a homemaker may be able to have other members take on her domestic chores. But if gender norms are resilient to any change in money income contributions, then a homemaker may be compelled to increase the length of the working day or intensify her work effort by overlapping activities, say combining childcare and market work.

A closer examination of the different forms of homework arrangements can provide invaluable insights on the mechanisms of poverty traps and the manner by which this is repeated intergenerationally. It is not uncommon for homeworkers to use additional labor resources, typically children, to perform the work task themselves, or to help the worker in her household chores, such as cooking and doing errands. But the compulsion to have children, especially girls, engage in homeworking limits their access to education. This in turn, limits their income and employment opportunities and thus can perpetuate a vicious circle of poverty. To be sure, along these lines there are differences across countries and cultures which underline the importance of understanding social norms and their changing nature in each case.

In the absence of social protection schemes, both the means and the manner in which households deal with risk also affect the homemaker's capabilities and entitlements. The so-called "free and flexible" workers in households with little or no resources to absorb income variability, tend to invest little, are more dependent on contractors, and thus earn lower mean returns from these activities than those workers in less-asset poor or wealthier households. As case studies among urban, informal sector workers in Thailand and Ecuador show, the inability of these workers in poor households to insulate their consumption from income risk is likely to have adverse consequences both for their well-being and for productive efficiency. (Pichetpongsa, 2004; Messier, 2005).

## VI. CONCLUDING REMARKS

The preceding discussion suggests the need to explore in detail the distributional consequences of labor market flexibilization. This includes the weakening of the bargaining power of labor and the gender constructs in employment patterns and worker differentiation both in the formal and informal economies. Our study illustrates the types of nonstandard forms of employment that predominate and have multiplied

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<sup>8</sup> Pichetpongsa's (2004) study of the urban poor home-based workers in our Thailand sample shows that income alone cannot explain the individual's perspective of their well-being. His analysis shows that women home-based workers tend to have a lower quality of life than men given the long work hours and lower levels of earnings.

in the informal economy. This has generated greater diversity in labor conditions and working life patterns for both men and women workers and contributed to rising income inequalities.

The interconnection between the formal and informal economies and the reproductive sector is reflected in particular in the case of the home-based work where the worker's role in the labor market is linked to his/her role in household work and social reproduction. Our study of urban, home-based workers in Bolivia, Ecuador, and Thailand show that any examination of vulnerability must take into account the mechanisms through which gender roles, risk sharing, and debt-servicing burdens different household members and how they are affected by the broader changes in labor market dynamics, degrees of informalization, and the accompanying variability in incomes. The maintenance of a flexible labor force and the search for the lowest production costs worldwide are at the root of the increased income insecurity of informalized workers. Current macroeconomic policies have reinforced these trends in their promotion of market liberalization and deregulation (Floro, Çagatay, Ertuk, and Willoughby, 2003; Benería, 2003). For women homeworkers in particular, the resulting work burden is likely to be reflected in the multiple roles, which they try to accomplish simultaneously within severe time constraints. The gender identities of homeworkers directly influence their access to market opportunities, new skills and technologies, as well as their bargaining position for work contracts and within the household.

Our study draws attention to the importance of focusing on distribution and the diversity of factors affecting it in order to understand the economic and social significance of informality. The objective is to underline the relevant factors for designing labor market and social protection strategies that can contribute to poverty elimination. In this sense, our conceptual framework points towards a variety of general avenues for action that can be illustrated by the following list:

Rising inequalities between capital and labor incomes calls for programs that protect workers' rights and strengthen their bargaining power, such as enforcement of rights to association and of labor standards, as well as worker protection programs. Yet, it is obvious that the difficulties for their implementation are even greater in informal than in formal production. As current debates on globalization have made clear, workers' rights and basic labor standards must be observed at a global level in order to avoid the race to the bottom that globalization has generated and to prevent some countries from losing investments, if these standards are implemented. However, as Kabeer (2003) has argued, setting global standards will not be effective unless there is pressure to implement them at the national and local levels.

Increased access to a wider array of financial services, such as medium-term and consumption loans, insurance, savings mobilization, and technical assistance can be instrumental for poor households engaged in informal activities. This is the case with the development of innovative financial instruments that provide these services while reducing the cost of credit. Such financial policies and credit programs can enhance productive capacity and affect distributive channels (Floro, 2001). They require, however, complementary legal frameworks that effectively eliminate the discrimination and biases of financial institutions in serving the poor and women.

Social protection schemes need to be designed to compensate for the growing insecurity associated with informalization. These range from unemployment and health insurance to minimum income schemes and minimum wage legislation. Given current conditions in the global economy, the possibilities for such programs seem limited; as in the case of the millennium development goals to deal with world poverty, they will require political mobilization and social pressures from a variety of sectors. As in the case of the global environmental movement, it calls for an effort of international proportions.

Macroeconomic policies can make a significant contribution in generating stable and decent employment, raising income levels, and affecting distribution between different social groups, including those affected by labor market informality (Heinz and Polin, 2002; Floro, Cagatay, Erutrk, and Willoughby, 2003). This implies that employment creation and protection of workers rights can not be left to market forces alone, nor to the whims of firms and private capital. To date, there has been a general lack of congruence between the macroeconomic policies that promote market liberalization, on the one hand, and the recognized need to reduce poverty, attain gender equality, and empower women and the disenfranchised, on the other. This lack of coherence is reflected in the current governance structure and organization of the international economic and financial systems. It is also manifested in the power and influence of certain interest groups and governments in how policy decisions, especially those that affect directly and indirectly the creation of stable jobs, are made. Unless there is a conscious effort on the part of policymakers and international economic institutions to promote decent employment and protect workers' rights, it will be extremely difficult to address the interests of workers, particularly those with less bargaining power, such as informal workers.

For women workers, increasing bargaining power can also result from gender-aware measures addressing their specific needs, such as programs fostering women's organizations and their collective bargaining, economic literacy, and self-esteem. This also calls for economic and legal reforms that address existing economic and gender-based inequities in the distribution and ownership of assets and productive resources such as land, credit, education, market knowledge, and technology. Increased access to education and training can enhance bargaining power while at the same time, raise labor's productive capacity and income levels while reducing worker differentiation. The importance of government support for education at different levels has been amply demonstrated through empirical studies and emphasized through many sources. There is also a need to establish gender-sensitive rules to guide employment practices of domestic and foreign firms, including global corporations, by building on existing agreed upon multilateral instruments, such as the ILO conventions on fundamental workers' rights and other conventions with regard to home-based work and informal work.<sup>9</sup>

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<sup>9</sup> In recent years, a few countries such as Canada and the Netherlands, have passed legislation to promote standards concerning working conditions in homework activity. In an effort to promote equality of treatment between homeworkers and other wage earners, the 1996 ILO Convention of Homework represented a step forward in ensuring equality in labor rights to organize, to protection in the field of occupational safety and health, to protection against discrimination, to social security, to access to training, and to maternity protection. However, few countries have ratified the Convention.

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# Rethinking the informal economy: from enterprise characteristics to employment relations

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This paper seeks to explore two challenges posed by the growth in the informal economy and in labor market informalization more broadly. The first is the challenge posed to conventional labor law and labor economics by the fact that informal employment and production relations are on the rise everywhere, albeit in different guises. The second is the challenge posed to conventional poverty reduction strategies that are focused on social policies, by the fact that there is a link between working in the informal economy and being poor.

The paper is in five parts. Part I provides a brief history of the original concept of the informal sector. Part II presents the recent rethinking of the informal economy: a broader concept that attempts to capture the conceptual whole of informal employment in light of the reality of work in today's global world. Part III presents a summary of recent statistics on the informal economy worldwide. Part IV poses challenges to conventional labor force statistics, labor law, and labor market theory. And Part V presents a model for analyzing the forces that determine the poverty outcomes of working in the informal economy. The paper concludes with a call for reintegrating a concern for distribution and equity within economic theory, policies, and processes.

## **I. THE ORIGINAL CONCEPT OF THE INFORMAL SECTOR**

During the 1950s and 1960s, both Europe and North America experienced great advances in employment and labor market security arising from and associated with mass production, social contracts between employers and employees, and statutory regulations of labor markets. This "Golden Age of Labor," as it was later called, confirmed the classical economic hypothesis (à la W. Arthur Lewis) that economic development would absorb surplus labor in the traditional sector (Lewis, 1954). Despite these advances in developed countries, however, there were lingering concerns about persistent levels of unemployment in developing countries.

## “Discovery” of the Informal Sector

Reflecting this concern, the International Labor Organization (ILO) mounted a series of large multidisciplinary “employment missions” to various developing countries. The first of these was to Kenya in 1972. The Kenya employment mission, through its fieldwork and in its official report, recognized that the traditional sector had not just persisted but expanded to include profitable and efficient enterprises as well as marginal activities (ILO, 1972). To highlight this fact, the Kenya mission chose to use the term “informal sector” rather than “traditional sector” for the range of small-scale and unregistered economic activities. This term had been coined the year before by a British economist, Keith Hart, who while studying economic activities in urban Ghana had found that many of the so-called “unemployed” were actually self-employed in informal activities (Hart, 1973).

## Debates about the Informal Sector

Although both Hart and the Kenya mission team were very positive about the informal sector—noting its efficiency, creativity, and resilience—the concept received a mixed review in development circles. Many observers subscribed to the notion that the informal sector was marginal or peripheral and not linked to the formal sector or to modern capitalist development. Some of these observers continued to believe that the informal sector in Kenya, Ghana, and other developing countries would disappear once these countries achieved sufficient levels of economic growth or modern industrial development. Other observers argued that industrial development might take a different pattern in developing countries—including the expansion of informal economic activities—than it had in developed countries.

For the rest of the 1970s and into the 1980s, there was an ongoing debate in academic and international development circles about the informal sector. Two dominant schools of thought saw the informal sector as a **feature of precapitalist economies**. The “dualists” (including several leading researchers at the ILO) wrote about the persistence of traditional or peasant-forms of production in semi-industrialized economies due to imbalances in economic development. Notably, the imbalances arise when the population growth rate outstrips the economic growth rate and when traditional skills do not match what is required by new economic opportunities. The “legalists” (led by Hernando de Soto) attributed the increase to the number of “plucky entrepreneurs” (to use de Soto’s term) who have to operate informally due to the bureaucratic procedures of mercantilist states. From the legalist perspective, economic elites collude with bureaucrats to design regulations and policies in their own interest which are too cumbersome and costly for the working poor. These schools of thought focused almost exclusively on the self-employed in informal enterprises and shared a rather romanticized notion of the informal sector as a vehicle for labor absorption; a means of survival for the poor, a means of redistribution, or as having potential for dynamic growth (de Soto, 2000).

Only one dominant school of thought—the “structuralists” (led by Alejandro Portes)—saw the informal sector as a **feature of capitalist development** that was subordinated to, if not exploited by, the formal sector. The structuralists did not focus on the self-employed or informal activities per se but rather

on informal or unregulated economic relationships between the formal sector on one hand and downgraded labor, petty commodity producers, and/or disguised wagedworkers on the other. By the late 1980s and early 1990s, the debate surrounding the informal sector subsided as the concept went out of favor in academic circles (Portes et al, 1989).

## The International Labor Movement and the Informal Sector

Two international conferences in the early 1990s helped to focus the attention of the international labor movement on the informal sector. The 1991 International Labor Conference had a general discussion on what was called the “Dilemma of the Informal Sector”, namely, that the informal sector creates jobs but only of poor quality and that most employees of informal enterprises are, therefore, unprotected labor. Two years later, operating under a mandate from the 1991 ILC General Discussion, the International Conference of Labor Statisticians adopted an official statistical definition of the informal sector, or more precisely, employment in the informal sector, that included:

- *Employers*. Owner managers of unregistered small enterprises with paid workers (below a specified number)<sup>1</sup>
- *Own-Account Workers*. Owner operators of single person units or family business
- *Contributing Unpaid Family Workers*. In family businesses
- *Employees*. Of informal enterprises

What is notable is that participants in both of these international conferences recognized that those working in informal enterprises included not only the self-employed but also their employees, as well as in many family businesses, unpaid contributing family members.

Since the late 1990s, there has been a reconvergence of interest in the informal sector among academics and in international development circles. In developed countries, increasing informalization and insecurity of labor has led to the concept of “nonstandard work” that includes a whole range of atypical wagedworkers as well as the self-employed. In developing countries, in the context of persistent informality and poverty, there is renewed attention of the sheer numbers, and the precariousness, of the self-employed (especially those who work on their own account without hiring others) and of informal wage employment (especially those who work as industrial outworkers or homeworkers).

As part of this reconvergence of interest, some observers—including staff of the International Labor Office and members of the global research policy network WIEGO— have encouraged a fundamental rethinking of the informal economy. Their efforts have led to a broader definition of the concept and a deeper understanding of informal economic activities and relationships. This new definition and associated concepts were endorsed by the general discussion on “Decent Work and the Informal Economy” at the 2002 International Labor Conference (ILO, 2002a).

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<sup>1</sup> The upper limit of paid workers varies between countries and branches of economic activity.

## II. THE NEW CONCEPT OF THE INFORMAL ECONOMY

The call for a broader definition and concept reflected the perceived need to incorporate the real world dynamics in labor markets today; more specifically, to incorporate the whole of informality—including both production and employment relations—as manifested in industrialized, transitional, and developing economies (ILO, 2002a).

### New Definition

According to this new thinking, the “informal economy” is seen as including all forms of employment without secure contracts, worker benefits, or social protection and as comprised of two basic components: self-employment in informal enterprises and paid employment in informal employment relations. That is, the informal economy is seen to be comprised of the following groups classified by status of employment.

*Self-employment in informal enterprises*, including:

- employer/owner operators
- own-account workers
- unpaid contributing family member

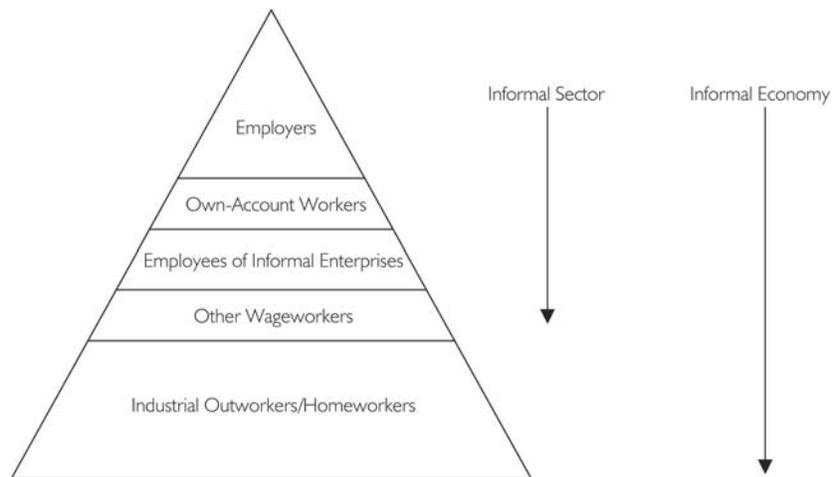
*Wage employment in informal jobs*, including:

- employees of informal enterprises
- casual day laborers
- domestic workers
- industrial outworkers<sup>2</sup>

Whereas the old definition of the informal sector included all those who work in informal enterprises, the new definition of the informal sector includes, in addition, several categories of informal paid work outside of informal enterprises: for formal enterprises, households, or no fixed employer. The following pyramid graphically illustrates the difference in scope of the two definitions.

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<sup>2</sup> Developed countries do not use the concept of informal employment, but rather the concept of non-standard work. It has not been resolved as yet which categories of non-standard work – such as *part-time or temporary workers* (whose hours of work are below a certain threshold) and *sub-contracted service providers* (who are sub-contracted rather than hired for their services) - should be considered to be informal employment.



According to this new way of thinking, it is important to distinguish own-account workers from microentrepreneurs who hire others and manage their own informal enterprises. This is because microentrepreneurs, who are often relatively well off, are seen to constitute a more entrepreneurial class. Own-account workers, on the other hand, typically do not have secure contracts or work orders and are not covered by social protection; and are, thus, seen to share many of the interests and concerns of informal paid workers.

### **New Conceptualization**

This new thinking has generated a more nuanced and context-specific perspective on the causes and consequences of informality; the characteristics of informal employment; and the linkages of the informal economy with the formal economy and the formal regulatory environment. As such, the new definition of informal employment embodies a major conceptual shift. It gives a new priority in defining informality to employment status rather than, as in the earlier definition, to enterprise characteristics. The old thinking associated with the old concept of the informal sector (defined as the self-employed in informal enterprises and their hired employees) assumed that informal entrepreneurs were avoiding formality, specifically registration and taxation. The new thinking underscores the fact that, in the case of informal wageworkers, it is the employer (in either a formal or informal firm) who tries to avoid legal obligations, including payroll taxes and employer contributions. The new thinking also underscores the related fact that many informal wageworkers and own-account workers do not choose to be informal and would welcome becoming formalized provided doing so guaranteed secure contracts, worker benefits, social protection, and the right to organize and be represented.

According to this new way of thinking, the informal economy is not just a feature of traditional economies but also a feature of modern capitalism. Its persistence and growth is driven variously, depending on the context, by the lack of economic growth; by jobless patterns of growth, informalization of employment

relations in developed and developing countries; and local reorganization of work and global subcontracting chains. In addition, the informal economy has direct links with the formal economy (both national and global) and the formal regulatory environment (at local, national, and international levels). These fundamental shifts in thinking are summarized in Box A.

<b>Box A Fundamental Shifts in Thinking: From Informal Sector to Informal Economy</b>		
	<b>Informal Sector</b>	<b>Informal Economy</b>
<b>Focus</b>	Nature of enterprise  Self-employed	Nature of employment or production relationships  Self-employed + informal wagedworkers
<b>Causes</b>	Nature of development + Nature of bureaucracy Nature of capitalism	Nature of globalization Context-specific
<b>Characterization</b>	Lack of regulation	Lack of protection
<b>Consequences</b>		Costs of informality
<b>Target of Interventions</b>	Informal enterprises	Formal economy/ formal regulatory environment

### III. STATISTICAL OVERVIEW OF THE INFORMAL ECONOMY

Compiling statistics on the size, composition, and contribution of the informal economy is an extremely difficult exercise. The most serious limitation is that very few countries have undertaken regular surveys on the informal sector and only two or three countries have collected the data that provide for measures of informal employment outside informal enterprises. Further, the available data is not comprehensive. Most countries exclude agriculture from their measurement of the informal sector and some measure only the urban informal sector. In addition, there are a number of problems that limit the international comparability of data. However, in the absence of reliable data collected directly, various indirect methods to estimate the size and composition of the informal economy can be used.

#### Developing Countries

Box B presents a summary of main findings from the most recent and most comprehensive set of estimates of the informal economy in developing countries using indirect methods where necessary.<sup>3</sup> The main finding is that informal employment comprises 50 to 75 per cent of non-agricultural employment and an even greater share of total employment in developing countries.

<sup>3</sup> This section draws exclusively from a statistical booklet that Joann Vanek and I prepared in 2002 for the ILO. It includes data compiled by Jacques Charmes for anywhere from 25-70 countries, depending on the specific estimate, as well as case studies for India, South Africa, Mexico, and OECD countries written by, respectively, Jeemol Unni, Debbie Budlender, Rodrigo Negrete and Francoise Carre (ILO, 2002b).

## **Box B Summary of Main Findings from “Women and Men in the Informal Economy: A Statistical Picture”**

### **Size of the Informal Economy**

- Informal employment comprises 50 to 75 percent of nonagriculture employment in developing countries. Notes: If South Africa is excluded, the share of informal employment in nonagricultural employment rises to 78 percent in sub-Saharan Africa. If data were available for additional countries in Southern Asia, the regional average for Asia would likely be much higher.
- Some countries include informal employment in agriculture in their estimates of informal employment. In these countries the inclusion of informal employment in agriculture increases significantly the proportion of informal employment: from 83 percent of nonagricultural employment to 93 percent of total employment in India; from 55 to 62 percent in Mexico; and from 28 to 34 percent in South Africa.

### **Composition of the Informal Economy**

- Informal employment is comprised of both self-employment in informal enterprises (i.e., small and/or unregistered) and wage employment in informal jobs (i.e., without secure contracts, worker benefits, or social protection). In all developing regions, self-employment comprises a greater share of informal employment (outside of agriculture) than wage employment. Note: Excluding South Africa, where black-owned businesses were prohibited during the apartheid era and have only recently begun to be recognized and reported, the share of self-employment in informal employment increases to 81 percent in sub-Saharan Africa.
- Informal wage employment is also significant in the developing world, comprising 30 to 40 percent of informal employment (outside of agriculture). Informal wage employment is comprised of employees of informal enterprises as well as various types of informal waged workers who work for formal enterprises, households, or no fixed employer. These include casual day laborers, domestic workers, industrial outworkers (notably homeworkers), undeclared workers, and part-time or temporary workers without secure contracts, worker benefits, or social protection.

### **Women and Men**

- Informal employment is generally a larger source of employment for women than for men in the developing world. Other than in North Africa where 43 percent of women workers are in informal employment, 60 percent or more women workers in the developing world are in informal employment (outside agriculture). In sub-Saharan Africa, 84 percent of female nonagricultural workers are informally employed compared to 63 percent of male nonagricultural workers. In Latin America the ratio is 58 percent for women, 48 percent for men. In Asia, the proportion of women and men nonagricultural workers in informal employment is roughly equivalent.

## **Developed Countries**

Three categories of nonstandard or atypical work—self-employment, part-time work, and temporary work—comprise 30 percent of overall employment in 15 European countries and 25 percent of total employment in the United States. Although not all self-employed, part-time workers, and temporary workers are informally employed, the majority receive few (if any) employment-based benefits or protection. In the United States, for instance, less than 20 percent of regular part-time workers have employer-sponsored health insurance or pensions.

Self-employment comprises 12 percent of total nonagricultural employment in developed countries. Part-time work represented (in 1998) about 14 percent of total employment for the Organization for Economic Co-Operation and Development (OECD) countries as a whole and more than 20 percent of total employment in eight of these countries. In the countries of the European Union, temporary work comprises 11 percent of total employment.

Although women's labor force participation rates are lower than men's, women represent the vast majority of part-time workers in many developed countries. In 1998, women comprised 60 percent or more of part-time workers in all OECD countries reporting data. Women's share of part-time work for specific countries was as high as 98 percent in Sweden, 80 percent in the United Kingdom, and 68 percent in both Japan and the United States.

## Global Overview

A back-of-the-envelope calculation based on the statistics summarized above suggests that the composition of the nonagricultural work force in developed and developing countries looks something like this:

	Developed Countries	Developing Countries
Formal Wage Employment	60-70%	25-50%
Informal Wage Employment	15-25%	15-40%
Self-Employment	15%	35%

### Notes:

1. If informal employment in agriculture was to be included, the proportion of informal employment in total employment would increase significantly.
2. Informal wage employment in developed countries is likely to include a large share of part-time and temporary workers who do not have employment benefits or employment-based protection; while informal wage employment in developing countries is likely to include a large share of casual or day laborers and industrial outworkers.
3. The self-employed in developed countries are likely to include a greater share of professionals and employers than in developing countries; while the self-employed in developing countries are likely to include significant numbers of own-account workers and unpaid, but contributing, family members.

The sheer size of the informal economy and the fact that it is comprised of significant amounts of both self-employment and informal wage employment presents challenges to current ways of thinking: in particular, to mainstream labor statistics, labor law, and labor economics. These allied fields need to catch up with this reality.

## IV. RETHINKING LABOR STATISTICS, LAW, AND MARKETS

### Limitations of Existing Statistics

Although the official statistical definition of the "informal sector" was adopted in 1993, relatively few countries have undertaken direct measures of the informal sector so defined. In addition to the fact that these countries have tried to directly measure the informal sector, there are other limitations to existing statistics. Firstly, census and labor force surveys tend to focus on primary occupation (to the relative

neglect of secondary occupations). Secondly, census and labor force surveys classify the work force into a finite number of employment status categories, namely: employer, employee, own-account worker, unpaid contributing family member, and member of producer cooperative. Other employment statuses not captured by conventional labor force statistics, or subsumed and, thereby, disguised under the category of “employee” include, casual day laborers, outworkers/home, contract workers, subcontractors, consultants, temporary workers (agency and nonagency), and part-time workers.

In brief, current national and international statistical standards used to measure and classify “status of employment” do not have enough categories to capture the range of employment arrangements in today’s world. This is because all workers are thought to be either fully independent (self-employed) on the one hand (such as employers and own-account workers) or fully dependent on the other (i.e., as paid employees). However, many work situations do not fit neatly into these two basic categories. There is an intermediate zone between fully independent and fully dependent. Consider the intermediate status of homeworkers as illustrated in Box C.

**Box C Self-Employed, Homeworkers, and Employees**

Characteristics	Self-Employed	Homeworkers	Employees
<b>Contract</b>	sales contract	Employment contract	employment contract
<b>Remuneration</b>	from sale of goods/services	for work (typically piece rate)	for work (time or piece rate)
<b>Contract with</b>	self	employer/intermediary	employer
<b>Means of Production</b>	provided by self	provided by self	provided by employer
<b>Workplace</b>	provided by self	provided by self	provided by employer
<b>Supervision</b>	autonomous	indirect or no supervision	direct supervision

The current national and international standards for classifying workers would need to be re examined to determine whether existing categories can be subdivided to accommodate these intermediate employment statuses or whether whole new categories that cut across existing ones would need to be introduced.

*Illustrative Case:* When a trade union organizer in Canada tried to help one immigrant Chinese garment worker get her back wages, she found that the garment worker did not know who she worked for, as the man who dropped off raw materials and picked up finished garments drove an unmarked van. When the garment worker eventually found a tag with a brand label on it among her raw materials, the trade union activist was able to trace the label from a retail firm in Canada to a manufacturing firm in Hong Kong and on to an intermediary in Canada: in this case, the global value chain began and ended in Canada. When the local intermediary was asked to pay the back wages due to the garment homeworker he replied: “Put me in jail, I cannot pay. The manufacturer in Hong Kong who subcontracted production to me has not paid me in months.”

Other complexities related to real life employment arrangements that are not easily captured in labor statistics include:

*flexible or changing labor statuses*, i.e., migratory laborers, labor circulants, and labor reserves

*dual or multiple labor statuses*

*disguised labor*, i.e., concealed either by employers to avoid paying benefits and making health insurance and pension contributions or, if illegal migrants, by workers themselves

## How To Improve Statistics

Compounding these limitations, there is a need to collect labor statistics on the broader concept of employment in the informal economy, as distinct from employment in the informal sector. But the question is “How?” To begin with, there is a need to improve concepts and measures of employment status to incorporate a broader range of potential employment statuses. At a minimum, there is a need to capture the eight employment statuses presented schematically below:

	Fully Independent	Semi-Independent	Semi-dependent	Fully Dependent
Employer	×	×		
Own-Account	×	×		
Employee			×	×
Unpaid family worker		×	×	

Secondly, there is a need for improved concepts and measures to deal with **flexibility or multiplicity** of employment statuses. Thirdly, there is a need for further methodological work on the **place of work variable** to capture where informal workers work—on the street, in other public spaces, in their homes, in homes of others, and/or in workshops. Fourthly, in order to measure informal employment as a share of total employment, there is a need for concepts and measures of **formal and informal employment in agriculture**. Finally, and most fundamentally, there needs to be an **ongoing collection of labor statistics** tabulated on a regular basis, in as many countries as possible, using improved concepts and methods. Eventually, this would make it viable to have a global data archive on the entire work force, both formal and informal.

In the meantime, until the above propositions are adopted by more countries, it is possible to measure employment in the informal economy using **indirect measures** to obtain **residual estimates** as follows:

$$\begin{aligned}
 &\text{Estimate of Total Work force from population census/labor force surveys} \\
 &- \text{Estimate of Total Formal Work force from establishment survey} \\
 &= \text{Estimate of TOTAL INFORMAL WORK FORCE}
 \end{aligned}$$

- Estimate of Employment in Informal Sector from informal sector survey OR Estimate of Self-Employed from labor force survey
- = Estimate of TOTAL INFORMAL WAGE WORK FORCE

Many of the estimates in the recent ILO statistical publication called *Women and Men in the Informal Economy: A Statistical Picture* were based on the residual method above (ILO, 2002a).

## Labor Laws

Since labor law distributes economic rights between employers and employees, it is an important mediating force that can both support or combat exploitative conditions in the informal economy. It is thus an important aspect of any effort to improve conditions for informal workers. It is also an important dimension of any effort to rethink labor markets and industrial relations.

Mainstream labor law is premised on a standard definition of the employer/employee relationship and the related assumption that all workers are either fully independent employers or fully dependent employees. By its very definition, therefore, mainstream labor law excludes certain kinds of informal employment arrangements. An employee is assumed to be a fully dependent waged worker for a clearly identifiable employer. As with labor statistics, those who are excluded from the ambit of labor law so defined include:

- *industrial outworkers or homeworkers*—who work for either a formal or informal firm under a subcontract
- other *contract workers* working through intermediaries
- various forms of *disguised waged workers*
- *workers with no fixed employer*

A further limitation to mainstream labor law is the assumption that the employee has a single job and a single employer. This assumption limits the capacity of labor law to deal with workers who move across employment statuses and sectors (within a given day, week, month, or year); who are self-employed at one point in time and paid workers at another; or who have no fixed employer.

Finally, labor law has not dealt effectively with the whole issue of tripartite or multipartite employment relationships. Whereas the employment relationship has traditionally been thought to concern two persons—the employee and the employer—there are more complex situations in which a third party or multiple parties are involved. In such situations, the employees of one enterprise (the “provider” enterprise) provide services or labor to another enterprise (the “user” enterprise). Such “triangular” or “multilateral” relationships have always existed but seem to be on the rise (ILO, 2003). The best known examples are the use of contractors and private employment agencies. Another popular arrangement is franchising under which the franchiser normally exercises substantial control over the franchised business, including its employment policy and finances. Whereas many such relationships involve a civil or commercial contract between the user and the provider enterprises, this is not always the case.

For the employee in such “triangular” or “multilateral” relationships, the questions become: who is my employer?; what are my rights?; and who is responsible for ensuring them? From a legal standpoint, it is

not always clear what the answers to these questions are because both the “provider” and the “user” enterprise assume certain functions of a traditional employer. Providing answers to these questions is further complicated if the so-called user/provider relationship reflects an attempt to conceal the user’s identity as the real employer. For instance, in some such cases, the provider is actually an “intermediary” of the supposed user.

Clearly, there are shortcomings in labor laws relating to how they define and classify employment relationships; how the definitions/classifications encoded in labor laws are interpreted and applied; and whether the laws, as interpreted, are enforced or complied with. Evidently, there are deliberate efforts by employers to disguise or mask the employment relationship. And, finally, there are objectively ambiguous employment relationships.

In sum, real world employment relations present challenges for rethinking labor laws. Can and should the coverage of labor laws be widened to include all categories of workers, particularly the disguised workers and own-account workers in the informal economy? Also, can or should joint- or multiple-liability laws be introduced that push legal responsibilities for the wage and working conditions of homeworkers and others in the informal economy up the production chain to the subcontractor, contractor, manufacturing firm, and multinational corporation? Moreover, can this be done simply by expanding the definition of term employee in the labor laws? While it may be necessary to extend the coverage of the labor laws beyond the traditional employment relationship, in order to provide adequate coverage to a diversity of new forms of work, basic protection can also be provided by family law, social protection legislation or other laws, and social security schemes. Any efforts to protect the workers must then view a worker as a worker as well as a citizen.

While it may be necessary to extend the coverage of the labor laws beyond the traditional employment relationship in order to provide adequate coverage to a diversity of new forms of work, basic protection might also be mandated under commercial law. Given that one-third of the global work force is self-employed and since a large share of informal wagedworkers are hired under subcontracts of different kinds, it is important to rethink the application of commercial law as well as of labor law.

## **Labor Markets**

The dynamics of employment relations in today’s world pose some fundamental challenges to standard models of how labor markets operate. In addition to the twin questions of *Who is an employee?* and *Who is an employer?*, as discussed above, the informal economy challenges accepted notions of *What is a firm?* There is a need to understand the dynamics of family businesses and single person operations. There is also a need to look at suprafirm networks and chains in which both local and global lead firms often contract out their employment function making intermediaries responsible. What about the whole notion of internal labor markets: does this notion apply only within firms, or also within value chains? Who is the equivalent of the employer in such chains?

The notions of unemployment and underemployment are problematic, both as concepts and as measures of labor market insecurity, in contexts where a large share of total employment is either self-employment or informal wage employment, especially in the absence of unemployment insurance. More relevant concepts and measures are needed to capture and measure labor market insecurity in such contexts: e.g., what share of workers have paid sick leave, severance notice, severance pay, employer contributions to health insurance, or old age pensions.

The notion of control and the associated allocation of risks/uncertainties needs to be rethought, particularly in context of value chain production. Employment relations in value chains are characterized by decentralization of wage bargaining, individualization of wage determination, and downloading of risks and uncertainties: features associated with various processes of labor market flexibility (Standing, 1999). There is a need to rethink workers' rights and benefits in light of such arrangements. Commercial relations in value chains between dominant lead firms and subordinate supply firms might also be characterized as product market flexibility. The dominant firms retain flexibility in order to be able to alter production (the location and the frequency/size of work orders) in face of fluctuations in market demand or unanticipated technological options. Lead firms effectively download risks and uncertainty through subcontracting to subordinate firms. Often the subordinate firms—especially very small firms—are simply not able to cope. In such contexts there is a need to rethink the rights and benefits of the self-employed under either commercial or labor law.

Furthermore, the informal economy presents challenges to claims about the impact of protective regulations on labor markets. In most cases, these claims would apply only to regular wage labor: that is, to interventions to guarantee minimum wages (such as minimum wage regulation and collective bargaining) for regular waged workers. But what about situations in which a significant share of the work force never had regular wage jobs? Or where a significant share of the work force was always self-employed or always worked in informal wage jobs? What about situations where employers or companies deliberately avoid minimal regulations to lower labor costs—both wage and nonwage costs? In such contexts, were wages ever really left to free markets? Also, why overlook policy interventions and business strategies to repress wage rates?

## V. INFORMAL EMPLOYMENT, POVERTY, AND SOCIAL PROTECTION

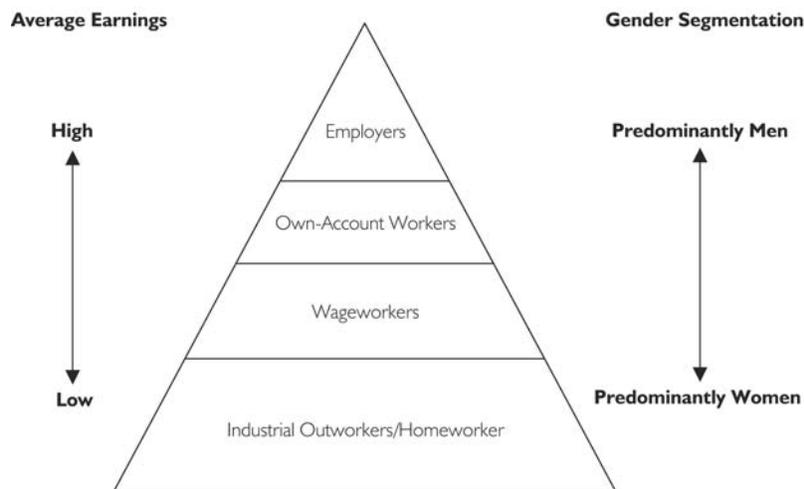
### Informal Employment and Poverty

The renewed interest in the informal economy, broadly defined, has generated new research on, and an understanding of, the linkages between informality, poverty, and gender.

There is a *significant overlap* between working in the informal economy and being poor.

But there is *no simple relationship* between working in the informal economy and being poor. The *relationship* between *informal work* and *low income* appears only when informal work is analyzed by economic subsectors and by status of employment (employer, own-account operator, wageworker).

Perhaps the best way to summarize these linkages is to do so graphically, through the following pyramid or "iceberg." This "iceberg" depicts the various segments of the informal economy, categorized by employment status: at the tip is the most visible or best known segment, the employers/microentrepreneurs; at the base is the least visible and least understood segment, the industrial homemaker. From available microsurveys and official statistics, two stylized global facts emerge about the links between informality, poverty, and gender. The first is that around the world, men tend to be overrepresented in the top segment while women tend to be overrepresented in the bottom segment; while the shares of men and women in the two intermediate segments tend to be more equal. The second is that around the world, average income or earnings decline as one moves down from the tip to the base of the iceberg. An additional fact, not reflected in the iceberg, is that women tend to earn less even within specific segments of the informal economy due to gender differences in wages and in earnings (due to gender differences in the type of activity and the volume of work/output). The net result, as might be surmised, is that there is a significant gender gap in income within the informal economy with women earning less on average than men.



In addition to low average wages, almost by definition, informal workers receive little (if any) employment-based benefits and protection. Because the working poor in the informal economy often earn so little, few are able to save enough to make private contributions for their own social protection. While there are informal mechanisms of social protection, the resources available for community-based systems of support

depend on the relative wealth or poverty of the community concerned. For these reasons, it is important to rethink the relationship between informal employment, social protection, and poverty.

### “Speculating” on Poverty Reduction

Box D presents a model for thinking about poverty reduction (PR) as the net outcome for any given household, group, or community of state-based social protection and distributive economic policies (S), private income and savings (P), employment-based rights and benefits (E), and community-based goods and services (C). This might be called the SPEC model of poverty reduction. According to the Oxford Dictionary, there are two meanings of the colloquial term “spec”: The first meaning is “in hope of success,” as in “on spec.” The second meaning is “detailed working description,” as in “specification.” This model presents a specification of how four driving forces, S, P, E, and C, interact to determine whether or not the working poor remain poor.

#### **Box D The “SPEC” Model of Poverty Reduction**

Equation:  $PR = S + P + E + C$  (SPEC)

Where,

- PR = poverty reduction
- S = distributive economic policies and state-based protection
- P = private income, savings, and assets
- E = employment opportunities and employment-based rights and benefits
- C = community-based goods and services

For most informal workers,

- Value of S = low (but varies by country)
- Value of P = low
- Value of E = nil
- Value of C = low (but assumed to be high)

The hope is that by specifying more clearly the interrelationship between these driving forces, and their impacts on the working poor, more effective poverty reduction strategies can be introduced. What the SPEC model calls for is action on all fronts: state-based protection and redistributive economic policies (S); increased opportunities, rights, and voice for the working poor (S and E) so they'll be able to increase their private income and savings (P); employer contributions to social protection and socially responsible employment practices (E); and, if overall poverty is reduced (S, E, and P), enhanced ability of communities to provide security and reciprocity (C).

There is simply no shortcut to poverty reduction, especially for the working poor in the informal economy. Most fundamentally, no amount of redistribution through social policies will make up for the maldistribution generated by economic policies, processes, and relationships. To effectively increase distribution, and thereby reduce poverty, issues of distribution and equity need to be reintegrated into

economic analyses, policies, and processes. The reconvergence of interest in the informal economy, and associated processes of labor market informalization, represents a "window of opportunity" to promote such a reintegration.

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# Informalization, economic growth, and the challenge of creating viable labor standards in developing countries

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## I. INTRODUCTION

Over recent decades, conditions for working people in developing countries have undergone a major transformation. This has been due to the substantial rise in the proportion of people engaged in what is termed “informal” employment, generating a broad trend toward “informalization” of labor market conditions in developing countries. Current estimates suggest that informal employment comprises about one-half to three-quarters of nonagricultural employment in developing countries (ILO, 2002b). Moreover, and perhaps even more significantly, these proportions appear to be rising even when economic growth is proceeding in developing countries, contrary to what a previous generation of researchers and policymakers had anticipated (ILO, 2002a; Benería, 2001; Charmes, 2000; Castells and Portes, 1989).

Informal forms of employment include, for example, agricultural day laborers, urban street vendors, paid domestic workers, at-home producers of clothing or other manufactured goods. A high proportion of informal workers are self-employed. In most countries, women are disproportionately employed in such informal jobs (ILO, 2002a). For the most part, the income workers receive from informal employment in developing countries is very low, often consigning these workers and their families to a poverty-level standard of living, and sometimes to severe poverty (see, for example, ILO, 2002a; Unni, 2001). Informal jobs also, for the most part, fall outside the sphere of government’s supervision of labor markets. That is, informal workers do not operate with the types of legal protections concerning working hours, health and safety, or with the types of mandated benefits that would normally be a feature of “formal” employment opportunities in large, ongoing private sector firms or the public sector.

The notion of a distinct informal economy—incorporating more casual, unregulated work arrangements and low wages—has long been a feature of the literature in development economics, and the term “informal sector” itself was introduced in an International Labor Organization publication in 1972 (ILO, 1972). But what has become increasingly clear since the early 1970s is that informal forms of employment are not confined to any single distinct sector of the economy in the sense of a specific industry group or economic activity. Indeed, informal forms of employment span across traditional sectoral categories. Thus, as the most recent comprehensive ILO examination of the question explains, “the term ‘informal economy’ has come to be widely used instead to encompass the expanding and increasingly diverse group

of workers and enterprises in both rural and urban areas operating informally (2002a: 2).” Our discussion endorses this more recent understanding of the phenomenon, and thus refers to distinctions between formal and informal forms of *employment*—and the process of informalization as reflecting the increased prevalence of informal jobs as a share of total employment—as opposed to clearly demarcated formal and informal sectors.

Informal work arrangements are able to flourish when workers have few alternative economic opportunities; that is, weak fallback positions in bargaining situations with employers. Considering only formal employment situations, the wage at which workers are willing to accept jobs will depend in large part on the other job opportunities available to them. As such, informalization will also place downward pressure on wages and working conditions in formal jobs as well. Thus, the process of informalization proceeds in part through a vicious cycle: a relatively high proportion of informal jobs makes it increasingly difficult for workers to bargain for decent wages, working conditions, and social protections, so that what had once been formal jobs become increasingly informalized over time.

There are numerous parallels between the process of informalization and more general concerns over worsening employment conditions and the growing prevalence of labor abuses. For example, antisweatshop activism in the countries of the global North in recent years reflects a heightened awareness over questions of international labor standards as they pertain to manufacturing and industrial production. Similarly, the question of child labor has assumed a greater urgency in international organizations such as the ILO and UNICEF. In many cases, the process of informalization is directly linked to these concerns over human rights violations, downward pressures on poverty-level wages, or a general erosion of working conditions. Sweatshops and factories using child labor often must operate informally since government regulations frequently prohibit many of the most common abuses.

This paper is concerned with considering ways of improving labor conditions in developing countries through raising the proportion of decent jobs with core social protections; that is, through reversing the process of informalization. As we will discuss, two basic policy interventions exist for improving labor conditions in developing countries: increasing the rate of economic growth and improving the regulation of labor markets. We will argue that both types of measures are needed in developing countries to reverse the process of informalization. But what is the relative importance of growth versus the regulatory regime for improving labor conditions? A long-held view was that informal forms of employment would gradually disappear as a consequence of a higher level of GDP alone. However, as noted above and as we will examine in some detail below, this relationship appears to have not held during the past 20 years in which time a commitment to neoliberalism has dominated economic policy throughout the developing world. This means that, in order to reverse the trend toward informalization of employment in developing countries, we must give increased attention to improving labor standards and social protections as complements to—though certainly not substitutes for—policies that can accelerate economic growth.

In the next section, we draw on the existing literature to establish more fully our own understanding of the terms “informal employment” and “informalization.” In section III, we then consider the existing literature on the relationship between economic growth, labor regulations, and informalization. We also present

two competing explanations for the rise of informalization—what we term *overregulation-centered* and *neoliberalism-centered* explanations. In section IV, we then present our empirical findings on the relationship between economic growth and informalization. We draw here on the two major data sources available for this purpose—the data base developed by the International Labor Organization office in Lima, Peru, and recently updated estimates developed by Jacques Charmes of the University of Versailles.<sup>1</sup> Drawing from this evidence, in section V we then present a two-pronged approach to reversing the process of informalization, including policies to both raise the rate of economic growth and explicitly improve working conditions. We conclude with a brief overview of our main empirical findings and policy perspectives.

## II. INFORMALIZATION AND LABOR STANDARDS

Most scholars of the informal economy define it as the set of remunerative economic activities that exist outside of a formal system of state regulation. Often, activities which involve trade in illicit or criminal goods and services are treated separately and therefore are not included in many working definitions. Similarly, unpaid reproductive labor performed in the household is also excluded. We work with these basic definitional distinctions in our discussion here.

In the early literature, the informal economy was often treated as a single, undifferentiated amalgam of subsistence activities. However, recent research has challenged this image of informal activities. Substantial segmentation and a wide range of class distinctions are evident within the informal economy, as is a plurality of relationships with the formal economy, a situation which has forced a rethinking of approaches that assign a unified, invariable role to informal activities (Tokman, 1989; Gerry, 1987; Nattrass, 1987; Hart, 1973). Some types of informal employment, especially self-employment, provide remuneration well above what waged workers at the low-end of the pay scale receive in formal employment. For example, research in the Dominican Republic revealed that mobile vendors of fruits and vegetables, called *lechugeros*, would not leave their current occupation for an entry-level formal job because they earn a monthly income substantially above the legal minimum wage (Murphy, 1990). Clearly, such situations emerge in the Dominican Republic and elsewhere not primarily because informal employment opportunities are highly desirable, but rather because the formal jobs are highly undesirable. Nevertheless, under most circumstances, formal employment would be preferable to informal work. Average incomes earned through informal activities fall significantly below average incomes earned in similar types of formal employment (ILO, 2002a; Unni, 2001).

It is important to recognize that in most economies women account for the majority of informal workers. Therefore, interventions that affect the level of employment, working conditions, or earnings in the informal economy will have a gender-specific impact. These effects are not limited to the direct effect on informal workers. They also have implications for gender dynamics more broadly; for example, access to

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<sup>1</sup> Jacques Charmes generously provided us with the updated (2003) estimates used in this paper. For a discussion of earlier estimates using the same methodology, see Charmes (2000).

money income can determine women's relative bargaining power in the household (Braunstein, 2002; Sen, 1990; Roldan, 1988; Joeques, 1987). Similarly, women frequently face different constraints to labor force participation than men. These constraints, which vary between informal and formal sector opportunities, affect women's access to different forms of paid employment (Balakrishnan, 2002).<sup>2</sup>

Early conceptualizations of what eventually was termed the informal sector viewed it consisting of a collection of subsistence activities for individuals excluded from formal employment in labor surplus economies (see, for example, Lewis, 1954). The informal sector, therefore, was defined as a residual category, akin to unemployment. In early Marxian analysis, the informal sector represented a collection of precapitalist activities that provided both a supply of inexpensive wage goods and a reserve army of labor from which capitalists could draw as the process of accumulation proceeded (Gerry, 1987). Similarly, in many neoclassical models, the inclusion of the informal sector allowed the assumption of full-employment—those without formal sector jobs remained employed, they simply worked informally. Therefore, migrants moving into urban settings who face rationing in the formal labor market would be absorbed into the unregulated informal sector in which incomes or wages adjust to clear the market (see, for example, Hemmer and Mannel, 1989).

However, viewing informal employment as simply a residual category fails to recognize that these activities often constitute an important link in a more extensive chain of commodity production and distribution. Therefore, the informal economy's connection to the formal economy goes beyond the typical characterizations of a supplier of cheap wage goods, a direct competitor in overlapping product markets, or a repository for surplus labor. Moreover, many informal activities are not automatically open to anyone who cannot find formal employment. Social networks and a minimum endowment of economic resources can be critical to sustain even a subsistence level of activity in the informal economy (Pahl, 1985; Meagher, 1995; Hart, 1973).<sup>3</sup> Those without these minimal resources are unable to operate in the informal economy. This means that open unemployment—experienced by those without the minimal entry requirements for the informal economy—can coexist with an expanding informal economy.<sup>4</sup> All of this suggests that the relationship between informalization and economic growth is likely to be contingent on a range of additional social forces.

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<sup>2</sup> Responsibility for unpaid labor, concern over the quality of care, and patriarchal norms can constitute constraints to women's access to formal employment. For example, Sathar and Kazi (1989) found that Pakistani households in which women worked in more formal factory settings had a higher incidence of child mortality than households in which women were engaged in paid home-based production: an outcome that could influence formal labor force participation.

<sup>3</sup> It is not uncommon for individuals with formal sector jobs to also participate in the informal sector. In some cases, the income earned by formal employment allows participation in the informal sector. This phenomenon of individuals with income generating activities in both the formal and informal sectors is common to developed economies (see Pahl, 1985) and developing economies (see Hart, 1973).

<sup>4</sup> The characterization of such unemployment often varies from situation to situation. In countries with some degree of social protection for people who can not find work, individuals are frequently classified as openly unemployed. In economies without such social protections, the unemployed, particularly those who are not supported by family and community networks, can be classified as being engaged in subsistent activities, in which case they would be grouped as part of the informal economy.

### III. ECONOMIC GROWTH AND INFORMALIZATION

Does the relative size of informal employment expand or contract with economic growth? Addressing this question is central to an understanding of the connections between informalization and economic development. Early work in the history of industrialization and the emergence of the factory system saw the informal sector as a vestige from a previous era (Dangler, 2000). That is, capitalist economic development meant the “formalization” of economic activity in which formal wage labor relationships replaced alternative, often less formal, arrangements (e.g., petty commodity production, the putting out system, or home-based work).

More recently, the assumption of a universal negative relationship between economic development and informalization has been challenged on a number of fronts. Informal work has been shown to have been widespread during nineteenth century industrialization in the U.S. and Europe, particularly among women and children (Stansell, 1983; John, 1986). While the factory system did expand rapidly, informal activities could thrive in the context of ongoing capitalist development and were often directly linked to the growth of the formal industrial economy. Although the relative size of the informal economy certainly expanded and contracted over time, informal activities did not represent simply a transitional stage on the path to higher levels of economic development.

In our contemporary era, the growth experience of many developing economies has demonstrated that sizeable informal economies can coexist and sustain themselves side-by-side with the expansion of the formal economy (Castells and Portes, 1989; Benería, 1989). But these informal activities are not simply lingering vestiges of “backwardness.” In fact, even the expansion of foreign direct investment and global production networks has supported informal production processes. This is because, in many situations, multinational firms are seeking low-cost and “flexible” labor relations in their production-level operations. They achieve this through subcontracting many of their production-level activities to firms operating in the informal economy. At the same time, workers employed directly by multinationals are much more likely to enjoy a more formal working environment.

Cross-country comparisons generally reveal a negative correlation between measured rates of informalization and the level of per capita GDP (see, for example, Ihrig and Moe, 2000; Loayza, 1996). That is, informal employment as a fraction of total employment is smaller for more advanced industrial economies than for developing countries. However, a broad cross-country comparison using levels of per capita output tells us little about the relationship between informalization and economic development *over time within a particular country*. More specifically, such correlations reveal nothing about how informal employment might respond to changes in elements of the economic and institutional environment—including shifts in the *rate* at which the formal economy is expanding.

Recent research has begun to document a worldwide resurgence of informalization beginning in the 1970s and continuing on into the 1980s and 1990s (ILO, 2002a; Benería, 2001; Charmes, 2000; Castells and

Portes, 1989). The growth of informal work was initially attributed to the declining growth trend of capitalism associated with the end of the “golden age” in the 1970s. But this explanation does not account for the sustained presence, indeed the expansion, of the informal economy in many countries, even during times of economic growth, when the formal sector was itself also expanding. This leaves us with a perplexing puzzle: What could explain the reemergence of informalization in late twentieth century capitalist development?

Explanations of the growth of informal employment often focus on the institutional context within which informalization takes place. In particular, most current theories of informalization incorporate a role for government regulations and formal institutional structures as they impose costs and constraints on economic actors—particularly firms and the self-employed. The growth of the informal economy, therefore, is the result of the higher costs business firms face through operating formally.

However, the two dominant theoretical approaches to informalization adopt distinct interpretations of how these regulatory differences affect informal activities (Weiss, 1987).<sup>5</sup> On one side, informalization is seen as a reaction to the excessive distortions caused by government interference in a market economy—what we will term an *overregulation-centered* theory of informalization. On the other side, informalization is seen as the outcome of normal profit-seeking activity by capitalist firms, in which more flexible employment relationships produce cost reductions while they also undermine labor protections, social security measures, and labor’s bargaining power. But what makes these normal competitive pressures produce a higher proportion of informal jobs is the *neoliberal policy environment*, which has meant both more market-oriented policies and slower economic growth. Slower economic growth, in turn, reduces economic opportunities and lessens the pressure to offer decent jobs, regardless of whether the regulatory environment requires decent work standards. The alternative approach thus sees the rise of informalization as resulting broadly from the corresponding rise of *neoliberalism*, and we can thus term this approach a *neoliberalism-centered* theory of informalization.

### IIIa. OVERREGULATION AND INFORMALIZATION

This view is most commonly associated with the work of Peruvian economist Hernando de Soto (1989; 2000). According to this approach, informalization reflects pent-up entrepreneurship that cannot find expression in an improperly regulated economy due to the high transaction costs of operating in the formal economy. Since the informal economy is, by definition, free of these constraints, the expansion of these activities is indicative of the distortional effects of government intervention. Those working in this tradition emphasize the need to develop less costly and intrusive regulatory regimes dominated by political groupings seeking special advantages through their government connections.

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<sup>5</sup> In contrast to the two dominant analyses, Weiss (1987) herself argues, within the context of the Italian economy, that the viability of informal economic activities depends on the impact of state bureaucracies coupled with aspects of the social and institutional structure, including the degree of labor market segmentation, the prevalence of social networks, and the availability of capital among a large number of relatively small firms.

Within this approach, some researchers have examined in depth the connections between transaction costs, the legal structure, and informalization (ILO, 2002a). They emphasize that regulation of economic activities has dual characteristics: (1) it imposes costs on individual firms and workers, but (2) provides public goods and corrects for market imperfections. This distinction has been used to explain why informalization is common among small-scale firms or within labor-intensive activities. For small firms and the self-employed, the transaction costs of formal regulation are likely to exceed the benefits these firms derive from the legal system. However, as firms grow in size or become more capital-intensive, the need to participate in social institutions that protect property, enforce contracts, provide access to low-cost credit, or pool risk expands. When the benefits of formality outweigh the costs, rates of informalization can be expected to decline (Levenson and Maloney, 1998; Loayza, 1996; Sarte, 2000; Ihrig and Moe, 2001; de Soto, 2000; 1989).

The overregulation-centered approach does generate useful insights into how a prevailing regulatory environment can influence pressures toward informalization. But this perspective overlooks some major facts about the historical conditions in which informalization has been rising. The most directly salient is that government regulations in developing countries—in the areas of labor markets specifically but more generally as well—have been *declining* over the past two decades as informalization has risen. The incentives to circumvent the government's regulatory structure should therefore also be diminishing. The overregulation-centered approach only sharpens the basic question: Why should informalization be increasing when, on the basis of this perspective, the incentives for doing so are declining?

### IIIb. NEOLIBERALISM AND INFORMALIZATION

The rise in informalization has coincided not only with the decline in government regulations of labor markets but also with a broader transformation of the economic policy environment in developing countries. Economic strategies moved away from the developmental state policies that were dominant in the 1950s and 1960s, in favor of what has been termed neoliberalism (Pollin, 2003; 1998). Neoliberalism, as its name conveys, is a variant of classical liberalism, the political philosophy that embraces the virtues of free market capitalism and the corresponding minimal role for government intervention. In developing countries, neoliberalism has involved privatization, sharp cuts in government spending and barriers to international trade, and a decline in the regulation of financial markets as well as labor markets.

The neoliberal policy approach can explain rising informalization through several mutually reinforcing channels.

1. *Decline in public employment.* Probably the most stable source of formal employment—in many advanced economies as well as most developing economies—has been the public sector. Because a major premise of neoliberalism is a reduction in size of the public sector, this correspondingly means that government workers lose their jobs when such policies are implemented. The proportion of formally employed workers will necessarily fall each time governments cut their work force unless, of course, the

private economy is increasing its supply of formal jobs at the same rate that the government sector is contracting. But in fact, as we continue to enumerate, neoliberal policies also encourage a decline in formal employment in the private sector as well.

2. *Promotion of trade and foreign direct investment.* The promotion of success in export markets and the ability to attract foreign direct investment is a fundamental element of a neoliberal strategy. Maintaining low labor costs is generally regarded as a central feature—and often the single dominant element—for successfully promoting exports and multinational investment. In the name of encouraging trade and foreign investment, the explicit goal of government policy under this policy regime will be to limit the ability of workers to capture the benefits of productivity improvements as increases in employment income, to reduce social and legal protections, and to weaken workers' bargaining power—that is, to induce workers to accept jobs with lower pay. The competitive pressures resulting from increasing an economy's degree of international integration will further strengthen these tendencies. Furthermore, pressures to increase the productivity of currently employed workers will reduce the number of employment opportunities generated by a given level of output growth, thereby limiting the growth of formal employment relative to informal employment.

3. *Macroeconomic policy strategy.* Neoliberal macroeconomic policies have entailed the abandonment of fiscal and monetary interventions by governments that attempt to explicitly promote the expansion of job opportunities—what used to be termed “full-employment” macroeconomic policies. Instead, the dominant priority for macroeconomic policy has become control over inflation, and indeed, an explicit policy aimed at “inflation targeting” has become the focus in many developing countries. The logic of the neoliberal policy program argues that controlling inflation is the basis for attaining a stable macroenvironment in which market forces will produce efficient allocations of economic resources. As such, where governments in developing countries had formerly used fiscal and monetary policies to increase overall demand and thereby to expand job opportunities, at present governments deploy these same fiscal and monetary tools to restrain overall demand—that is, to deliberately impose slow growth and, as considered necessary, austerity—in order to prevent the build up of inflationary pressures (Epstein, 2002).

At the same time, this neoliberal approach to macroeconomic management does include a policy mechanism for addressing problems of unemployment. This is the deregulation of labor markets, i.e., an increase in the so-called “flexibility” of labor markets. As a general proposition, when labor markets are more flexible, workers have to accept jobs at lower wages and under worse conditions. The unemployment problem is thereby “solved” through workers being willing to accept less desirable jobs. Here is where the parallel phenomena of informalization and neoliberalism become joined. From the standpoint of neoliberal economic policy, informalization is not an unfortunate side effect of other policy initiatives. It is rather a conscious policy outcome in itself. In other words, informalization and increased labor market flexibility are simply two ways of observing precisely the same phenomenon.

4. *Increased pressures for engaging in paid employment.* When the supply of decent formal jobs declines and economic growth slows, households need more people bringing home income to prevent a decline in the

household's living standard. Women constitute a majority of workers in the informal economy. In many instances, this form of employment for women has brought an improvement in overall household living standards as well as gains in women's independence. It is true, moreover, that the informal economy can, at times, offer women greater flexibility in terms of both hours of work and the ability to remain at home while working. At the same time, women increasingly seek paid employment in the informal economy as a means of preventing the downward ratcheting of living standards for households that are already living in poverty.

5. *The vicious cycle.* The factors listed above, especially as they operate in combination, strengthen the bargaining position of businesses, enabling them to hire, or contract with, workers at lower wages, benefits, and protections virtually across the board—that is, to increasingly transform what had been formal work environments into informal ones. Of course, such factors will not always be dominant, especially when businesses need to hire various types of skilled workers. But for most types of employment in developing economies, the rise of informalization will feed upon itself as the bargaining power of workers weakens.

How do these general perspectives play out with respect to the available evidence on the rise of informalization? This is the question to which we next turn.

#### **IV. EMPIRICAL EVIDENCE ON THE RISE OF INFORMALIZATION**

Reliable data on informal employment will necessarily be limited. The very nature of the informal economy—representing those economic activities that lie outside of the formal regulatory sphere and that remain largely unrecorded—implies that even the most rigorous official techniques for measuring economic activity are able to only broadly approximate the extent of the informal economy. Estimates for Gross Domestic Product (GDP) do make allowances for informal activities. But the modeling techniques utilized for generating these estimates differ from country to country (Bloem and Shrestha, 2000), thus diminishing the reliability of any cross-country comparisons. Time series data on informal employment are also of limited availability. This makes it more difficult to explore the crucial connections we have drawn between informalization and economic growth. Given all of these factors, the evidence we present here, using the available data, should be taken as only provisional.

We rely on two data sources—time series figures for Latin America in the 1990s generated by the ILO's regional office in Lima, Peru and the research of Jacques Charmes on a broader set of countries, though without a year-to-year time-series component. These two sources also employ different techniques for measuring informal employment. And while both sources have clear limitations, fortunately their weaknesses are distinct, such that, in combination, we obtain a variegated understanding of the overall patterns of informalization. We first present results using the ILO data, then consider the evidence from Charmes.

## IVa. ILO DATA FOR LATIN AMERICA

The first data source we draw on comes from the ILO's regional office in Lima. These figures present statistics on informal employment in Latin America over the 1990s. However, these figures work with the earlier concept of a distinct informal sector as opposed to a process of informalization applying, at least potentially, across sectors. According to this data set, those employed in the informal sector includes all own-account workers, excluding professionals and paid domestic workers, and persons working in establishments with less than five or ten employees, depending on the survey methodology used. This data has clear limitations, as the ILO itself now recognizes. Most importantly, they do not incorporate in their measure forms of informal employment that occur outside of small-scale enterprises. Home-based laborers, for example, are excluded from their definition. The ILO has more recently begun to operate with a more expansive approach, reflecting the shift in analytic thinking from the notion that informal jobs are confined within certain sectors of the economy to the process of informalization occurring more broadly throughout a range of sectors (ILO, 2002b).<sup>6</sup> Despite this weakness in this data set, the absence of alternative better sources means that it is still an important resource. So we turn to these figures to obtain a first approximation of changes that have occurred over the 1990s in the extent of informal employment.

Figure 1 summarizes information on changes in informal employment as a percent of total nonagricultural employment—which we will term as a country's "informalization rate"—and the rate of growth of GDP for ten Latin American countries from 1990 to 1997.

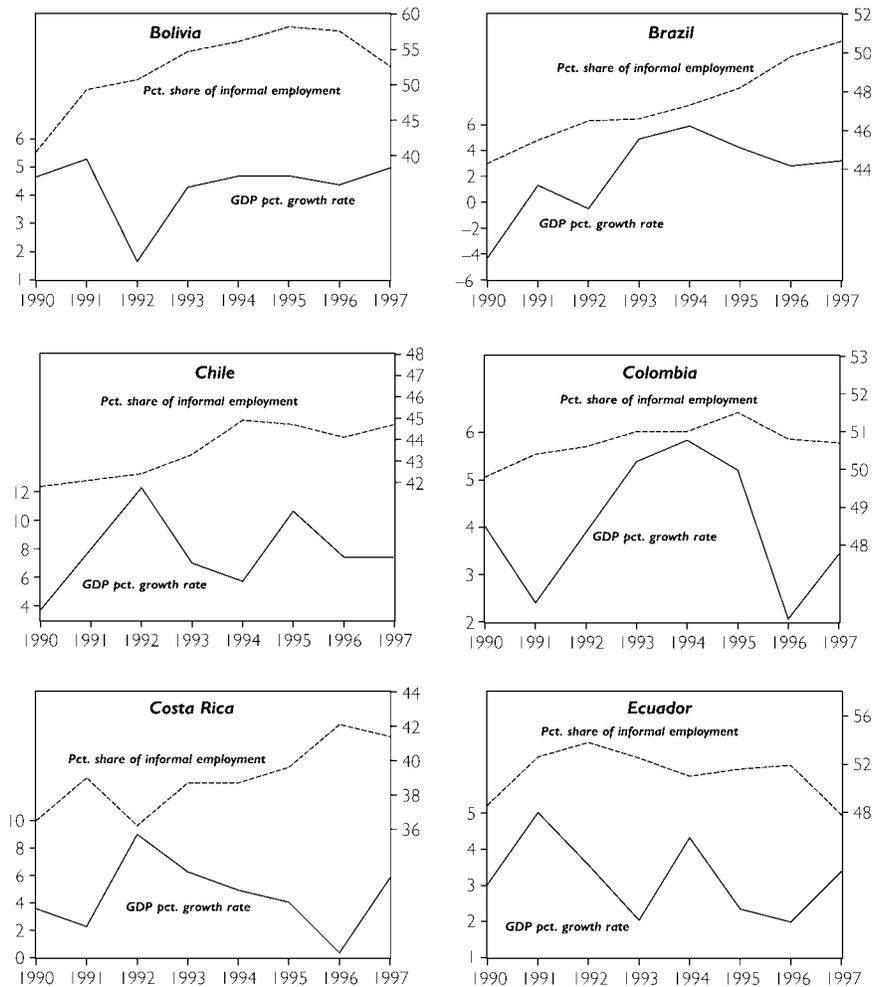
The trends presented in Figure 1 contradict the idea of a purely countercyclical explanation for the rise of informalization, in which informal employment grows during economic slumps and shrinks during periods of growth. While sharp economic downturns are generally associated with an expansion of the informal sector (for example, Costa Rica 1996, Honduras 1994, Mexico 1995, Venezuela 1994), this is a relatively isolated phenomenon. More generally, there has been a trend in almost all these countries towards greater informalization—even during periods of relatively rapid economic growth. In some cases, informalization appears to rise and fall with changes in the growth rate (e.g., Costa Rica). However, even in these cases, informalization increases on average over periods of expansion.

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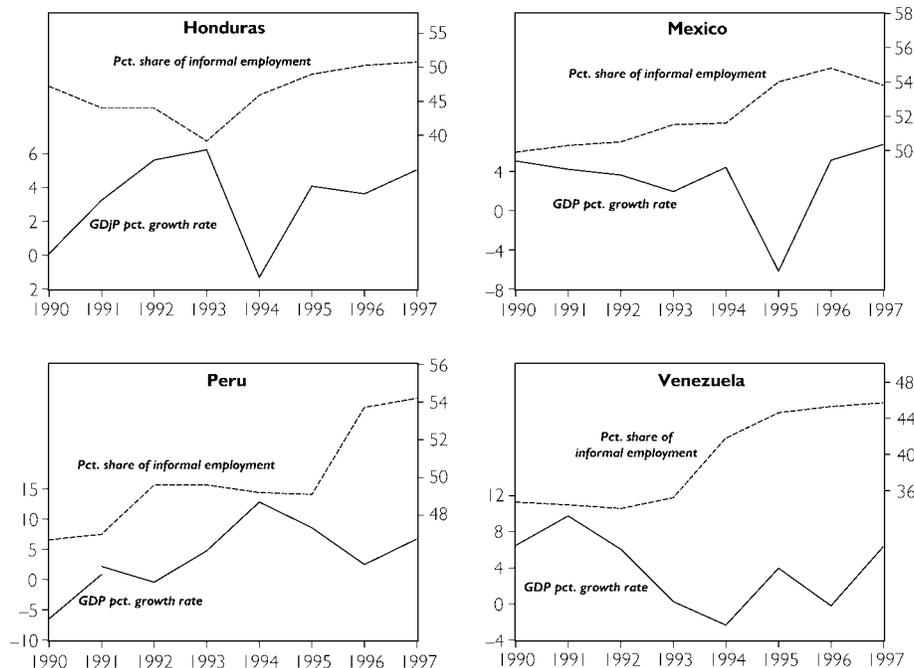
<sup>6</sup> Nevertheless, these measurements are consistent with the approach outlined in 1993 at the 15<sup>th</sup> International Conference of Labor Statisticians (ICLS). The 1993 ICLS definition of the informal economy adopted an enterprise approach (defining informal activities in terms of production units) as opposed to a labor approach (defining informal status on the basis of individual characteristics). This decision was based on a need to measure the economic contribution of the informal sector, not simply the level of employment. However, an enterprise approach would not capture all aspects of informalization. Therefore, workers would be classified into informal and formal sectors by their status in employment as identified in the International Classification of Status in Employment (ICSE). A combination of data on status in employment and enterprise type can be used to map the informal economy and the level of employment.

## IVb. THE CHARMES DATA SET

Jacques Charmes has developed a highly innovative but still straightforward methodology for measuring trends in the size of the informal economy (see, for example,



**Fig. I: Economic Growth and Informalization in Latin America, 1990-97.**



Sources: ILO Key Indicators of Labor Markets 2001/2 CD-ROM and World Bank, World Development Indicators 2001 CD-ROM

ILO, 2002b; Charmes, 2000). Charmes measures the number of workers in the informal economy as the *residual* that emerges from two data sets in various countries: (1) labor force surveys and census, which are intended to measure all people engaged in income-generating forms of employment, and (2) business registration data, in which businesses are supposed to list all employees in their enterprises.

According to Charmes's definition, therefore, people who are informally employed are those who earn income from jobs, but they are not employed by a business that officially registers their enterprise with the government. This definition may, in fact, underestimate the extent of informalization, because some businesses that provide business registration information to governments may operate with substandard work environments for employees. Moreover, for Charmes to effectively utilize the methodology he has developed obviously depends, first, on countries having undertaken both pairs of surveys at least twice in recent years. In Table 1 below, we report the basic evidence Charmes provides from the countries that meet these criteria and he could therefore incorporate into his survey.

**Table I: Informal Employment in Developing Countries****a) Countries with Increasing Rates of Informalization**

<b>Country</b>	<b>Years of Data Samples</b>	<b>Informalization rate during sample years (percentages)</b>	<b>Aver. annual change in informalization rate (percent)</b>
<i>Countries with five years or less as observation period</i>			
1) Argentina	1990–95	47.5 → 53.3	+1.2
2) Bolivia	1990–95	56.9 → 63.6	+1.3
3) Brazil	1990–95	52.0 → 57.6	+1.1
4) Chad	1993–96	72.4 → 90.0	+24.3
5) Colombia	1990–96	55.2 → 55.5	+0.06
6) Ecuador	1990–95	51.2 → 53.5	+0.9
7) Indonesia	1996–98	75.6 → 77.7	+1.4
8) Mexico	1990–95	55.5 → 59.4	+1.4
9) Paraguay	1990–95	61.4 → 65.5	+1.3
10) Venezuela	1990–95	38.8 → 46.9	+4.2
<i>Countries with six–ten years as observation period</i>			
11) Burkina Faso	1985–94	70.0 → 77.0	+1.1
12) Guinea	1984–91	64.4 → 71.9	+1.3
13) Kenya	1990–99	61.4 → 71.6	+1.8
14) Mauritania	1980–88	69.4 → 80.0	+1.9
<i>Countries with more than ten years as observation period</i>			
15) Algeria	1977–97	21.8 → 42.7	+4.8
16) India	1989–00	76.2 → 83.4	+0.9
17) Mali	1976–96	63.1 → 90.4	+2.2
18) Pakistan	1975–90	39.0 → 64.6	+3.1
19) Tunisia	1975–89	38.3 → 39.3	+0.2

**b) Countries with Decreasing Rates of Informalization**

<b>Country</b>	<b>Years of Data Samples</b>	<b>Informalization rate during sample years (percentages)</b>	<b>Aver. annual change in informalization rate (percent)</b>
<i>Countries with six - ten years as observation period</i>			
20) Philippines	1990–97	70.5 → 67.6	-0.6
21) Thailand	1990–98	54.5 → 50.6	-0.9
22) Egypt	1976–86	65.3 → 58.7	-1.0

<i>Countries with more than ten years as observation period</i>			
23) Morocco	1982–95	56.9 → 44.8	-1.6

As we see, there are 23 developing countries in the survey. Among the countries, there are significant differences in the length of time period between available data points. With 10 of the countries, the longest time period over which we have data is five years or less. But we do also have a relatively large sample of countries for which we have a longer period to examine—six countries for which our time span between data points is six to ten years and seven countries with 10 or more years between data points. This range in Charmes’s data set does therefore, in our view, provide sufficient variation, such that we may obtain some reliable generalizations from studying it.

We have organized the data into two broad groups—those for which informalization has increased over time, and those where it has decreased. Within these broad categories, we then group the countries according to the length of time between the most distant and recent data points from the surveys utilized by Charmes.

#### **IVc. PATTERNS OF INFORMALIZATION**

Informalization is growing over time in 19 of the 23 countries in the sample. This is particularly true in countries where the observed time period is five years or less. In these cases, all 10 of the countries experienced rising rates of informalization. In the countries where our data points are between six to ten years apart, we have the most balanced situation, in which four of the countries experienced increasing rates of informalization while three countries experienced declining rates. Moreover, the three countries experiencing declining rates of informalization all have large populations, while three of the four countries experiencing increasing rates of informalization are small. Finally, in cases where our time period between data points is more than ten years, we have five countries with increasing rates of informalization, including India and Pakistan with large populations, while only one country, Morocco, experienced a decline in the proportion of informal employment.

Overall, we can conclude (1) informal employment is clearly the predominant form of employment in developing countries, and (2) it is generally rising as a share of overall employment. These broad conclusions cut across regions and countries of various sizes.

#### **IVd. INFORMALIZATION AND ECONOMIC GROWTH**

As we have discussed above, the rise of neoliberal policies in developing countries has generally led to a decline in average rates of economic growth. We can see this from the aggregated evidence in Table 2, which compares average growth rates in two distinct eras in developing countries—what we may term the “developmental state” era of roughly 1960–1980 and the “neoliberal era” from 1981–1999 (and continuing to the present). The figures are presented both in terms of overall GDP data and measuring

growth on a per capita basis. The table also includes China separately since it had not pursued a neoliberal policy path by the end of the 1990s.<sup>7</sup> Otherwise, these figures are calculated by adding up the overall GDP figures for all low- and middle-income countries. This way, the patterns for large countries, like India, Brazil, or Egypt will carry more weight in the calculations than those for small countries like Bolivia, Uganda, or Singapore.

**Table 2: Two Eras of Economic Growth in Developing Countries**  
(figures are average annual growth rates, in percentages)

	<b>Developmental State Era 1961-80</b>	<b>Neoliberal Era 1981-99</b>
<b>Low and Middle Income Countries, excluding China</b>		
Overall growth rate	5.5	2.6
Per capita growth rate	3.2	0.7
<b>China</b>		
Overall growth rate	4.5	9.8
Per capita growth rate	2.5	8.4

**Source:** World Development Indicators 2001 CD-ROM, World Bank

The overall growth pattern is unambiguous: there has been a sharp decline in growth in the neoliberal era relative to the developmental state period, from 5.5 percent to 2.6 percent, measured on average annual basis. Measured on a per capita basis, the downward growth trend is even more dramatic, with the growth rate in the neoliberal era at only 0.7 percent. This means that the average increase in overall income in the poor and middle-income countries just barely stayed ahead of population growth, after having increased 3.2 percent faster than population growth during the developmental state period.<sup>8</sup>

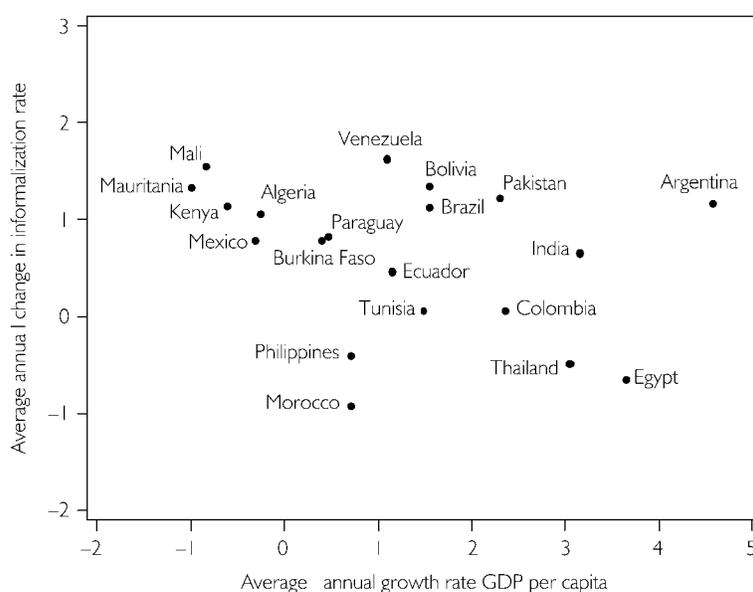
What has been the relationship between growth and informalization? As an initial consideration of this, we show in Fig 2 the relationship between average annual GDP growth per capita and informalization for the 20 countries in the sample for which adequate data exists for both informalization and per capita growth over a sufficiently long time period.<sup>9</sup> Of course, again, these calculations represent different periods of time within the various countries. From the data plot, we can see that there is an inverse relationship between informalization and economic growth. For the most part, informalization does fall as economic growth rises. The relationship is not statistically significant, however. Still, the overall results are being

<sup>7</sup> It is also true that when we include China within the group of low- and middle-income countries, the overall growth patterns we observe are modified but do not change dramatically. Thus, per capita GDP growth for low- and middle-income countries, including China, is 3.2 for 1961-80 and 1.4 for 1981-99.

<sup>8</sup> Growth patterns do vary significantly by region, with various parts of Asia, including India, performing much better than Latin America or Africa prior to the Asian financial crisis of 1997-98. The table also shows the unique experience of China, where the average growth rate more than doubled during the 1981-98 period relative to 1961-80. The general pattern, nevertheless, is clear-cut and it will form a major starting point to our analysis.

<sup>9</sup> The 3 countries excluded from the original 23 are Guinea, because of inadequate per capita growth data, and Chad and Indonesia, because of an overly short time series.

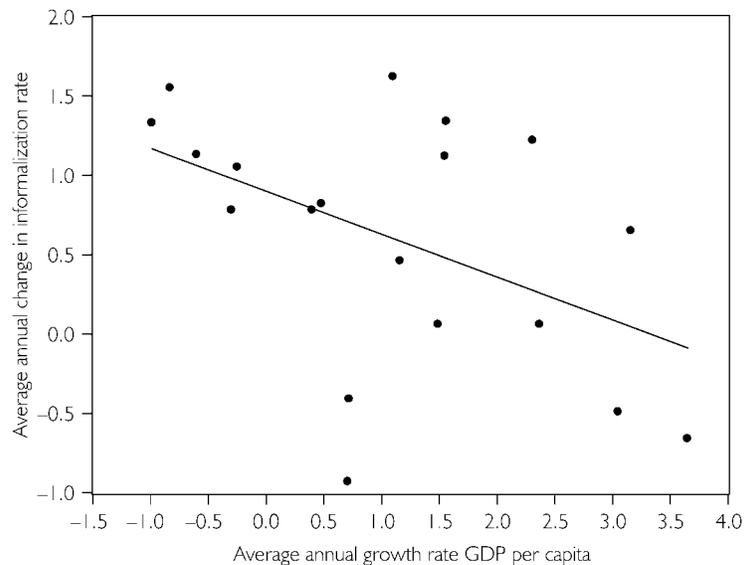
strongly influenced by the experience in Argentina. From 1990–1995, Argentina experienced a rapid increase in informalization. But it was also experiencing the most rapid period of economic growth of the countries in the sample. This growth was due to a massive influx of foreign capital into Argentina after the country adopted a new extreme neoliberal monetary policy whose principal feature was establishing the country's currency as convertible to the U.S. dollar on a one-for-one basis. The positive effects of the Argentine monetary convertibility plan were short-lived. By 1997, foreign capital began to abandon Argentina, and by 2000, the new monetary policy engendered a complete financial collapse and depression in the country. But for our purposes, Argentina during 1990-95 clearly stands as a major outlier in our sample.



**Fig. 2: Average rates of percapita GDP growth and annual changes in informalization**

**Source:** Updated informalization rates estimated by Jacques Charnes, 2003; World Development Indicators 2001 CD-ROM, WorldBank

If we eliminate Argentina from the sample as an outlier, and reestimate the regression line with the remaining 19 countries, this yields a negative slope estimate (-0.27) with a much higher degree of statistical significance (p-value = 0.0397). The coefficient value of -0.27 suggests that an increase in the rate of per capita economic growth from the average of 0.7 percent (associated with the neoliberal era) to 2.6 percent (associated with the developmental era)—an increase of 1.9 percent—would reduce the annual rate of change in the informalization rate by 0.51 percent (see Table 2). Taking our median values for highs and lows among the countries in the sample, a sustained average increase in economic growth of 1.9 percent would mean that instead of informal employment rising from an average of 55 to 65 percent of the work force, over the course of a decade, informal employment would rise to slightly less than 60 percent. Figure 3 shows changes in informalization and average growth rates with Argentina removed from the sample and the line in the figure portraying the regression slope of -0.27.



**Fig. 3: Average rates of per capita GDP growth and annual changes in informalization (Argentina excluded).**

**Source:** Updated informalization rates estimated by Jacques Charmes, 2003; World Development Indicators 2001 CD-ROM, World Bank

Overall, we can conclude provisionally from this brief examination that increasing economic growth will *reduce the rate at which informalization is increasing* in developing countries, though it cannot, on its own, create an environment in which informalization actually declines.

Both supply and demand factors within the labor market are likely contributing to the diminished rate of increase in informalization. On the demand side, high rates of economic growth means that businesses are expanding their operations. To attract workers, they need to offer workers better wages, benefits, and social protections, i.e., to *formalize* jobs, even if the regulatory environment does not require them to do so. On the supply side, better opportunities available to workers for formal jobs makes them less willing to accept informal employment. Also, when some household members earn higher incomes from formal jobs, the pressures diminish for others in the household to also earn income by entering the informal labor market.

Considering our examinations based on both the ILO and Charmes's data sets, we are able to form some useful, if still necessarily provisional, generalizations about the relationship between informalization and economic growth. First, the evidence reported here does not support a purely countercyclical model of informal employment, in which the informal economy consists of the residual reserve army of workers that are not employed in formal activities during periodic slumps. Second, although informal employment does not exhibit a clear countercyclical pattern, sharp downturns still emerge as being closely associated with a rise in informal employment. Third, increasing rates of informalization are consistent with positive average rates of economic growth. And finally, the weight of evidence does suggest that, after controlling

for short-term cyclical factors, high rates of economic growth are associated with either declines in informalization or slower rates at which informalization is increasing.

## V. IMPROVING LABOR STANDARDS IN THE CONTEXT OF INFORMALIZATION

If we recognize informalization as a process operating throughout an economy rather than as confined to a limited set of sectors, this implies that improving labor standards will entail the reversal of this broad process of informalization. The evidence we have reviewed strongly supports the view that reversing the process of informalization will require a substantial shift away from the priorities defined by neoliberalism; in particular, the priorities of targeting inflation over economic growth and the reliance on “flexible labor markets,” as the basic instrument of addressing employment problems. What we need are: (1) a macroeconomic policy framework that targets employment growth while still recognizing the need for inflation control, and (2) a set of labor standards that can operate to improve working conditions broadly—that is to say, which improves conditions for those in both formal and informal employment situations.

Examining these matters in detail is beyond the scope of this paper. But it will be useful to consider the matter of how to effectively introduce labor standards that will have the broadest possible effects. Introducing standards that will affect informal as well as formal employment situations is of crucial importance, as the overregulation-centered analysis of informalization itself makes clear. If regulations apply only to forms of employment that are already more formalized, this will simply raise the relative costs of operating formally and increase the incentives for firms to circumvent regulations—that is, to informalize their work environment.

The first step toward designing effective interventions to improve conditions in informal forms of employment is to recognize the heterogeneity of informal activities. For example, consider the case in which informal workers are able to capture the majority of the value-added they produce. These activities could include the self-employed producing directly for the domestic market or community-based enterprises in which the value-added is not appropriated. Under such conditions, interventions that increase labor productivity in the informal employment will raise living standards, since workers will be able to capture the gains of the productivity improvements. Targeted policies to improve productivity could include access to credit and capital, educational programs for skill enhancement, and infrastructure development (e.g., electrification).

However, if the informal economy is primarily composed of wage and pseudowage (e.g., piecework) employment relationships with ties to more extensive commodity chains, a focus on productivity improvements as a strategy to raise living standards will be far less successful. When the highly competitive conditions at the level of production (or, in some cases, at the point of sale to consumers) are linked to more oligopolistic structures elsewhere in the commodity chain, a situation is created in which the benefits of productivity improvements will be captured in the form of higher rents for firms further up the chain or in lower prices for consumers. This unequal distribution of the gains from productive activities occurs because informal producers have little bargaining power to protect their incomes relative to other

segments of the commodity chain (Carr, Chen, and Tate, 2000). Firms and intermediaries that source from informal producers, including home-based workers, can demand lower prices in the face of productivity improvements or simply take their business elsewhere.

This dynamic is particularly pronounced in informal activities that produce low-wage consumer exports with explicit links to global commodity chains. In many respects, the problem of extending labor standards to informal jobs is quite similar to the more general challenge of improving working conditions and eliminating sweatshops internationally. The structure of global commodity chains is such that highly competitive conditions exist at the point of production while intermediaries, brand-name multinationals, and retailers in affluent markets enjoy significant market power (Gereffi, 1994; Carr, Chen, and Tate, 2000). Under these conditions, informal workers are not just competing with others in the same regional labor markets. They are competing with workers in informal workplaces around the globe.

In such a situation, the only logical strategy is to extend appropriate social protections to these informal forms of employment. However, national governments often lack sufficient capacity to enforce existing regulations in a globally integrated environment. Moreover, incentives to enforce standards are weakened when informal activities are seen to be creating jobs and economic opportunities, while labor standards are perceived as creating obstacles to employment growth.

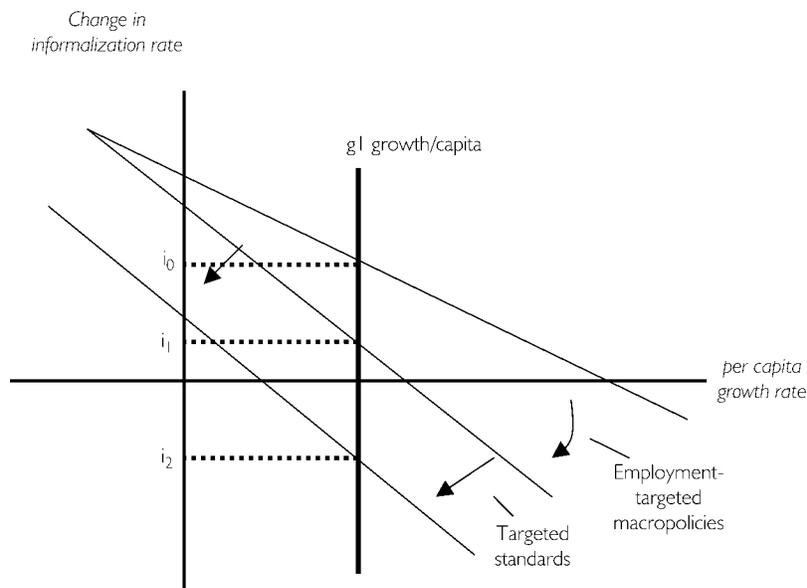
This means that additional nongovernmental measures should be nurtured to bolster governmental efforts at providing a decent regulatory environment. For example, in the case of export-oriented production, one alternative would be for the producers to implement so-called “codes of conduct” governing a set core of labor standards (e.g., human rights, health and safety, and a decent minimum wage). In global commodity chains, the reputation of retailers and brand-name corporations becomes a real asset. Correspondingly, having one’s corporate image tarnished through associations with exploitative labor practices will likely bring more harm to profitability than the higher labor costs firms would pay to, say, clean up sweatshop conditions under which workers produce their goods. Workers and their supporters can leverage this vulnerability facing brand-name producers to create a system of incentives that would encourage multinationals to raise retail prices and share some of their rents in order to improve working conditions and pay living wages (Pollin, Burns, and Heintz, 2004). Firms that guarantee that their suppliers, affiliates, and subcontractors meet the provisions of a core code of conduct would enjoy a competitive advantage in terms of consumer demand and goodwill.

Improving conditions and enforcing standards in the informal economy will naturally reduce the competitive advantage informal activities enjoy relative to equivalent formal activities. Therefore, we would expect to see a decline in the rate of informalization if such targeted interventions were successfully implemented. Returning to the informalization-growth curve of Fig 3, we could represent these targeted interventions as a downward shift in the line. That is, we would expect changes in the rate of informalization to be lower at a given rate of growth.

Figure 4 presents a stylized illustration of the combined effect of the two-pronged strategy to improve average labor standards in the context of informalization by illustrating the relationships between growth

and informalization hypothesized in this paper. The heavy line,  $g_1$ , represents a given rate of per capita growth. With no interventions, informalization increases at a rate of  $i_0$ . The impact of the shift to an employment-targeted macroeconomic policy regime is represented by a steeper slope for the informalization growth curve, since employment targeting would mean that the rate of change of informalization would fall more rapidly as growth expands. This intervention alone would reduce the rate by which informalization increases to  $i_1$ . The effect of targeted interventions aimed at creating and enforcing better conditions for informal activities is represented by a downward shift in the line—that is, for a given growth rate, the rate by which informalization changes would be reduced. This would reduce the rate of change in informalization to  $i_2$ —a negative number. Moreover, if the growth rate increases with the adoption of an alternative set of macroeconomic policies, then the reduction in informalization will be greater still.

One final complication to note here is that to the extent this approach might succeed in reducing the rate of informalization, it could actually curtail economic opportunities for some workers, primarily women, who face constraints that prohibit their holding a formal job. Labor force participation of these workers is often constrained to the informal economy because of more flexible work hours and the ability to work from their homes, even when incomes might fall below what is available from formal jobs. For these workers, the loss of informal employment could produce a reduction of autonomy and bargaining power relative to those in their households who do hold jobs and earn income. However, it is never the case that formal jobs—i.e., those most likely to offer decent wages, benefits, and protections—must necessarily be inflexible in terms of hours of work and possibilities for working out of the home. The aim of an effective regulatory regime would clearly be to extend social protections along the dimensions of employment income, benefits, and working conditions while maintaining in some situations the advantages of informal employment in terms of hours, flexibility, and location of work.



**Fig. 4:** Combining increased growth and improved labor standards to lower the informalization rate.

## VI. CONCLUSIONS

It is impossible to realistically discuss policies for improving living standards for the most vulnerable segments of the work force without understanding the process, proceeding throughout the less developed world, of informalization. In many countries, informal employment accounts for a majority of all labor force activity. Therefore, the growth of informalization directly compromises average employment conditions, since, on average, the quality of informal employment falls well below that of formal employment. A deterioration in the expected quality of economic opportunities will also affect working conditions outside of the informal economy by reducing workers' fallback positions and heightening their degree of vulnerability.

The spread of informalization throughout the developing world raises basic questions about the relationship between informalization and economic development. The costs associated with regulating market activity do, of course, encourage efforts to circumvent regulations. All else equal, this factor should encourage more informal work environments. But as we have argued, all else has not been equal over the past generation in developing countries. In fact, the ascendancy of neoliberal economic policies has brought a decline in government regulations, even while informalization has been rising. This suggests that an explanation for the rise of informalization centered on the effects of neoliberal policies provides a more robust explanation than one centered on the high costs of regulation.

Our empirical analysis of informalization and economic growth suggest several interesting, yet provisional, relationships. The most important is that economic growth does encourage a decline in the rate at which informal forms of employment expand. But economic growth does not, by itself, produce an absolute decline in the proportion of people working in informal jobs. Based on these findings, we argue for a two-pronged alternative to the neoliberal policy regime. The first prong is macroeconomic policy: to substitute employment-targeted macroeconomic policies for the neoliberal priorities of inflation targeting. This policy shift should raise average rates of economic growth and encourage job expansion. The second prong is a set of labor market and related interventions that can affect working conditions in what are now both formal and informal employment situations. The purpose of these interventions will enable the gains from faster economic growth to be shared broadly, including among those who constitute the growing majority of people in developing countries earning their living in informal forms of employment.

## ACKNOWLEDGEMENTS

We wish to thank participants of the October 2002 Cornell University conference "Rethinking Labor Market Informalization: Precarious Jobs, Poverty, and Social Protection," and the January 2003 ASSA/IAFFE session "Trade Openness, Labor Market Informalization, and Women's Wages: An International Perspective." We would also like to thank Jacques Charmes for the use of his estimates of the extent of informalization and Gerald Epstein for helpful comments. Of course, all errors remain our own.

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# Labor exclusion in Latin America: Old and new tendencies <sup>1</sup>

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FLACSO

The labor market may be analyzed in terms of the dialectic between the dynamics of integration and exclusion. Securing employment implies social integration with a number of benefits, such as access to income for the maintenance and reproduction of the work force, recognition as productive member of the community, and others. On the other hand, the labor market has to deal with the surplus labor that the accumulation process cannot absorb. This surplus is not fully reflected by recorded open unemployment. An analysis of the labor market focusing on this dialectic has the advantage of identifying those historic trends that incorporate the dynamics of both integration and exclusion, and how they interrelate. Such an analysis avoids the reification of obsolete analytic categories of little contemporary heuristic value. This is particularly important in the Latin American context, where the process of nationally focused modernization, based on industrial accumulation through import substitution, has reached its historic limits, and has been replaced by the new model oriented towards globalization.

A characteristic of the Latin American case, and of the period of modernization that concluded with the debt crisis of the 1980s, was that the dialectic between integration and exclusion was centered around formal employment as synonymous of modern employment. This dialectic structured labor dynamics both in terms of migration flows from rural areas and smaller cities to metropolitan zones (territoriality, par excellence, of national modernity), as well as occupational mobility towards the formal sector. Faced with the difficulties to reproduce itself, the unemployed developed self-employment within the urban informal sector. The crisis of the 1980s revealed the historic limits of this process of modernization. The ensuing structural adjustment programs functioned as authentic primitive accumulation for the new economic model, this time oriented towards the global market. For labor dynamics, this meant a shift in emphasis from integration to exclusion, illustrated by the consistent rise in levels of unemployment alongside the economic recovery during the 1990s. The contraction of the public sector and the gravitation toward precarious forms of wage labor led to a crisis of formal employment.

At the same time, unsustainable forms of self-employment persist in urban centers and even more so in rural areas. All these phenomena support the hypothesis that tendencies of exclusion currently dominate the labor market.<sup>2</sup> Without idealizing the past, it is useful to bear in mind that the previous modernization

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<sup>1</sup> A slightly different version of this article was published under the title "Exclusión Laboral en América Latina: Viejas y Nuevas Tendencias" *Sociología del Trabajo*, (47) winter 2002-2003.

<sup>2</sup> This does not imply that dynamics of integration have disappeared altogether, rather they are being transformed. The generation of formal employment by way of public policy is no longer the principal form of labor integration. On the contrary, the capacity of the laborers themselves in

project sought the construction of the nation, in which the state established itself as the central actor. Although the results leave much to be desired, the project did strive for integration. Under contemporary globalization the labor market only offers opportunities with restricted access. Having discarded the objective of social integration, exclusion has become an integral element of the new modernization project.

This paper proposes the hypothesis that exclusionary tendencies dominate the labor market by analyzing five phenomena. The first deals with the decline in public sector employment in Latin America, the foremost expression of formal employment and the mechanism of integration par excellence in the past. The second concerns the tendency towards increasingly precarious wage relations, affecting not only existing relations but also those emerging with the new mode of accumulation. The third considers how increasing open unemployment is taking on a structural nature, and how this affects social disintegration. International migration is the fourth manifestation of labor exclusion that, in addition to territorial expulsion, implies a globalization of the labor force. Finally, the fifth phenomenon is the persistence of self-employment at subsistence level and its generation of an economy of poverty: the poor producing for the poor. Each of these tendencies will be analyzed separately. The conclusion reflects on the validity of the hypothesis, and identifies which exclusionary tendencies have carried over from the past and which have emerged with the current process of globalization, in order to determine how the new mode of accumulation redefines surplus labor.

## I. THE DECLINE OF PUBLIC SECTOR EMPLOYMENT

However one chooses to define the phenomenon of formality, public sector employment has been its most developed expression and it serves as its core. As such, it has increasingly lost its importance, thereby threatening the central role of formal employment in the labor market. The deceleration of the growth rate of public sector employment since 1983 announced the first effects of the structural adjustment programs (PREALC, 1991). In particular, the institutional reforms encouraged a decline in public sector employment, accentuated in the following decade. On a regional average, the proportion of public sector employment as a total of nonagricultural EAP (Economically Active Population) declined from 15.5 percent in 1990 to 13.0 percent in 2000 (OIT, 2001: table 6A). In the case of Latin America three distinct patterns occur.<sup>3</sup>

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generating employment, or in modifying their labor conditions, is currently emerging as the more viable form of labor integration. This raises the issue of employability as the capacity of labor to manage risks induced by globalization. In this respect see Pérez Sáinz (2003).

<sup>3</sup> This table shows the evolution of public sector employment within the nonagricultural occupational structure between 1990 and 2000. The rows provide the difference between the two situations in 1990: one in which the percentage of public employment is higher than the regional average (15.5%) defined as "high" and the other equal or below the average qualified as "low." The columns show the dynamics of the '90s by distinguishing the cases where either relative increase or decrease occurred. The resulting matrix reflects the possibility of four different patterns: high and dynamic; high and not dynamic; low and dynamic; low and not dynamic. In brackets the relative size of the public sector in 2000 is given for each country. The following two tables are constructed according to the same criteria of combining the initial situation with the evolution during the relevant time period.

**Table I: Latin America: Evolution of Public Sector Employment (1990-2000)**

<b>1990</b>	<b>Increased</b>	<b>Decreased</b>
<b>High</b> (> 15.5%)		Argentina (12.7%)
		Costa Rica (16.4%)
		Ecuador (17.6%)
		Mexico (14.5%)
		Panama (21.8%)
		Uruguay (17.1%)
<b>Low</b> (≤ 15.5%)		Venezuela (16.1%)
		Colombia (7.0%)
	Brazil (14.2%)	Honduras (10.1%)
	Chile (10.8%)	Peru (7.0%)

Source: OIT (2001; Table 6-A)

Table I shows how the majority of the countries in the region can be divided into two groups, both indicating a relative contraction of public sector employment. More striking is the group in which at the start of the decade public sector employment was high in comparison with the regional average. In this group, both Costa Rica and Venezuela show tremendous declines ranging from 22 percent and 22.3 percent in 1990 to 16.4 percent and 16.1 percent ten years later. The most notorious case, however, is Panama showing a decline from 32 percent to 21.8 percent during the same decade. Brazil and Chile appear as atypical cases. Concerning the latter, one should bear in mind that Chile pioneered the introduction of neoliberal policies in the region, under one of the most authoritarian regimes Latin America has known. The contraction of the public sector took place before the 1990s and recovered somewhat with the processes of democratization during this decade.

The different patterns result from conditions particular to each country. In this respect, Marshall (1996) identifies three factors that shaped the first wave of public sector reforms. The first concerns the internal composition of public sector employment with regard to differences between central and local governments. The reforms intended a strengthening of the local government with a possible increase of employment at this level. Secondly, with the recent climate of democratization characterizing the region, electoral clientelism creating public jobs neutralized fiscal discipline to a certain extent. Finally, the resistance of the public employees themselves, and their unions, is the third factor to take into consideration.<sup>3</sup>

The decline in public employment substantially impacts the central role formal employment enjoyed during the previous model. The reconfiguration of the public sector, therefore, has both material, such as the loss of occupational opportunities, as well as symbolic impacts. Not only does labor lose its core expression of

<sup>3</sup> The emphasis on the next (second) wave of reforms (fiscal, electoral, and judicial) will not have a direct impact on public employment even though the elimination of occupational stability can affect the level of employment in this sector (Fleury, 1999).

formal employment; the public servant is stigmatized as non-productive and viewed as being linked to corruption.

## II. THE INCREASING PRECARIOUSNESS OF WAGE RELATIONS

The crisis of formal employment not only manifests itself in the receding importance of public employment, but also in the increasing precariousness of wage relations.<sup>4</sup> This is a phenomenon that affects both the existing wage relations and those emerging from the new mode of accumulation.

The term "precariousness" has been applied in Latin America primarily for empirical purposes and with little analytic precision. For a more conceptual understanding Mora Salas (2000) identifies three dimensions of this phenomenon: labor deregulation; productive restructuring and labor flexibility; and the weakening of the unionized worker. Each dimension, and its regional manifestations, will be discussed separately.

Deregulating labor relations lies at the center of the new economic model inspired by the so-called Washington Consensus (Bulmer-Thomas, 1997; Lozano, 1998). Evaluating the process of deregulation until 1995, the World Bank, the institution that most forcefully argues for deregulation, arrived at the principal conclusion that labor "rigidities" still prevail in the majority of Latin American countries,<sup>5</sup> with two notable exceptions: Chile and Peru. Chile established a flexible labor market by the early 1990s, while Peru implemented the most radical deregulation of the region during the 1990s. At the other extreme, we find Mexico and Nicaragua (Burki and Perry, 1997). The ILO however, offers a different perspective on the achievements of labor reforms in the region (OIT, 2000). Generally the legal changes have affected individual relations, especially in the new modalities of contracting and dismissal. In Peru and Argentina the reforms have been drastic, while in Brazil, Colombia, and Panama they've accomplished far less. Even countries with a strong protectionist tradition such as Venezuela and the Dominican Republic were not able to escape the wave of reform. In fact, in 11 of the 18 countries studied,<sup>6</sup> representing 70 percent of wage employment in the region, labor reforms characterized by deregulation were implemented, thereby questioning the assertion that the effort to do so has been insufficient.

The process of deregulation can be observed by examining the evolution of social security coverage for wage labor.

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<sup>4</sup> The formal/informal distinction is understood from a regulationist perspective (Portes, 1995; Itzigsohn, 2000); that is, in terms of type of employment rather than production.

<sup>5</sup> It would be interesting if this institution incorporated, alongside its indicators, the percentages of labor inspectors out of the total labor force; this would provide an indication of the extent to which labor legislation can be implemented.

<sup>6</sup> Chile is an exception. The democratic government in 1994 improved the existing legislation introduced by the preceding dictatorial regime, allowing for the unionization of public and part-time employees, protecting union leaders from layoff threats, in addition to other labor advantages (Cortázar, 1997).

**Table 2: Latin America: Evolution of Social Security Coverage for Wage Labor (1990-2000)**

<b>1990</b>	<b>Increased</b>	<b>Decreased</b>
High (>66.6%)	Uruguay (97.0%)	Brazil (67.0%) Chile (62.8%) Costa Rica (74.9%) Venezuela (69.9%)
Low (≤66.6%)	Colombia (66.1%) Mexico (66.4%)	Argentina (55.8%) Ecuador (39.2%) Peru (50.0%)

Source: OIT (2001; Table 8-A)

At a regional level, the coverage of social security decreased from 66.6 percent in 1990 to 64.2 percent in 2000 (OIT, 2001: Table 8-A).<sup>7</sup> Table 2 shows distinct patterns. The two most recurring are those with a decrease relative to the size of the wage earning population with coverage. Brazil and Chile show a drop from 74.0 percent and 79.9 percent to 67.0 percent and 62.8 percent respectively. The most dramatic case is Ecuador where contribution fell from 55.1 percent in 1990 to 39.2 percent in 2000. Ecuador in this respect could be seen as representative of other countries experiencing late modernization such as Bolivia or the majority of the Central American countries. At the same time, we see contrary tendencies in the case of Colombia, Mexico, and especially Uruguay that currently shows an almost universal coverage.<sup>8</sup>

The second dimension concerns productive restructuring and the flexibility of work. De la Garza (2000) evaluated the forms of flexibility in Latin America and reached the following conclusions. First, the phenomenon of flexibility occurs primarily in the more developed countries of the region. Second, as a rupture in, or weakening of, corporate pacts was taking place, the firms tended to unilaterally impose more flexibility. Third, even though both functional and numerical flexibility are most common, wage flexibility is gaining ground. Fourth, the state encourages flexibilization, either by introducing the necessary legislation (Argentina or Colombia) or by encouraging neocorporate pacts (Mexico). From another perspective, taking the most advanced experiences of organizational innovation in the region as a reference, Carrillo (1995) clarifies that these innovations are not introduced comprehensively but are the result of initiatives taken by individual firms. Moreover, labor conditions are imposed unilaterally without much negotiation, and with little involvement of the work force. Nevertheless, Mora Salas (2000) argues that not all reorganization processes lead to precarious labor conditions.

<sup>7</sup> In relation to the total EAP the decrease has been 29.6% in 1990 to 26.9% in 2000 (OIT, 2000: table 8-A).

<sup>8</sup> With respect to the reforms of the social security system, Tamez and Moreno (2000) point out that it is difficult to speak of regional patterns as each national case produces its own peculiarities. Nevertheless, they emphasize one crucial commonality across the region: the prevalence of mixed models implying a redefinition of the public and the private, where the former finances services and the second provides them. Specifically, for pension schemes Mesa-Lago (1999) demonstrates the existence of an inverse relation between the extent of democratization and privatization.

The third dimension refers to the debilitation of unionized labor, one of the foremost victims of the crisis of the 1980s (Roxborough, 1989). The weakening of labor has primarily been the result of the change in the mode of accumulation. With the insertion into the global market, wage costs became of central importance and could no longer be transferred to the consumers as transpired under the protectionist framework of import substitution industrialization (Murillo, 2001).<sup>9</sup> This change manifests itself as a new articulation between the political and economical, challenging the previous model in which union actions focused on the state rather than the firm (Zapata, 1993). But two factors condition how these debilitating tendencies generate different national outcomes. On the one hand, the processes of democratization coincided with the shift towards the new model of accumulation, affecting trade union action since union members played an important role in the processes throughout the region (Koonings et al, 1995). In this respect, Zapata (1993)<sup>10</sup> signals the unfolding of a disjunction between the identity of the citizen and the class-consciousness of the worker, disconnecting political citizenship (democratization) from solidarity. On the other hand, union actors were not passive subjects in the transformation of the mode of accumulation. Their historic alliances with populist parties that converted to neoliberalism allowed them to influence the process to a certain extent. In this respect, Murillo (2000) suggests a possible interpretation by taking three factors into account (party loyalty, internal leadership competition, and competition between unions) to generate four types of union action (cooperation, subordination, opposition, and resistance).<sup>11</sup> Obviously, underpinning these elements are also the changes occurring in the occupational structure, which have eroded the traditional base of union recruitment (Zapata, 1993; Koonings et al, 1995; Murillo, 2001). The crisis of formal employment, analyzed earlier, explains this erosion.

During the first half of the 1990s, the level of unionization in Latin America, expressed as an average over 21 countries in the region, was 21.2 percent.<sup>12</sup> During the following five years, this fell to 19 percent. A significant increase occurred in Ecuador and Nicaragua, probably related to the migration of non-unionized labor to other countries. Chile, Venezuela, and the Central American countries reflect substantial decreases (OIT, 2002: Table 3b). The lowest levels occur in the Central American countries, reflecting a long history of repression curbing union activity (Pérez Sáinz, 1999).

Latin American unionism has been undergoing two trends, namely, its weakness at the political level expressed in the crisis of so-called populist corporate syndicalism, and its more influential presence at the firm level. However, concerning the latter, there is yet very little documented experience (Lucena, 2000). Due to productive restructuring, two diverging strategies are emerging within the union movement in Latin America (de la Garza, 2000). One is the neocorporative in which the union establishes itself as “business partner” of the firm encouraging productivity. The other seeks autonomy, recapturing its political

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<sup>9</sup> This argument demands a more nuanced analysis. On the one hand, we need to know to what extent to which wage costs are reflected in the final price and, on the other, and more importantly, the extent to which northern consumers will accept higher prices in return for better labor conditions. We are grateful to Bob Pollin and James Heintz for pointing out this nuance in interpretation.

<sup>10</sup> The characterization of Latin Americans as sociopolitical—and not just social—actors (Touraine, 1988), demands rethinking given the contemporary context.

<sup>11</sup> See the analysis by this author on Argentina with Menem, Mexico with Salinas, and Venezuela with Carlos Andrés Pérez (Murillo, 2000).

<sup>12</sup> This reflects the percentage of unionized EAP. Included in this group are Jamaica, Surinam, Trinidad, and Tobago.

orientation but establishing new alliances, political (new parties) as well as social (informal workers), alliances.

The phenomenon of increasing precariousness also affects the new, emerging wage relations. This becomes apparent when evaluating labor behavior in terms of the wage gap under the new mode of accumulation. Export-oriented activities, through which the new processes of proletarianization are taking place, have become one of the fundamental components of the new mode of accumulation. The promotion of these activities constitutes a key element in the rationale of those who defend structural adjustment and their assumed benefits for the labor market. From this perspective, it is argued that export orientation will generate more employment since tradable activities are characterized by labor intensive technology. In terms of employment, the assumption is that this will benefit the relatively abundant less-skilled labor force and that this will generate its corresponding redistributive effects.

To examine the extent to which this assumption is realistic, we can analyze the evolution of wages during the 1990s. The evidence shows three phenomena. The first involves the rise in wages for the well-educated labor force, exacerbating the wage gap between different types of labor. Only a few countries have been able to constrain this gap through active wage policies. The second phenomenon draws attention to wage differentials between large and small firms, which were reduced during the 1980s crisis but increased again during the 1990s. The reason for this lies in the reorganization strategies applied by large firms, which led to a reduction of the work force and an increase in their productivity levels, thus allowing them to pay higher wages to the personnel they retained. Thirdly, we have observed a reduction in the gender wage gap due to the incorporation of more educated women—relative to men—in the labor force, and to the growth of the service sector heavily oriented towards female labor. In fact, this reduction in wage difference between men and women is the only substantial labor achievement that has resulted from structural adjustment policies in the region (Weller, 2000).<sup>13</sup>

Both the decline in public employment and the precariousness of wage relations are expressions of the crisis of formal employment. In other words, the change in the mode of accumulation has clear labor manifestations, commonly interpreted as growing informalization. However, this interpretation ignores the change itself that is taking place in the mode of accumulation. From a regulationist perspective, the concept of informality is relational; that is, informality exists as long as formality exists and, in this relation, the latter is the defining force. Consequently, if informal employment is in crisis then the distinction formal/informal blurs.<sup>14</sup> More adequate would be to speak of *deformalization*—not synonymous with informalization—indicating that the previous form of modernized labor is disappearing as a new mode of accumulation emerges with a different labor logic.

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<sup>13</sup> This has served to alleviate the loss of impact that the public sector had in the past on public employment with respect to gender equity (Psacharopoulos and Tzannatos, 1992): a role that is strongly reduced due to loss of importance of this type of employment, as explained in the first section.

<sup>14</sup> For distinct reasons, we also question the alternative conceptualization of informality used in Latin America by PREALC/ILO. With the new technological revolution based on microtechnology, one can no longer uphold the Fordist association between size of firm and technology. Therefore, we argue that the concept of informality is losing heuristic capacity (Pérez Sáinz, 1998).

### III. THE STRUCTURAL NATURE OF UNEMPLOYMENT

Open unemployment, even if not the principal mechanism of labor adjustment during the 1980s crisis, constitutes one of the more notorious characteristics of current labor dynamics. During the 1990s, high-unemployment levels persisted alongside economic recovery. The region had an urban unemployment average of 8.3 percent in 2000, identical to that in 1985 when the region found itself in the middle of the debt crisis (OIT, 2001: Table I-A). Table 3 allows us to see the evolving patterns of urban open unemployment.

**Table 3: Latin America: Evolution of Urban Open Unemployment (1990-2000)**

1990	Increased	Decreased
High (>5.7%)	Argentina (15.1%)	El Salvador (6.6%)
	Bolivia (7.4%)	Honduras (5.2%)
	Chile (9.2%)	Panama (15.3%)
	Colombia (17.2%)	Peru (7.0%)
	Ecuador (14.1%)	Dominican Rep. (13.9%)
	Nicaragua (9.8%)	
	Uruguay (13.6%)	
	Venezuela (13.9%)	
Low (≤5.7%)	Brazil (7.1%)	Costa Rica (5.3%)
	Paraguay (10.0%)	Mexico (2.2%)

Source: OIT (2001; Table I-A)

The majority of the countries in the table correspond to a pattern of an initial high level of unemployment that increased over time. This phenomenon shows that with this new model, unemployment has taken on a structural, instead of a cyclical, nature. A number of countries, showing an initial high level, decreased their rate of unemployment over the decade. Several of these have significant transnational migration flows as in the case of Ecuador and the Dominican Republic. This suggests that the phenomenon of migration is complementary to the adjustment of the labor market in these countries. The table also indicates that at the end of the decade, eight countries found themselves in an alarming situation with two-digit unemployment levels: Argentina (15.1 percent), Colombia (17.2 percent), Ecuador (13.6 percent), Panama (15.3 percent), Paraguay (10.0 percent), the Dominican Republic (13.9 percent), Uruguay (13.6 percent), and Venezuela (13.9 percent). As in the past, women and especially the young were among the most affected labor groups. With respect to the female labor force, the high levels of unemployment are of

particular relevance as the region experienced a feminization of the labor force (Tardanico and Menjivar Larín, 1997; Stallings and Peres, 2000).<sup>15</sup>

The significance of open unemployment provides four key issues of concern beyond the process of labor market adjustments. The first involves the nature of the new economic model and its incapacity to generate sufficient employment (Tokman, 1998). In fact, unemployment became the worst labor outcome of the new accumulation model (Stallings and Peres, 2000). In this respect, two phenomena stand out. On the one hand, with the implementation of labor deregulation, it can hardly be argued that unemployment is an outcome of rigid labor markets. On the other, the current generation of self-employment has reached its limits and can no longer play the same role in absorbing surplus labor in the way informal employment did in the previous decades. More troubling is that the opening of national markets to international competition, promulgated by structural adjustment programs, has rendered a series of self-employment activities nonviable. The informal sector is no longer able to perform its previous anticyclical function in absorbing the effects of labor market adjustments. In fact, certain self-employment activities progressively have acquired a more procyclical behavior (Cerrutti, 2000).

The second issue concerns the erosion of social capital, and in particular, of the networks needed to access labor markets. This reminds us that the resources mobilized by low-income households to confront poverty, are not immune to significant social changes and will transform from "resources for the poor" to the "poverty of resources" (González de la Rocha, 1999).

The third issue is related to the question of identity. Labor identities are central in a society where the social recognition of work is expressed in the wage earned. Those becoming unemployed lose their source of identity. And, for the newcomers to the labor market, unemployment implies a lack of recognition. Consequently, processes of identity formation suffer both mutilation and fragility. The result is anomic behavior, a recurring phenomenon among the young, the group most effected by unemployment; involved in a culture of consumerism, they are often seduced by the escape routes of violence. Identity is mediated through consumption, secured through the transgression of norms and recourse to violence. Individualism is imposed on the collective, competitiveness over cooperation, and a shying away from the public sphere to retreat into the private (García Delgado, 1998).

Finally, unemployment is closely associated with poverty and vulnerability. Its positive correlation with pauperization has been demonstrated in numerous studies. This has taken on a particularly worrisome direction for the young, as the dynamics of intragenerational poverty transmission endure and neutralize historic tendencies of poverty reduction (Tokman, 1998). Less studied is the nexus of unemployment and vulnerability. Less socially polarized societies have little use for the dichotomous perspective of rich and poor but instead demand an analytical and empirical incorporation of a third category: vulnerability. In this

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<sup>15</sup> Of these eight countries, only in the Argentinean case the level of male unemployment exceeds female unemployment. In the case of Ecuador, gender disaggregation of unemployment was unavailable.

type of situation, unemployment implies a potential risk for integrated but vulnerable households to fall into pauperization.<sup>16</sup>

#### IV. THE TRANSNATIONALIZATION OF THE LABOR FORCE

If there is an inherent tendency of labor exclusion to global modernization, it is clearly related to transnational migration. But this relation carries a paradox: it globalizes the labor force even as transnational migration involves an extreme form of exclusion that brings with it territorial uprooting. In terms of employment, two issues merit attention.

The first concerns the emigration of the work force as an adjustment mechanism of the labor market in certain Latin American countries. Now that the limits of self-employment have become evident, emigration takes on the function of absorbing surplus labor, previously the domain of the informal sector. Emigration is the current escape valve of labor markets characterized by limited employment opportunities. Furthermore, remittances from abroad influence the levels of labor force participation, unemployment, remuneration, and thus the labor dynamics in the countries of origin (Funkhouser, 1992a; 1992b).

The second issue transcends the question of labor exclusion, and poses a great analytical challenge. Transnational migration redefines the territoriality of labor markets, and more explicitly their national dimension. The previous model of modernization carved out clear social territory: urban areas, especially metropolitan zones, demographically fed by rural labor migrating to the cities. It was in this sense that the focus was on national labor markets. However, globalization alters this spatial configuration. Transnational migration questions the position of national labor markets as the only occupational arena. Moreover, this is enforced by the revitalization of the local, which paradoxically is often induced by globalization, affecting primarily rural areas where local labor markets develop under the direct impact of global forces.

With the globalization of the local, another crucial phenomenon of the new global modernity merits analysis: the loss of centrality of agricultural activities and their territorial consequences for the national labor market. This loss implies that the classical spatial distinction between the urban (modern) and rural (traditional) of earlier modernity is being redefined. Since the crisis of the 1980s, the ongoing territorial redistribution of activities and employment renders the spatial distinctions less clear (Tardanico and Menjivar Larín, 1997). Contemporary studies on rural development show that the local economy has established itself as the pertinent unit of analysis, in which the relation between urban centers and their rural surroundings are crucial. This redefines the horizon of the rural labor market in a much more complex manner than before. Likewise, one can no longer reduce rural employment to agricultural labor, instead, as has been documented in Central America, rural income is increasingly determined by

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<sup>16</sup> In the case of Costa Rica, during the '90s, Pérez Sáinz and Mora Salas (2001) show that the decline in the percentage of poor households is accompanied by an increase of households at risk of pauperization. It has been the risk of poverty, and not poverty itself, that indicates the true barrier for upward social mobility.

nonagricultural activities (Weller, 1997). This questions the continuity of the historic significance of the peasant as relevant actor in globalized modernity (Martínez, 1999).

These spatial alterations also reflect the fact that prototypical activities of globalization, such as the maquila industry and the free trade zones, shy away from urban metropolitan sites that were the preferred location of import substitution industries. The northern border of Mexico, the location of free trade zones in the Dominican Republic, or the greenfields in Brazil are exemplary in this respect. At the same time, particular industries (agroexports, handicrafts, tourism, etc),<sup>17</sup> have propelled local community-based economies into the global market, causing local labor markets to adapt more to global impacts than national ones.

Consequently, we witness a fragmentation of national labor markets as the metropolitan zones are no longer the central locality for employment opportunities, or the inevitable destiny of internal migratory flows. As a result, national labor markets significantly lose their importance. This is exacerbated with transnational labor migration, a phenomenon that, as mentioned, proves to be a principal form of labor exclusion. In other words, national labor markets no longer function as the sole force behind employment dynamics.

## V. THE PERSISTENCE OF SUBSISTENCE SELF-EMPLOYMENT

Historically, surplus labor was not reflected in recorded open unemployment in Latin America, but found its principal expression in the rural peasant economy and urban informality. The urban informal sector grew exponentially during the crisis of the 1980s and established itself as the principal adjustment mechanism of urban labor markets (PREALC, 1991). Self-employment and employment in small enterprises gained further importance in the 1990s, incorporating 40 percent of the nonagricultural labor force in comparison to 37 percent ten years earlier (OIT, 2001; Table 6A).

For our purposes, it is interesting to identify forms of self-employment driven by the logic of subsistence, as they exemplify the tendency of exclusion. The predominance of the logic of subsistence implies a convergence of workplace and home, and it is the latter that imposes itself, a logic generally determined by pauperization. Therefore, we argue that this type of self-employment corresponds to an economy of poverty: the poor producing for the poor. Examining the relation between this self-employment and poverty sheds light on both its magnitude and evolution. How this unfolds for the region, taking into account both urban and rural manifestations, is shown in Table 4.<sup>18</sup>

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<sup>17</sup> For the Central American case see Pérez Sáinz and Andrade-Eekhoff (2003).

<sup>18</sup> This table, as those following, is set up differently than the previous ones. The rows reflect whether the percentage of rural employed poor has decreased or not during the '90s. The columns show whether the number of self-employed in agricultural (excluding professional and technical staff) as a proxy for subsistence farmers, is higher or lower than the total of rural employed in poverty. The percentages of self-employed workers under the poverty line are given in parenthesis.

**Table 4:** Latin America: Evolution of the Incidence of Poverty of Self- Employment in Agriculture (1990-1999)

Evolution of the incidence of poverty of total employed in rural areas	Evolution of the incidence of poverty of self-employment agriculture	
	Greater	Lower
Decreased	Brazil (55%) Colombia (66%) Costa Rica (21%) Guatemala (69%) Panama (42%)	Chile (21%) Honduras (89%) Nicaragua (87%)
Increased	El Salvador (80%) Mexico (64%)	Venezuela (44%)

Source: CEPAL (2001; table 18)

Characteristic for the majority of the countries in table 4 is a general reduction of rural poverty, with higher incidence for agricultural self-employment (i.e., peasants). El Salvador and Mexico deviate from this with a general increase in pauperization, even more pronounced in agricultural self-employment. Even though the table shows tendencies towards an improvement, two important facts stand out. First, in all countries the level of pauperization of the peasantry is higher than the level for the aggregate of rural workers. Second, in most countries the majority of peasants find themselves in a state of extreme poverty. These levels are very high, as in the case of El Salvador (80 percent), Honduras (89 percent), and Nicaragua (87 percent).

The new economic model dramatically affected rural labor markets in two ways. The first is that, in those cases where farmers owned communal land, the introduction of policies creating land markets accelerated the proletarianization of the peasantry. Secondly, new capital intensive technologies displaced workers, thereby accentuating the seasonality of agricultural labor (Thomas, 1997). This reinforces a historic trend already present in the previous modernization (Gómez and Klein, 1993).

The same exercise of relating poverty to self-employment can be repeated in the case of urban self-employment. Here, the available information provided in Tables 5a and 5b<sup>19</sup> allows us to distinguish between productive and nonproductive activities.

<sup>19</sup> An extra column is added to tables 5a and 5b to incorporate those cases that, contrary to the rural context, show an inverse relation between the evolution of the poverty of the aggregate of urban employed and the self-employed. That is, with an increase in poverty for the urban employed, the self-employed shows a decrease, and vice versa.

**Table 5a:** Latin America: Evolution of the Incidence of Poverty in Industrial and Construction Self-Employment (1990-1999)

Evolution of the incidence of poverty of total employed in urban zones.	Evolution of the incidence of poverty of self-employed in industry and construction.		
	Greater	Lower	Opposite sign
Decreased	Chile (11%)	Brazil (33%)	Guatemala (51%)
	Colombia (60%)		Mexico (39%)
	Costa Rica (17%)		Nicaragua (59%)
	El Salvador (43%)		
	Panama (24%)		
	Uruguay (12%)		
Increased	Bolivia (66%)	Ecuador (68%)	
	Nicaragua (59%)	Venezuela (33%)	
		Honduras (80%)	

Source: CEPAL (2001; Table 17).

**Table 5b:** Latin America: Evolution of the Incidence of Poverty in Urban Commercial and Service Sector Self-Employment (1990-1999)

Evolution of the incidence of poverty of total urban employed	Evolution of the incidence of poverty of self-employed in the commercial and service sectors.		
	Greater	Lower	Opposite sign
Decreased	Brazil (27%)	Colombia (54%)	Guatemala (46%)
	Chile (9%)	Uruguay (9%)	Mexico (30%)
	Costa Rica (16%)		
	El Salvador (35%)		
	Panama (26%)		
Increased	Bolivia (43%)	Ecuador (62%)	
	Nicaragua (52%)	Venezuela (34%)	
		Honduras (72%)	

Source: CEPAL (2001; Table 17).

Concerning productive activities, Table 5a shows that, for the majority of the countries included, the degree of pauperization of the self-employed declined more than that of the total urban labor force.<sup>20</sup> In certain cases however, the reduction in poverty is considerably less, or worse, the opposite occurs. Similar results are observed for the nonproductive activities in table 5b. Nevertheless, as in the case of the peasantry, the level of pauperization for both types of employment is higher than that of the total amount of urban labor employed, Chile being the only exception. Explicit attention is warranted for those cases where the majority falls below the poverty line. For productive activities, this is the case for Bolivia (66 percent), Colombia (60 percent), Ecuador (68 percent), Guatemala (51 percent), Honduras (80 percent), and Nicaragua (59 percent), whereas for the nonproductive activities this is the case in Colombia (54 percent), Ecuador (62 percent), Honduras (72 percent), and Nicaragua (52 percent). This implies that countries characterized by late modernization continue to have an overall urban economy of poverty.

Thus, despite a certain reduction in subsistence self-employment as a result of the dynamics of poverty reduction during the 1990s, a serious contingent of an impoverished self-employed labor force prevails, especially in rural areas.

This type of self-employment is to a large extent a continuation of the past, especially concerning its urban component, the informality of subsistence. Nevertheless, certain new elements allow the economy of poverty to incorporate the so-called "new poor." The concept of the new poor applies to those groups, wage earning urbanites in particular, who have their basic needs met by locating in the cities, but the crisis of the 1980s substantially reduced their income to levels below the poverty line. Katzman (1989) introduced this term to distinguish this group from the structural poor for two reasons: they are not subjected to the same mechanisms that perpetuate poverty (especially intergenerational mechanisms), and they can overcome their distress if the economic climate improves.

Even though tendencies of exclusion can be interpreted as a continuation of the past, the new mode of accumulation has introduced substantial changes to social integration. In the previous form of modernization, the integrational process was based on a harmonious triangle that related the labor market with social policies and well being. Essentially, this triangle implied a mutual interrelation of three phenomena: formal employment, state regulation, and social integration. Urbanization and social mobility allowed the constitution of social citizenship by way of a formal sector of urban labor, consolidated by the state with the coverage of social security. Obviously, distinct modalities of modernization (early, accelerated, and late) and their corresponding national arrangements determined different outcomes in each country (Mesa-Lago, 1994; Roberts, 1996). Yet, this triangulation of national modernity was challenged by the crisis of the 1980s. Two independent relations in terms of social integration were redefined. On the one hand, state intervention directed at the construction of social citizenship is no longer mediated through employment. Social policies of the region have, for some time now, been focused on specific social groups (preferably the extreme poor) with particular needs (primarily education

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<sup>20</sup> Argentina is absent in both tables as the rate of pauperization of the urban employed remained stable throughout the 1990s (information available only for Great Buenos Aires). The same occurred with the self-employed in the service sector (8%) while those in the productive sector show an increase from 6% in 1990 to 14% ten years later.

and housing). On the other hand, with the substitution of the state by the market, propelling the latter to the center of societal construction, the labor market emerges, more than ever, as the primary force in shaping the dynamics of social (dis)integration. Therefore the effects of the substantial transformation of the structures of employment, in response to the crisis, the subsequent structural adjustments, and the process of globalization will be quite distinct.

At the root of this transformation lies the double impact that globalization has had on the process of integration. On the one hand, integration no longer presupposes the constitution of the state as an integrated community, allowing certain sectors to be considered dispensable. The term exclusion, therefore, takes on a contemporary analytical importance to the extent that the integration of labor is absent from the project of globalization. On the other hand, with the displacement of the state by the market, access to employment opportunities defines the labor market. Fundamental to both is the access to knowledge, the key resource of globalization (Sojo and Pérez Sáinz, 2002).<sup>21</sup>

## VI. CONCLUSIONS

The hypothesis that exclusionary trends dominate labor dynamics in globalized modernization is verified by three arguments developed in this paper. The first is provided by the deterioration in the processes of integration prevalent during the previous modernization, reflected by both the reduction in public employment and the increasing precariousness of wage relations.

The second argument has to do with the prolongation of earlier exclusionary trends, most evident in the persistence of subsistence self-employment as a primary product of the inertia of both urban informality and the peasant economy. Nevertheless, the current extent and composition of poverty is not exactly the same. This type of exclusion is projected on wage laborers employed in small firms. Even though one could argue that labor processes are less hierarchical and that the differences between those who own the means of production and those who do not are less pronounced, precariousness is felt throughout. Furthermore, hidden behind unpaid family labor, a common form of labor supply in this context, are gender and age inequalities.

Third is the emergence of new expressions of labor exclusion. The structural nature of open unemployment, as an intrinsic element of the new mode of accumulation, has displaced its previous cyclical character. At the same time, the propensity for transnational migration reflects an exclusionary force that results in the displacement of the work force from its own country.<sup>22</sup>

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<sup>21</sup> In this respect, Filgueira (1999) discerns a historic parallel between disintegratory impacts of market expansion on precapitalist peasant communities and the current process of globalization and their effects on the nation/state and its social protection functions.

<sup>22</sup> Transnational migration also affects domestic labor that, given the high cost of personal services in the global North, has taken on a global dimension. The modernization of Latin American societies has not led to the disappearance of domestic labor. In 1990, it represented 5.8% of nonagricultural EAP, growing to 6.7% in 2000. This sector remains a highly feminized labor domain, absorbing 15.4% of the women employed in nonagricultural activities in 2000 (OIT, 2001: Table 6-A).

Analytically the most relevant of this predominance of exclusionary tendencies is the new nature of the nexus of surplus labor and emerging mode of accumulation. The functionality that surplus labor had in the past does not hold for today. Surplus labor served a double purpose in the industrialization process based on import substitution.

On one hand, it exercised a downward pressure on wages and labor costs in general, especially with respect to social benefits, as a result of formal firms outsourcing a series of activities to the informal sector. On the other hand, and due to the difficulties inherent to protected economies, the formal sector could not provide all the goods and services needed for the reproduction of the labor force it controlled. Once again, informal activities absorbed this reproductive deficit with their own modalities of goods and service provision (Portes and Walton, 1981). With the new mode of accumulation, this double functionality of surplus labor has lost its purpose. Concerning its first function, the precariousness of wage relations has "deformalized" employment. The globalization of consumption, encouraged by the opening of national economies, has done the same for the second function.

Consequently, surplus labor is less functional for the current mode of accumulation than before. Yet, as this paper points out, exclusion is not foreign to the new model.<sup>23</sup> On the contrary, exclusion finds its most explicit expression in the contingencies of surplus labor that have become inexpedient, and thereby dispensable.

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<sup>23</sup> It is in the current context that old theories on marginality acquire pertinence.

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# Informalization and Defeminization: explaining the unusual pattern in Egypt

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## I. INTRODUCTION

The international literature on gender and structural adjustment describes a general tendency whereby increased deregulation of labor markets and informalization go hand in hand with greater feminization of the labor force. One of the consequences of neoliberal reforms around the world has been the erosion of job security regulations and other worker protections mostly through increased informalization rather than through explicit deregulation and legal reforms. Informalization involves the evasion and loosening of the institutional framework of labor regulation in an attempt to achieve greater flexibility and to avoid the cost of social insurance (Castells and Portes, 1989; Meagher, 1995). Far from occurring "outside the state," informalization often takes place with the full complicity of the state, which is selectively enforcing its own rules.

The literature has convincingly shown that informalization has typically led to an absolute and relative growth in the use of female labor (Standing, 1989; 1999; Cerruti, 2000; Cagatay, Elson, and Grown, 1995; Valodia, 2001; Mehra and Gammage, 1999; Benería, 2003). This increased participation in the labor market on the part of women is occurring as a result of the expansion of the sectors in which women have been traditionally employed, such as sales and services, but also through the feminization of jobs traditionally held by men, as these jobs have undergone wage erosion, reduced protection, and greater insecurity.

Like many other developing countries, Egypt has gone through a far-reaching economic liberalization and structural adjustment program since the mid-1970s. As has occurred elsewhere, these reforms have led to little explicit deregulation of the labor market, but have been accompanied by significant informalization of employment relations. As formal employment opportunities dwindled in the civil service and the large state-owned enterprises, they were increasingly replaced by informal jobs in the private sector, which offer no job security or social insurance protection. Unlike what happened in other developing regions of the world however, the Egyptian labor market, and in particular its private sector component, is becoming defeminized. Women are experiencing reduced access to employment in the segments of the labor market that traditionally employ women and these sectors are growing more slowly than male-dominated segments. Conversely, male-dominated segments are not becoming more feminized.

The main purpose of the paper is to explain this unusual pattern. The potential explanations I explore in this paper are the effect of oil and oil-related revenues on the supply of, and demand for, female labor. Others have stressed that oil-related revenues strengthen patriarchal family structures that depend on a single male breadwinner, thus reducing the supply of female labor. I argue that the adverse impact of oil-related revenues on agriculture and labor-intensive manufacturing, which reduces the demand for female labor, is likely to be a more important explanation of defeminization.

## II. STRUCTURAL ADJUSTMENT, INFORMALIZATION, AND FEMINIZATION

A dominant and recurrent theme in the literature on structural adjustment and gender is the increasing feminization of labor markets that occurs under structural adjustment as employment becomes more flexible, casualized, and informalized. Structural adjustment is said to have led to an intensification of women's reproductive work, an increase in female participation, and a deterioration of working conditions. The feminization hypothesis was first proposed by Standing (1989) who argued that the increased implicit deregulation of labor markets brought about by the need for flexibility and lower costs in global production systems is leading to the feminization of jobs previously held by men. There had been considerable previous work on the trend toward the informalization of employment (Portes and Sassen-Koob, 1987; Castells and Portes, 1989); on the feminization of employment in labor-intensive export-oriented industries (Elson and Pierson, 1981; Fernandez-Kelly, 1983); and on the growing participation of women in the informal sector (Benería and Roldan, 1987), but Standing was the first to link feminization with informalization in such a direct fashion. Subsequent research in a variety of contexts and regions has essentially confirmed the feminization hypothesis, while adding a number of refinements to it (see Cerruti, 2000; Valodia, 2001; Floro and Shaefer, 1998; Benería, 2003).

Floro and Shaefer (1998) working in the Philippines and Zambia have argued that the labor market changes brought about by structural adjustment in these countries has not redressed women's position of subordination in the labor market, but simply altered its form. Shrinking employment in the civil service and the dissolution of large state-owned enterprises has severely restricted formal employment opportunities for women. This has forced women in both countries to increasingly rely on informal sector activity, with many being forced to create their own employment. In Zambia, where industrial production never recovered, these jobs were primarily in the services and trade sectors. In the Philippines, the type of industrialization that emerged under the structural adjustment process, which basically consisted of export-oriented labor-intensive production, has promoted the employment of young women. There was also a significant increase in outsourcing to female workers doing industrial piecework in their homes. Nonetheless, even in the Philippines, most of the increase in female employment was in small-scale, informal sales and services activities.

Other authors confirm that the observed patterns for the Philippines in Floro and Shaefer's work apply to much of Latin America and Southeast Asia, and the pattern in Zambia applies to much of the rest of sub-Saharan Africa (Meagher, 1995; Cerruti, 2000; Mehra and Gammage, 1999). In Africa women

predominate in the informal sector, which generates over 60 percent of female employment. However, in contrast to trends in Latin America and Asia, informal sector employment among women has not contributed to increased female participation in manufacturing, either as industrial workers or as homeworkers in subcontracting networks (Meagher, 1995).

### III. THE MAIN DATA SOURCES

The empirical analysis that follows is based on nationally representative household surveys for the years 1988 and 1998. Both surveys used a similar sample and questionnaire designed to ensure the comparability of the data. The surveys include extensive data concerning basic demographics, employment, unemployment, occupational history, migration, education, earnings, parental background, and women's work. The Egypt Labor Market Survey (ELMS, 1998) was carried out exactly ten years to the day after the October 1988 special round of the Labor Force Sample Survey (LFSS, 1988) to avoid any issues related to seasonal labor demand or unemployment.<sup>1</sup> The LFSS 1988 was conducted on a nationally representative sample of 10,000 households that excludes the five remote border governorates.<sup>2</sup> The ELMS 1998 was conducted on a similarly designed sample of 5,000 households. All results are weighted by the appropriate sampling weights to reflect the characteristics of the population

### IV. STRUCTURAL ADJUSTMENT AND INFORMALIZATION IN EGYPT

After a period of significant state-control over the economy in the 1960s, the Egyptian government initiated its "open-door policy" in 1974, which consisted of significant liberalization of the trade regime, encouragement of foreign investment, and a greater role for the private sector in the economy. This period coincided with the dramatic increase in the price of oil that followed the October 1973 Arab-Israeli war. As a modest oil exporter, Egypt benefited directly from the higher oil prices, but the bulk of the impact came from the migration of Egyptian workers to oil-rich countries and the remittances they sent back, as well as from foreign aid flows that the Egyptian government received from these newly rich oil-exporting countries. Besides growing rapidly during the 1970s, the Egyptian economy experienced the "Dutch disease" phenomenon that generally affects countries that receive a sudden windfall gain in foreign exchange revenue. The appreciation of the real exchange rate, resulting from the windfall, causes the nontradable industries, like construction and services, to boom, while adversely impacting the competitiveness of tradable industries like manufacturing and agriculture (Shaban et al, 2001). Despite its overall inclination toward increasing the role of the private sector in the economy, the oil windfall temporarily allowed the Egyptian government to "have it all" by significantly increasing government

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<sup>1</sup> The sampling and questionnaire design of the LFSS 1988 is described in detail in Fergany (1990) and that of the ELMS 1998 is described in Assaad and Barsoum (1999).

<sup>2</sup> The excluded governorates are Red Sea, New Valley, Matruh, North, and South Sinai. They constituted 1.4 percent of the Egyptian population in 1996.

employment and resisting calls for privatization of state-owned enterprises, while allowing the private sector to play an expanded role in a growing economy.

After another boost in 1979, oil prices began to decline in 1982 and collapsed in 1986, forcing the Egyptian government to seek emergency financing from the IMF. Several attempts at stabilization in the late 1980s failed to restore external and internal balances, leading to the adoption of the Economic Reform and Structural Adjustment Program (ERSAP) of 1991 (Abdel-Khalek, 2001). The starting point of our analysis, 1988, is therefore situated after the collapse of oil prices in 1986 but three years before the initiation of ERSAP. As shown in Table 1, GDP growth had slowed significantly in 1986 and 1987, but recovered temporarily in 1988 when oil prices increased again. The adoption of ERSAP in 1991 forced the Egyptian government to significantly reduce its budget deficit and close the country's current account deficit, at the cost of much slower growth that year. By 1995 growth had recovered and remained relatively steady at 5 to 6 percent until 2000.

**Table 1: Egypt - Macroeconomic Indicators, 1985-2001**

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
GDP Growth Rate (%)	6.6	2.6	2.5	5.3	5.0	5.7	1.1	4.4	2.9	3.9	4.7	5.0	5.5	4.5	6.3	5.1	2.9
Current Account Balance (as % of GDP)	-9.3	-9.4	-2.3	-1.6	-1.2	-1.5	10.3	6.4	4.9	0.8	0.6	-0.3	0.2	-3.0	-1.9	-1.2	0.0
Overall Budget Deficit (as % of GDP)	-10.4	-12.1	-5.1	-7.6	-5.4	-5.7	-1.0	-3.5	1.7	0.3	0.9	-1.9	-2.0	--	--	--	--

**Source:** World Bank, World Development Indicators, 2003.

**Note:** -- = not available

Although the real exchange rate was significantly devalued in 1991 in the aftermath of the unification of the various exchange rate regimes, the liberalization of the foreign exchange market, and the relaxation of capital controls, it was allowed to appreciate steadily since then. By 1999, the real exchange rate had appreciated by 43 percent compared to its 1991 level, significantly undermining the country's external competitiveness (Radwan and Reiffers, 2004: 30).

Although there were significant legal reforms in Egypt during this period in the areas of trade, foreign investment, privatization, and the regulation of private sector firms, the labor code remained highly restrictive. The labor law that was in force throughout the relevant period for this study (1988–1998) was promulgated in 1981 and retained the emphasis on lifetime job security that characterized the labor codes of the previous state-led period.<sup>3</sup> Law 183 of 1981 basically provided Egyptian workers in regular jobs with lifetime job security after a three-month probation period. Layoffs were only possible under a

<sup>3</sup> A new labor law that significantly reduces these protections was passed by the Egyptian parliament in April 2003.

restrictive set of circumstances that were rarely realized in practice. The social insurance law, which was promulgated in 1975, imposes significant payroll taxes amounting to approximately 40 percent of the wage bill in the private sector (Assaad, 1996).

With the tacit cooperation of the government, private employers could routinely circumvent the job security provisions of the law. They either refuse to grant their workers the employment contracts that the law calls for or force new workers to sign undated letters of resignation upon taking a new job. Although these practices are illegal, they are so widely practiced that they have become the norm. According to the law all regular paid jobs, with the exception of domestic workers, must be covered by legal contracts. A regular job is defined as a job that is not provisional, seasonal, or intermittent. According to household survey data, however, only a small fraction of regular workers in the private sector actually have a legal employment contract. As shown in Table 2, this proportion was 28.6 percent in 1988 and declined to 24.4 percent in 1998. Although the proportion was higher among females than among males in 1988, it declined faster, indicating that the female workforce is informalizing more rapidly than the male workforce. In fact the number of regularly employed females with legal employment contracts in the private sector declined in absolute terms during the period.

**Table 2: Share and Growth Rate (percentages) of Regular Private Sector Wage Employment by Presence of Employment Contract and Sex, 1988-1998**

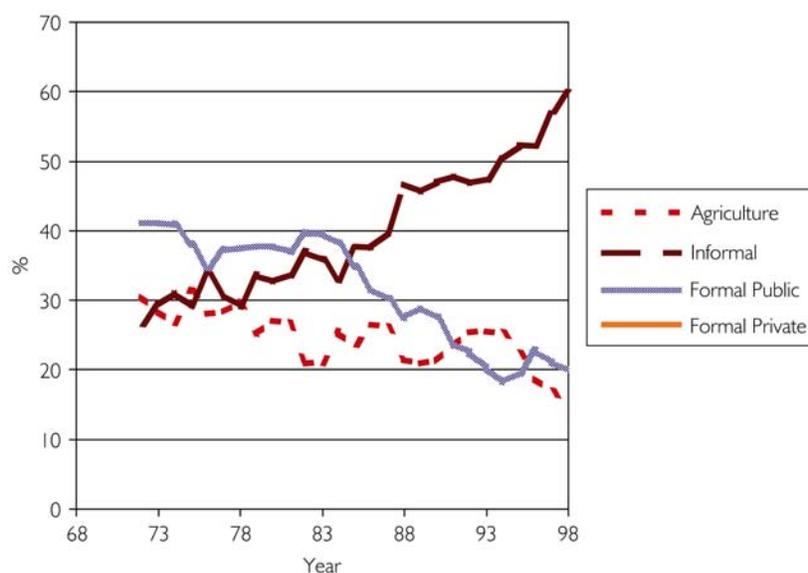
	Male			Female			All		
	Share in 1988	Share in 1998	Ann. Rate of Growth	Share in 1988	Share in 1998	Ann. Rate of Growth	Share in 1988	Share in 1998	Ann. Rate of Growth
Contract	26.8	23.7	3.6	37.2	29.2	-0.7	28.6	24.4	2.8
No contract	73.2	76.3	5.2	62.8	70.8	3.0	71.4	75.6	4.9
All	100.0	100.0	4.8	100.0	100.0	1.8	100.0	100.0	4.4

**Source:** Author's calculations using data from LFSS 1988 and ELMS 1998.

**Note:** About 15 percent of the observations in 1988 had missing information on the presence of a contract. These observations were proportionately allocated to the "contract" and "no contract categories" based on the distribution of observations whose contract status was not missing.

Another indication of the increasing informalization of the Egyptian labor market is the increase in the proportion of new entrants whose first job is informal. In this analysis I use the ILO's definition of informal employment, which is any activity that is unregulated by the formal institutions and regulations of society such as labor laws, registration, and taxation, which govern similar activities in the formal sector. The ILO identified three groups of informal workers, namely owners of microenterprises, own-account workers (self-employed), and dependent workers. The third group encompasses waged workers engaged in full-time or casual employment generally without a formal contract, and working on a regular or casual basis and unpaid workers, including family members and apprentices. Fig 1 shows the percentage of new entrants

going into formal public, formal private, informal and agricultural employment in Egypt from 1969 to 1998.<sup>4</sup> The proportion of new entrants into informal employment rose more or less steadily from nearly 25 percent in 1969 to 65 percent in 1998, with the fastest increase occurring in the late 1980s and early 1990s, the structural adjustment period. Formal private employment increased as well, but still accounts for under 10 percent of jobs for new entrants by 1998. Most of the increase in informal employment came at the expense of formal public employment and agricultural employment, both of which declined significantly in the 1980s.



**Fig. 1:** Distribution of new entrants by type of employment in first job (4-year moving average), 1969-98

**Source:** Wahba and Moktar (2002).

If the analysis is limited to new entrants who enter the labor market after age 18 to eliminate child workers and others who almost by definition enter informal jobs, the picture does not change appreciably. Among those who entered at 18 or older, the proportion entering informal jobs increases more or less steadily from about 20 percent in 1969 to 69 percent in 1998. In contrast, the proportion of those who enter formal public employment declines from a high of 90 percent in 1973 to less than 20 percent in 1998 (Wahba and Moktar, 2002).

When disaggregated by sex, the pattern of informalization among new entrants reveals some interesting differences. Wahba and Moktar (2002) show that although the proportion of new female entrants going to informal employment has increased from 9 percent in 1974–78 to 51 percent in 1994–98, it is still lower than that of males, which rose from 20 percent in 1974–78 to 57 percent in 1994–98. Toward the end of the period new female entrants are relying much more than new male entrants on public formal

<sup>4</sup> The figure shows the four-year moving average to smooth out fluctuations due to estimation error.

employment, which is becoming increasingly scarce. The higher share of public employment among new female entrants is simply an indication that they are more willing to queue for these jobs than males rather than take private sector jobs where they face significant barriers to entry and low wages.<sup>5</sup>

The increased informality of employment among new entrants would not be a necessary indication of informalization if new entrants were able to transition fairly quickly to formal jobs. This is not the case in Egypt, however. Wahba and Moktar show that 94 percent of nonagricultural workers without employment contracts in 1990 were still without contracts in 1998. Similarly, 95 percent of those without social insurance coverage in 1990 were still without such coverage in 1998. Only 6 percent of informal workers in 1990 were able to obtain formal public jobs by 1998 and only 3 percent were able to obtain formal private jobs by that year. These high levels of persistence in informal employment confirm that the observed informalization of jobs for new entrants is evidence of overall informalization of the labor market.

Much of the informalization of the Egyptian labor market that took place in the structural adjustment period occurred because of the slowdown in public sector hiring, without a commensurate increase in formal private sector employment. Because female workers are still more highly concentrated in the public sector, their proportions in informal employment are lower than those of males, but the rate at which their jobs have become informalized is higher. Wahba and Moktar show that while female informal employment has increased by percent from 1990 to 1998, male informal employment has decreased by 3 percent (Wahba and Moktar, 2002).

## V. THE DEFEMINIZATION OF NONGOVERNMENTAL EMPLOYMENT IN EGYPT

A cursory look at Egyptian employment data would show that female employment is rising faster than male employment, so there appears to be at least some feminization of employment. As shown in Table 3, overall employment, according to the "market work" definition increased at an average rate of 3.4 percent per year for females and 1.9 percent per year for males from 1988 to 1998.<sup>6</sup> A closer examination would reveal however, that the more rapid female employment growth is entirely due to the more rapid growth in female employment in the government and nonwage work, which grew 5.4 percent and 3.5 percent

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<sup>5</sup> See Assaad (1997a) for a discussion of the queuing for public sector jobs in Egypt.

<sup>6</sup> The employment figures presented here may differ from those based on the same data sets presented elsewhere (Assaad, 2002) because of differences in the definition of employment used. The definition of employment that is relevant for testing the feminization hypothesis is either "market work," i.e., the production of goods and services for purposes of exchange, or even more narrowly, "paid work," which consists of wage and salary employment. The definition used in the earlier work is the "extended" definition of work, which also includes individuals engaged in the production and processing of primary goods exclusively for the consumption of their own households. Although estimates of employment based on all three definitions are available from the 1998 survey, the 1988 survey only provides estimates based on the "extended" definition or the "paid work" definition. The vast majority of subsistence workers in Egypt are women engaged in agriculture, animal husbandry, and/or the production of dairy products. Sixty-three percent of total female employment under the extended definition fell in this category in 1998, compared to only 0.1 percent of male employment. Ninety-five percent of nonwage workers who were engaged in agriculture, animal husbandry, and the production of dairy products in 1998 were in fact subsistence workers rather than market workers. To approximate the "market" definition of employment using the 1988 data and maintain comparability across the two data sets, I assumed that the proportion of female nonwage workers in agriculture, animal husbandry, and the production of dairy products, and who are subsistence workers, remained the same across the two years. I then excluded the estimated number of subsistence workers from total employment in 1988 to get an estimate of "market employment." I also present results based on the narrower paid work definition, which is available in both surveys.

per year, respectively. Female nongovernmental employment decreased at a rate of 1.3 percent per year during the ten-year period compared to an increase of 2.3 percent per year for males.

**Table 3: Egypt: Employment Shares and Average Annual Growth of Employment by Sector, 1988-1998**

	Share in total employment		Female Share	
	1988	1998	1988	1998
Government	19%	24%	29%	31%
State-Owned Enterprises	9%	5%	14%	12%
Private Wage Work	23%	25%	14%	10%
Nongovernmental Wage Work	32%	30%	14%	10%
Nonwage Work	49%	46%	51%	60%
<b>Total</b>	100%	100%	35%	38%

	Av. Annual Growth Rate		
	Males	Females	Total
Government	4.5%	5.4%	4.8%
State-Owned Enterprises	-2.3%	-4.1%	-2.6%
Private Wage Work	3.7%	-0.4%	3.2%
Nongovernmental Wage Work	2.3%	-1.3%	1.9%
Nonwage Work	-0.5%	3.5%	1.8%
<b>Total</b>	1.9%	3.4%	2.5%

**Source:** Author's Calculations based on data from LFSS 1988 and ELMS 1998.

Thus there seems to be no support for the feminization hypothesis in the Egyptian case under any of the relevant definitions of employment. Outside the government sector, the female share of paid employment declined from 14 to 10 percent.

The rapid increase in government employment during a period of structural adjustments and budgets cuts is rather intriguing. The trend has to be seen against a backdrop of a long-term policy to guarantee employment for all university and vocational secondary school graduates that, although suspended during the relevant decade, was not entirely abolished. By the standards of the 1970s and 1980s government employment has in fact slowed down (Assaad, 1997b). Moreover, an examination of the age profile of government workers in 1988 and 1998, shows that hiring of young workers has in fact slowed down or been delayed significantly, but that older female workers, who would have in the past left the civil service

upon marriage to start a family are now holding on to their jobs much longer (Assaad, 2002). While young men have been, for the most part, able to find alternatives to government employment in the private sector, this does not appear to be the case for young women. With continued emphasis on public sector cutbacks, the prospects of further growth of female employment in the government are dim.

In contrast to employment in the government, structural adjustment has significantly impacted employment in state-owned enterprises (SOEs) through hiring freezes and, to a lesser extent, privatization. The decline in female SOE employment was significantly more rapid than that of males, but all SOE employment declined. There is no evidence that this decline is simply due to a reclassification of workers from the SOE sector to the private sector as a result of privatization. If that were the case the formal private sector jobs would have risen proportionately because all the reclassified workers would fall in this category. As shown in Table 3 above, there is no evidence of this, at least for female workers. Paid employment in the private sector appears to be particularly closed to women in Egypt. While male paid employment in the private sector increased by 3.7 percent per year, female paid employment declined by 0.4 percent per year, reducing the female share in that segment of the labor market from 14 percent to 10 percent.

The defeminization trend observed above is apparently not unique to Egypt. Cross country comparisons reveal that out of the middle income countries, women's participation rates are not only among the lowest in the world in the Middle East and North Africa (MENA), but that MENA is the only region of the world where they have declined in recent years (Horton, 1999).<sup>7</sup> With the exception of Morocco and Tunisia, which have seen significant increases in women's participation in manufacturing, the share of female workers in nonagricultural activities, and in paid employment, is much lower than other regions of the world, such as East and Southeast Asia and South America. Moreover, with the exception again of Morocco and Tunisia, these shares have been either stable or falling, in contrast to other regions where they are increasing rapidly (Karshenas and Moghadam, 2001).

Some authors have highlighted the potential reversal of the feminization trend in export industries as these restructure in a more technological and capital-intensive direction. The special skills required for more technologically sophisticated production often leads to reduced demand for female labor (Ozler, 2000; Mehra and Gammage, 1999; Kim and Kim, 1995). By all indications this is not what is going on in Egypt or the rest of MENA with the possible exception of Turkey. Manufactured exports have hardly taken off at all, for such a trend reversal to be occurring.

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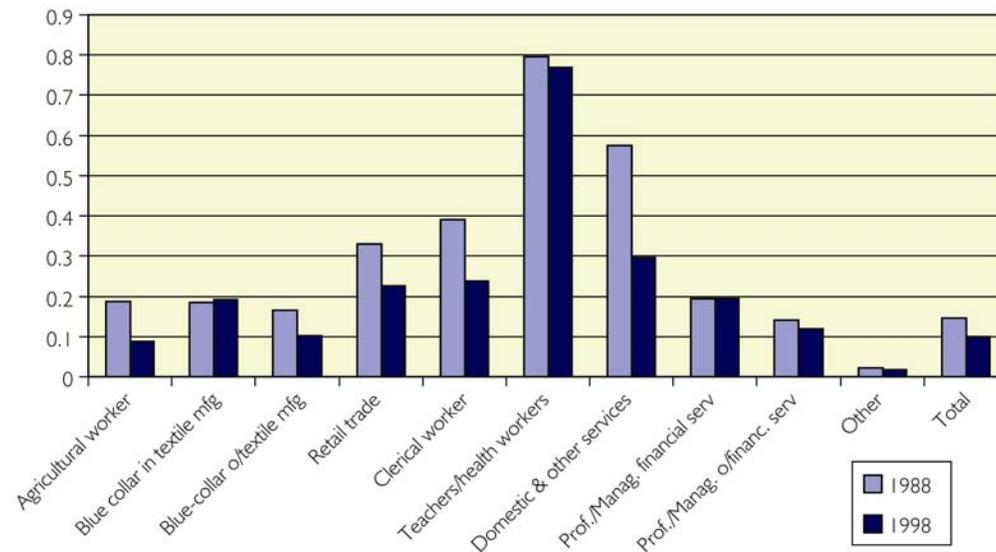
<sup>7</sup> Interestingly Horton shows a significant increase in female participation for Egypt between 1982 and 1992, but her figures reflect a major change in data collection and reporting practices that occurred in 1983 in Egypt. At that time a major effort was made to enumerate women in agriculture and animal husbandry. The variety of measurement practices relating to female labor force participation across countries and their occasional change over time underscores the difficulty of making any firm conclusions about trends from cross-country time series data on employment. See Benería (2003), Anker and Anker (1989), Anker (1990) for a discussion of measurement problems relating to female labor force participation.

## VI. EXPLAINING THE DEFEMINIZATION TREND

To understand the defeminization of nongovernmental employment in Egypt, I begin by taking a closer look at the types of paid employment available to women and how these opportunities have changed over time. Structural adjustment is said to result in feminization by generating pressures to cut costs in tradable goods sectors, leading to the substitution of cheap female labor for more expensive male labor. By providing incentives for manufactured exports, structural adjustment also favors industries that traditionally hire women disproportionately, such as textile and garments manufacturing. Other sectors that may benefit from a more market-oriented economy are retail trade and financial services, both of which tend to hire women disproportionately. On the other hand, by increasing the relative price of tradables to nontradables, structural adjustment may harm women if they are overly represented in the declining nontradable sectors, such as community and personal services. Any cuts in government expenditures would also reduce employment opportunities in the service sector, but much of that decline would occur in the government sector. Nongovernmental provision of such services may in fact increase under such circumstances.

In a previous paper, my coauthor and I combined occupation and industry information to generate a number of job types that would be useful in testing some of the hypotheses laid out above, as well as identify the job types where women were disproportionately represented (Assaad and Arntz, 2004). Figure 2 shows the change in the female share of employment in all the job types we identified as having a higher than average female share in 1988. The "other" category in the figure represents all the remaining job types where the share of female employment was below average in 1988.

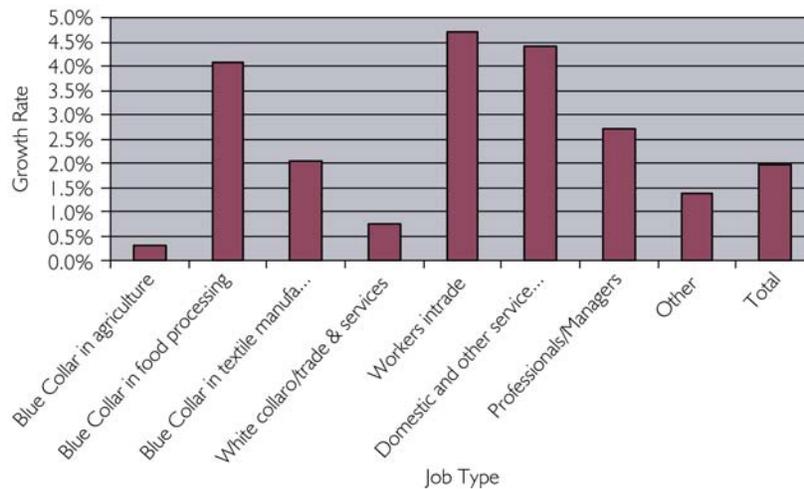
The defeminization of nongovernmental employment in Egypt can be decomposed into two reinforcing trends. First, jobs where women are disproportionately represented at the beginning of the period are becoming defeminized, without a corresponding feminization of male-dominated jobs. The decline in the female share of employment is particularly large for "blue collar in agriculture," "white collar other than trade and services services," "domestic and other services," and "other." The only type of job where the female share is somewhat stable is production work in textile and garment manufacturing as well as food processing. The decline in the female share in the "other" category, which went from 3.5 to 2 percent, shows that female employment is not spreading out into the rest of the economy either. Thus, the informalization of the labor market we documented above has not led to a feminization of either female- or male-dominated jobs.



**Fig. 2: Female share of nongovernmental wage employment by job type, 1988 to 1998**

**Source:** Author's calculations using data from ELMS 1998 and LFSS 1988.

While the defeminization patterns in Egypt are fairly uniform across job types, the growth trends reveal a fairly mixed pattern. Employment in trade and services, blue collar textile and garments manufacturing, blue collar food processing, and professional/manager jobs grew more rapidly than overall employment in the nongovernmental wage work; they even grew more rapidly than sectors that do not proportionately hire women. Employment in agriculture and white collar jobs outside trade and services grew more slowly than average in both countries. In general, however, there isn't an easily observed pattern of growth rates that would explain feminization/defeminization in either country. The defeminization effect seems to play a more prominent role in the decreasing share of female employment in Egypt than a shrinking of sectors that typically employ women. A successful structural adjustment program (including an adequate devaluation) was supposed to favor export sectors, such as agriculture and textile and garment manufacturing; the former grew at a slower than average rate, while the latter did achieve average growth during this ten year period. The liberalization of the economy was supposed to favor trade and financial services, which it did, but in the case of trade, rapid overall growth (which is expected to favor women) was counteracted by defeminization; the sector, which had been disproportionately female, decreased the proportion of women it employed. Expectations of the effect of structural adjustment on the other job types are more ambiguous. Although manufacturing activities outside textiles and garments should have been helped by the currency devaluations that are integral parts of structural adjustment programs, some of these industries may have previously been highly protected and would therefore be hurt by trade liberalization. The manufacturing sector outside textile and garments did grow more rapidly than average, but also experienced defeminization. The remaining sector to have experienced higher than average growth is domestic and other services, but it too had a declining female share.



**Fig. 3:** Average annual growth rate of nongovernmental wage employment in Egypt, 1988 to 1998

**Sources:** Author's calculations based on data from ELNS 1998 and LFSS 1988.

The question remains as to why Egypt, and possibly other MENA countries, are at odds with the experience elsewhere in the world, despite similar processes of economic restructuring and informalization. I will discuss two possible explanations having to do with the impact of oil-related revenues on the economy.<sup>8</sup> The first explanation is a supply-side argument about the effect of oil revenues on the preservation of patriarchal family structures where a single male breadwinner supports the family. The second is a demand-side argument about changes in the structure of the economy due to the so-called Dutch Disease effect that reduces demand for female labor. I will consider each of these arguments in succession.

The first argument is that oil-related revenues during the oil boom period have reinforced the prevailing "patriarchal gender contract" in the Middle East and North African region. Oil and oil-related revenues, such as worker remittances (in Egypt's case), are argued to reduce female labor force participation by reducing female labor supply. By accruing male household members, they reduce labor supply by reinforcing a "patriarchal gender contract," where men are the primary wage-earners and women assume the role of homemakers (Moghadam, 2001; Karshenas and Moghadam 2001). According to this argument, the relatively high income levels made possible by the oil boom, either directly or by means of remittances, contributed to the preservation of the patriarchal family structure by making it unnecessary for women to seek paid employment outside the home. According to this view, the oil boom occurred at a crucial stage of the development of MENA economies when large-scale urbanization and diversification away from traditional agricultural activities was occurring. This stage would have normally been accompanied by increasing female participation, a process that was interrupted by the oil boom. The

<sup>8</sup> Oil-related revenues include revenues from exporting oil directly, as well as revenues from remittances sent by Egyptian workers working in oil-rich countries, and foreign aid received from these countries.

argument basically hinges on the idea that oil raises women's reservation wage and thus restricts their labor supply.

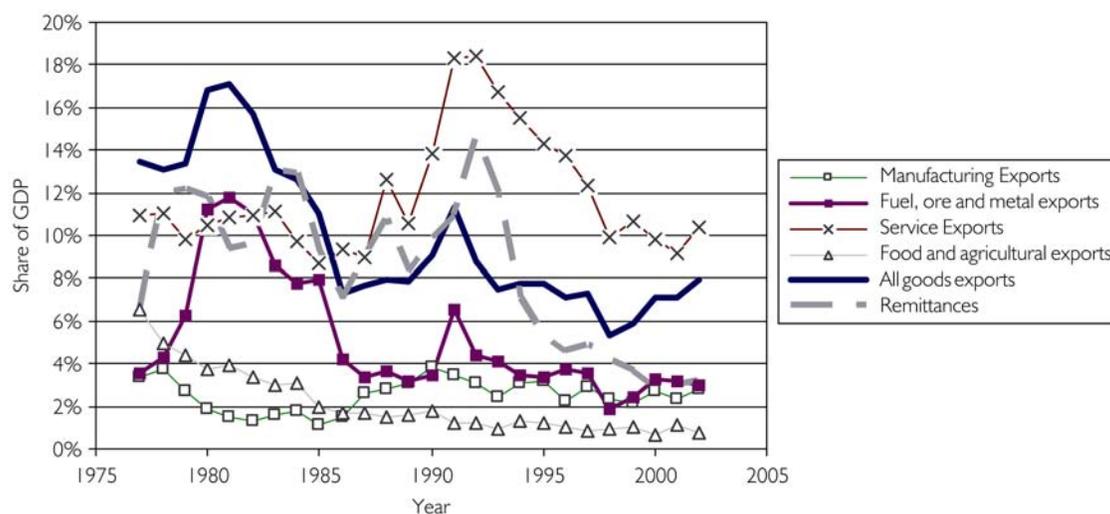
There is considerable evidence from Egypt, however, that casts doubt on this supply-side argument for low, and possibly falling, women's employment rates. Women in Egypt, especially young unmarried women, are willing to work at very low wages. After correcting for human capital characteristics, female wages in the private sector are about half as high as those of males (Assaad, 1997a), suggesting that an explanation that hinges on the restriction of supply is not sufficient. Moreover, female unemployment rates are significantly higher than those of males, suggesting that many young women are keen to find paid work, but are unable to get it, again casting doubt on an argument relying on a restriction in supply. Women are in fact crowding into the few segments of the labor market that are open to them, leading to depressed wages in these segments. Moreover, the supply restriction argument hinges on increasing oil-related incomes flowing to men through migrant remittances and other oil-related employment. As shown in Figure 4 below, oil remittances as a share of GDP grew from 1975 to 1985 and have been declining ever since. Exports of oil (the bulk of fuels, ores, and metals exports) also peaked as a share of GDP during the oil boom era of 1975 to 1985 and then declined sharply in 1986 and remained low until 1998, the end of the period under consideration.

The explanation for low and stagnant female participation in paid employment seems to hinge therefore on the structure of labor demand (what jobs are in fact available) as well as the prevailing gender norms determining what jobs and employment situations are suitable for women. The patriarchal family structure argument can still be salvaged if the "patriarchal gender contract" not only restricts female labor supply, but also determines what occupations and jobs are acceptable for women (Moghadam, 2001). However, to do so, the "patriarchal gender contract" would have to involve much more than the patriarchal family itself, since the suitability of various types of employment for women is determined by employers, society-at-large, as well as a woman's own family.

I argue that the effect of oil and oil-related revenues on the structure of labor demand is a more compelling explanation of feminization/defeminization of the labor force. The literature on gender and structural adjustment has linked the feminization of employment specifically to the emergence of labor-intensive, export-oriented manufacturing industries (Joekes, 1982; Hein, 1984; Joekes 1987; Cagatay and Berik, 1991; 1994; Ozler, 2000). The appreciation of the real exchange rate that occurs in oil-exporting countries, or in countries receiving other revenue streams related to oil, such as worker remittances, reduces the international competitiveness of these industries, leading to a reduction in their exports and an increase in competing imports on the domestic market. Even after the decline in oil prices in 1986, the structure of Middle Eastern and North African economies had been altered so fundamentally by the Dutch Disease phenomenon, that with the exception of Morocco and Tunisia, agricultural and manufactured exports did not constitute much of their foreign exchange earnings (Shaban et al., 2001).

As shown in Fig. 4, Egypt's export sector from 1977 to 1985 was dominated by the export of fuels and minerals (basically crude oil) and service exports, made up primarily of tourism and Suez Canal toll revenues. After the collapse of oil prices in 1986, the share of oil declined, though remittances remained

high throughout the 1980s. Service exports became dominant, with their share in GDP rising to a peak of 18 percent in 1991–92, right after the institution of the structural adjustment program. The share of agricultural exports declined from about 6.5 percent of GDP in 1977 to a low of 0.6 percent in 2000, with only a few modest recoveries in that period. Though the share of manufactured exports increased from 1.3 percent of GDP in 1982 to 4 percent in 1990, they fell back to just over 2.5 percent of GDP by 2002. The post-1991 structural adjustment period, which is marked by an initial devaluation of the real exchange rate in 1991 and then a steady appreciation of its value through 1999, is also associated with a decline in agricultural and manufacturing exports. Total goods exports declined sharply as a share of GDP from 1991 to 1998, largely but not totally explained by the decline in the value of oil exports. Exchange rate misalignment during 1991 to 1999 had clearly contributed to Egypt's poor export performance during that period (see Domaç and Shabsigh [1999] for further analysis of the role of the real exchange rate in Egypt).



**Fig. 4: Exports and Remittances as a Share of GDP, 1977-2002**

**Source:** World Bank, World Development Indicators, 2003.

As oil-related revenues declined in the mid-1980s and early 1990s, they were replaced for the most part by service exports. Service exports expanded significantly in the post-oil boom era, reflecting a growth in tourism revenues, but like other exports, they were negatively affected by the appreciating real exchange rate in the 1990s. Unlike other parts of the world, where the tourism industry provides a lot of employment for women, few women work in tourism in Egypt. Tourist sites tend to be either in remote, sparsely populated areas, such as the Sinai and the Red Sea coast or in Southern Egypt, a socially conservative region, where there are a few possibilities for women to work outside the home. As a result, tourism jobs, including some typically female jobs, such as housekeeping jobs, are mostly taken by men.

A final explanation, albeit one not fully explored here, is whether there has been an ideological change in gender behaviors over the past two decades that might be limiting women's participation in the labor market. It is not clear whether social conservatism regarding women's role in the public sphere has been on the increase in recent years. Admittedly, extensive migration to the socially conservative oil-rich Gulf countries may have brought with it a turn toward more conservative social norms in the 1970s and 1980s. However, there is no systematic evidence as to the direction of change in this regard in more recent years.

## CONCLUSION

Despite significant similarities between Egypt and other developing countries in terms of the structural adjustment measures and the accompanying informalization of labor markets, the feminization of the paid labor force that typically accompanies these measures did not materialize in Egypt. In fact, the paid labor force outside the government sector experienced considerable defeminization over the structural adjustment period. Egypt shares the pattern of fairly low and stagnant female participation in paid labor with other countries in the Middle East and North African region. With the exception of Tunisia and Morocco, the MENA region stands out in the world in that particular respect. I seek explanations of this unusual pattern in the effects of oil-related revenues on the structures of labor supply and demand. By raising income flows to male household members through labor migration and remittances, oil-related revenues can potentially strengthen patriarchal family structures based on the single male breadwinner model, thus reducing female labor supply. On the demand side, oil-related revenues result in structural changes that bias labor demand against female paid workers.

I find that the effect of oil-related revenues on the structure of labor demand more compelling than its effects on the structure of the family and therefore labor supply. Significant flows of rent-based external revenues, through their effect on the real exchange rate, tend to disadvantage the very sectors that have accounted for much of the feminization of employment in a large number of countries, namely export-oriented manufacturing. Egypt has relied very little on this kind of activity for its foreign exchange earnings, leading to fairly modest growth for that sector. Employment growth has occurred disproportionately in male-dominated activities. Moreover, several of the important activities where women are overrepresented were defeminized during the structural adjustment period.

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# Social protection in the changing world of work: experiences of informal women workers in India

**Mirai Chatterjee**

SEWA, AHMEDABAD

Jaitunbibi has been sewing ready-made garments from her home for 20 years. She sews sari petticoats and is paid a piece rate of 24 Indian rupees (Rs) or U.S.\$1.50 per dozen. She collects the cut pieces from a trader in Ahmedabad's Revdi Bazaar and returns the neatly sewn petticoats the next morning. She earns Rs 48 or U.S.\$1.00 per day. Over the past two years, Jaitunbibi has seen major changes in her world of work. She explains:

Earlier we earned little but had plenty of work, especially in the Divali Festival season. Then we organized into our own union, SEWA. We struggled for minimum wages and finally, after numerous rallies, meetings, and negotiations we got an increase in our piece rate.

But now sewing traditional garments from the home is in decline. There are new demands for dresses, shorts, jeans, and other garments which we've never sewn. Also much of garment making is done in factories these days with new machines. The clothes are for export now. The factories prefer to employ men—they say that they are better workers!

Then what should home-based garment workers do? How should we feed our children? We are ready to learn to sew new products, but from the home. Nowadays I don't get enough work. So I've started rolling incense sticks at Rs 5 per 1000.

In the recent violence, Jaitunbibi's house was damaged.<sup>1</sup> She was insured through SEWA Insurance. She received her claim and has repaired her home.

Madhuben is a construction worker. Ever since she came to the city from the countryside after marriage, she joined her husband at the 'Kadia naka' or street corner where construction workers wait everyday for a contractor to select them. For a day's worth of labor she earns Rs 70 a day and her husband earns little more: Rs 80 for the same work.

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Editor's note: This chapter is a transcription of Mirai Chatterjee's keynote address at the Conference on October 11, 2002. The only changes we have made is to use standard American spellings of words and to regularize the formatting of Ms. Chatterjee's notes to reflect the style sheets used in the volume. Footnotes have been added where terminology was not clear.

<sup>1</sup> Editors' note: the "violence" referred to was the result of the communal riots that broke out in Ahmedabad in 2002.

But lately many changes have swept the construction industry. First, over the past two or three years, machines have begun to replace local labor. Large multinational construction firms have come in, displacing workers. Where required, as in Jaitunbibi's case, the employers hire men to work the machines. Next, the earthquake of 2001 resulted in a slump in the industry, as zoning laws and basic construction standards introduced by the government resulted in curbs on construction.

Now Madhuben and her husband stand at the 'naka' and are lucky to get ten days' worth of work. So Madhuben has begun to scour the streets for waste paper and plastic which she sorts and sells to traders of the recycling industry. Her husband tries to get work loading and unloading vegetables in the market. Madhuben developed tuberculosis. SEWA's health center put her on medication and she is back at work now.

Raniben Ahir is an agricultural worker, dairy farmer, and embroiderer. She lives in the dry and drought prone Patan district in north Gujarat. She explains:

We have land but it's as good as having none, as most of the time it doesn't rain here. We are the last village bordering the desert. Water is brought in by tankers for us and our animals to drink, so where is the question of agriculture?

We have been doing embroidery work for our own use—the 'ghaghras' we wear and bags and torans for decorating our homes for festivals or marriages. Over the last ten years, we have developed embroidery into our main economic activity. Now it is our mainstay. We have begun to export our products and sell them overseas too!

Raniben's house collapsed during the earthquake. Luckily, no one was hurt. Then through her embroidery earnings, Raniben rebuilt her house and insured herself and her husband with SEWA Insurance. It came in handy when her husband suddenly had appendicitis and had to be rushed off to the hospital.

Jaitunbibi, Madhuben, and Raniben are all informal workers. Their lives, like millions of others in the informal economy in India, are full of toil and struggle. They work hard and, are economically very active but earn barely enough to keep their families going.

In India, we now know that almost 93 percent of all workers are engaged in the informal economy, with a net contribution of about 63 percent of GDP. Among Indian women workers, the vast majority—more than 94 percent—are in the informal economy.

The current trends in the world of work in India suggest further informalization as the formal work force shrinks for several reasons, including closures, lay-offs, and new contract-based production systems. Perhaps one of the biggest examples of this shift from formal to informal work systems comes from our own home city of Ahmedabad. In the late seventies and eighties, more than 60 textile mills shut down, rendering more than 80,000 workers jobless. Most of these workers obtained reemployment in the city's

informal economy as street vendors, construction workers, loaders and unloaders in the marketplace, and ragpickers.

The trend towards informalization preceded globalization and liberalization in India but certainly has been expedited by these economic changes. Export-oriented garment units and mechanization have already affected the employment of women like Jaitunbibi and Madhuben. Supply of raw materials like cotton to world markets has increased their prices domestically, adversely affecting the profitability of the textile sector within India.

Disasters like the earthquake and persistent droughts also affects women's work, not only because they always suffer the most in terms of losses and damage, but also because it alters their world of work. We have seen the impact of the earthquake on the construction industry. Similarly, drought forces thousands of families to migrate to cities in India, where they seek some informal employment. Finally, human disasters like sectarian violence also results in shifting of employment and new work systems as both workers and contractors, or employers, can no longer freely move in different neighborhoods. Of course, the changes are more in the nature of a continuum with formal systems giving way to contractual ones and often one worker moving in and out of formal and informal work.

All of the rapid changes in employment and work systems have a direct bearing on how social protection can be organized for informal workers. In any case, these workers barely had any social security. But in the new context, with the struggle for work and work security more acute, with the increasing trend of multiple economic activities undertaken by one worker and continued migration in search of employment, social protection poses both a challenge and an opportunity, as we shall see later, to organize workers.

But first the challenges. Perhaps the most vexing issue of all is that of identifying informal workers who are, especially if they are women, still invisible, geographically dispersed, and moving in and out of different economic activities. Unions in India, including SEWA, have been pressing for the issuance of identity cards by the labor department. Not only does this give each worker a name and a face, but it also gives her or him recognition as a worker.

This brings us to the next issue—how does one classify her work when she is engaged in multiple activities or trades? At SEWA we did a study, which revealed that most of the women were involved in at least two economic activities and up to four or five were not uncommon. So, for example, do we call Raniben an agricultural worker, dairy farmer, or embroiderer? And is Madhuben a construction worker or ragpicker?

In trade unions organizing formal workers was never an issue, as by definition they were organized on trade lines. But for us, the multiplicity of work and occupations does pose some, though not insurmountable, issues. These come up when we try to create structures or platforms where workers, government officials, and employers come together to design, implement, and monitor social protection programs. Resources and financial contributions are involved and employers generally do not want to contribute from their earnings to a worker who is not wholly identified with their particular industry. For some it is also an easy way to circumvent responsibilities—why contribute for the social protection of one whose work status is not clear-cut?

The changes in the world of work also challenge our existing concepts of employment and work. An example of where this leads us in terms of social protection for workers is that of salt workers in our state. These are among the poorest of informal workers manufacturing 80 percent of India's salt by pumping out brine from the dry desert. Entire families live in the desert for eight months of the year and return to their home villages for agricultural work when it rains.

When SEWA organized these workers, child-care emerged as a strong need. This was then provided with the support of the Salt Workers Welfare Board, which decides on social security programs and resource allocations from a fund, developed from a cess levied on large merchants in this industry.<sup>2</sup> The board approved crèches for children for only eight months of the year, arguing that for the remaining four months, when they worked as agricultural laborers or small farmers, these women were no longer salt workers!<sup>3</sup> Since child-care is a perennial need, SEWA stepped in to fill the gap and we continue to negotiate with the Board to change their approach.

Despite the maze of issues we have to pass through to provide social protection to informal workers, unions, cooperatives, and NGOs in India have developed new ways and used various opportunities to meet workers needs and to organize them. To continue with the example of child-care, Mobile Crèches, an urban-based NGO, is providing quality child-care and early childhood education to children of construction workers. They obtain support from building contractors, the government and others, organizing child-care at the construction sites. When a building is complete, the crèche picks up and moves to the next site, following the children there.

In our own work at SEWA, we have also incorporated this mobile approach, providing child-care for salt workers' children in the desert and then following them to their home villages in the monsoons. For other informal workers, most of whom have no fixed workplace, child-care is organized by workers' cooperatives in women's urban neighborhoods or in villages in rural areas. The crèches are run by the workers themselves, usually neighbors and friends of the women who go out to work. And all crèche timings are adjusted to the working hours of the mothers in a particular area. While run by the women, contributions for the crèches in cash and kind come from parents, employers, government programs, and the union.

As most informal workers have no access to protective insurance—for sickness, accidents, assets, work tools, and even life—organizations working with these workers have developed various risk coverage systems. In an insurance program for agricultural laborers in central India, insurance premiums are paid in kind—in kilograms of millet harvested, which are then converted into cash. The 'millet premia' are fixed village-wise and according to landholding. The workers then get health insurance coverage through a linkage with the local hospital run by the medical college nearby.

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<sup>2</sup> Editor's note: a "cess" is the term used in India for tax or levy.

<sup>3</sup> Editor's note: "crèches" are day care centers for children.

From the very beginning at SEWA, we saw that our members faced frequent risks and even major disasters. These not only caused immense suffering but also eroded their carefully accumulated assets, resulting in indebtedness and their sinking deeper into poverty. A woman had hardly saved enough to buy her house or reclaim mortgaged lands through a loan from SEWA Bank, when she had to sell or mortgage it again to cover the costs of a new crisis.

SEWA began to experiment with insurance as a buffer and support to plug the economic leakage women experienced during crises. Initially, our nationalized insurance companies were wary of collaboration. But as we organized and grew in strength, a partnership developed, and by 1992, we had a full-fledged insurance program.

Today we have 93,000 insured members, both women and their husbands. As the unfamiliar concept of insurance becomes acceptable to our members, SEWA Insurance or VimoSEWA, as we call it, is expanding. This growth has been achieved through an organization-wide campaign. It has involved door-to-door canvassing, small and large meetings on the concept of risk sharing through insurance and public meetings or "gram sabhas" in the villages. Each worker was engaged in a discussion or dialogue at least two or three times before she decided to put down her hard-earned money as an insurance premium. Many of those who are insuring themselves—roughly one third, are first-time members of SEWA. Thus insurance offers a new way of organizing informal workers around a concrete economic benefit.

Today VimoSEWA or SEWA Insurance operates on the basis of a cooperative, working closely with local insurance companies. The insurance sector has been privatized recently in India, and there is a mandatory condition, which requires all the new companies to insure rural workers. As a result, they are trying to develop competitive products that potentially could be useful to informal workers.

Our insurance offers a package to cover life, accident, widowhood, sickness, and damage to assets, i.e., homes and work tools. Husband's life, accident, and sickness coverage are also an option. From 2003, coverage for children's illnesses will also be offered as an option to our members. In addition, we have linked insurance to other financial services like savings and credit. Women save through their village-based savings and credit groups, and then sets aside some of their savings to pay for their insurance premiums. Of our currently insured members, 30,000 have saved enough to put down a lump sum as a fixed deposit in SEWA Bank. The interest accrued on this deposit then goes towards the premium every year, ensuring continuous and long-term coverage. Thus, building on existing solidarity networks and the fact that all informal workers need insurance regardless of their nature of work, SEWA Insurance has grown quite rapidly with spin-off effects that we shall see later.

Health care is the most widespread of services provided to informal workers everywhere today. Despite considerable public health infrastructure in India, informal workers do not have access to services for a whole host of reasons ranging from poor quality, inappropriate or inadequate services and sheer absence of these, especially in remote rural villages. The upshot of this is that most of the working poor—an estimated 80 percent or more—seek care from private practitioners. While the services may be more prompt, they are not necessarily of good quality and are always three to five times as expensive as the

public health services. Small wonder then, that there is a huge demand for affordable and good quality health care for workers at their doorsteps. This demand has given rise to thousands of community-based health programs run mainly by NGOs but also by some workers organizations, both unions and cooperatives. In the Rajasthan desert, an NGO URMUL, has organized primary health care, and especially tuberculosis care, for nomadic shepherds, craft workers, and agricultural laborers, bringing down TB prevalence in this endemic and remote area.

In Gujarat, thousands of traditional midwives or "dais" have been organized by SEWA and have even formed four, district-level cooperatives. Through these, they are both providing their health services and obtaining some fees as income.

Housing and basic services like water, sanitation, and electricity is yet another area of social protection where organizations of informal workers have broken new ground. Since informal workers cannot always be organized on the basis of one trade, the alternative is to organize in their own neighborhoods, and around basic needs like housing, water, and sanitation. After years of pressing for these services for the urban poor, SEWA joined hands with the local municipal authorities to develop a program aimed at transforming urban neighborhoods by providing basic amenities: water, sanitation, individual toilets, garbage removal, street lighting, landscaping, and paving. This program, called 'Parivartan,' meaning change, is one based on a partnership between government, workers, and the corporate sector, with each also contributing funds towards basic services in a neighborhood. Currently, through this process, families all engaged in informal employment, have not only obtained basic amenities but also have organized their own neighborhood committees for maintenance and overall community development. They have also joined the union. This is still a small but growing initiative in urban renewal and organizing. In the villages of four districts, we have linked workers with government housing programs enabling them to have a solid, disaster-proof roof over their heads for the first time. In the process, several informal workers were introduced to SEWA for the first time as well.

'Parivartan' and our rural housing program, are both examples of SEWA's approach to organizing—organizing workers both area-wise and trade or occupation-wise. This ensures that regardless of her exact work status, every worker is organized, both through her local organization—either an urban community-based organization (CBO), as in 'Parivartan,' or her district-level association of village-based producers' groups, in the rural areas. In this way, more than 3,000 small workers' groups and district-level cooperatives and associations have been organized with a combined union strength of 530,000.

My final example of organizing social protection comes from our government labor department. As a response to organizing by workers and also to offer some protection to them, several workers' welfare boards have been established in India. The resource base for these has been a cess levied on the final products, which employers must contribute to a fund. The fund is administered by the government, but the approach is tripartite, with government, workers' and employers' representatives on the board. This is then a forum for planning, developing, and monitoring the implementation of social protection including maternity benefits, health insurance, child-care, and housing to mention a few. Often the implementation is undertaken by unions, as in our example of salt workers' crèches. The responsibility of identification and

registration of workers, ensuring that social protection actually reaches them, and also the monitoring of their working conditions, rests with the board. The largest example of this workers' fund approach is the bidi workers (Indian cigarettes) welfare fund. But there is also the salt workers' fund, one for coir workers, head loaders, and others.

Studies commissioned by the Indian Labor Commission recently showed that these boards do serve their purpose—to support workers and encourage organizing—to a considerable extent. Since concrete economic and social security benefits are offered, workers are encouraged to identify themselves or join unions that help to ensure they get access.

These varied, some small and some fairly large, experiences in social protection offer us some lessons to meet the challenges in the changing world of work. First, these approaches are a good way to organize informal workers. While categorization of workers by occupation and following them in their different workplaces is challenging, the provision of social security services is actually an opportunity to identify workers and promote their organizing. Since they get a useful service, workers have an incentive to come forward to identify themselves, register, get an identity card, and even join a union, cooperative, or other local organization.

We saw how providing insurance services, health care, child-care, and housing meant that workers were registered and even developed new forms of organizing and solidarity—like neighborhood committees, such as the 'Parivartan' urban infrastructure program and the midwives' cooperatives for health care.

Second, social security services, when provided, offer a way for informal workers to link up with formal systems and government and employers. Whether we recall our example of crèches for salt workers' children, insurance, health care, or basic amenities in urban areas, workers interface, many for the first time, with the mainstream. This recognition and inclusion is vital for their own self-worth and also for building their organizations, for 'voice' and representation.

Third, running their own social protection programs is empowering, builds up workers' confidence and leadership, and ensures that all services remain relevant and affordable to all working people. Over the years, we have watched in admiration as our sisters, midwives, crèche teachers, and insurance and housing promoters have developed into strong leaders. They have served their communities and also became organizers, struggling against injustices and developing alternative constructive activities, for workers. They have also built and led their own representative organizations like cooperatives and producers' association.

Fourth, many of the social protection programs can be sustainable—both financially and in terms of human resources—in the long run. Our experience with SEWA Insurance shows that with a large membership base and risk-sharing measures like reinsurance, coverage normally considered "too risky," like health insurance, can be viable. In fact, health is the most financially viable of SEWA's Insurance plans and has been so from the beginning. Further, if contributions from government, employers, private trusts, and workers are collected, then social protection programs—whether health or child-care, insurance, or housing—can be sustainable indefinitely.

The key is that these services must be appropriate, timely, affordable, flexible, and managed and owned by the people themselves. Once local people see that these services work and are useful, they are ready to pay from their earnings towards such social protection. However, one should also note that the developmental costs or inputs, especially in terms of capacity-building and technical inputs for service providers are considerable. And they are not low cost. This is because seeking out and organizing informal workers is a labor-intensive and time-consuming process. To return to the example of SEWA Insurance, we learned that it takes two or three visits or "contacts" with women individually, or in a group setting, before they actually pay out premiums. These costs are often initially as much as the premium paid out per member, but do decrease with time. Also, these costs cannot be absorbed by the workers alone. Clearly, start-up funds are required from government, employers, and other sources for this purpose.

Fifth, social security programs, must be developed according to workers' varied and multiple needs and include elements that hitherto may not always be included in social protection, like child-care, for example. Our experience is that informal workers want as comprehensive an approach to social security as possible. Thus, along with health insurance, they want life and accident insurance and also their work tools and assets to be insured. Further, there are several ways in which informal workers have built up their own social security systems, including savings, risk funds, and grain banks. These need to be understood and built upon. Asset building through savings and credit is one of the most important ways in which workers secure their lives. The burgeoning microfinance movement worldwide is strongest among informal workers and is already well-established. As it is a subject that warrants study in and of itself, I have not elaborated on it here.

Sixth, special organizations and institutions must be created for the social protection of informal workers. Multiple and varied forms of organizations exist in different countries. At SEWA we have found that unions, village-based producers and/or savings groups and their district-level associations, cooperatives and their state-level associations, and urban neighborhood committees or associations are ideal for organizing workers, especially for social protection. These organizations are membership-based, worker-owned and managed, leading to credibility, accountability, increased solidarity, and also leadership of the workers. In addition, once informal workers have their own representative organization, they can bargain, demand, and set up linkages with the outside world. When traditional midwives or "dais" formed their own cooperative, they could ask for user fees from their own communities, identity cards, and a more active role in the governments' public health system. The latter can then be molded or even recast in favor of mechanisms and systems more suitable to poor communities. Thus, while the type of social protection organizations serving the poor may and should vary according to local conditions, they must be controlled and owned by informal workers themselves.

Seventh, we have seen that work security and social security, or social protection, are two sides of the same coin. Each cannot be attained without the other. If informal workers are to be strengthened and supported in their struggle for justice and against poverty, then work security is essential. Without regular work and income, they cannot feed themselves and their families, nor have any measure of health

security, insurance coverage, or housing, for example. At the same time, work security can never be achieved without meeting the social security needs of informal workers. In sum, it is an integrated and holistic approach to informal workers' overall well-being that will minimize the risks they face, strengthen them economically, and help lead them to a better future.

Eighth, there are several spin-off effects, some quite unexpected, when organizing social protection for informal workers. The services themselves can provide self-employment, or at least additional employment, and income to workers. Now midwives trained in a special program that we run at SEWA, are earning an extra couple of hundred rupees per month from women in their villages. This upgraded skill training has resulted in an elevated status in their villages and people's willingness to pay for their services. Further, when we organized crèches, we found that 70 percent of the older children went to school for the first time, as they were relieved of child-care responsibilities. And, of course, women were able to earn up to 50 percent more because of child-care services being available.

Finally, since many of the examples of social protection involved partnerships—with government, employers, and other outside agencies—workers became visible, legitimate, and even respected for their significant economic contributions. They were able to enter the national mainstream on equal terms in many instances. For the first time, workers got representation and voice on state- and national-level boards and committees for social protection. When our state constituted a special task force to develop a policy for urban development, informal workers themselves were on the executive committee, guiding and molding the process according to their needs and priorities.

We have seen at SEWA that we cannot leave the entire responsibility for social protection and service delivery on government. While government undoubtedly has the primary responsibility—especially in terms of developing appropriate policies and programs with suitable resources—it is the active involvement of workers, and others, right from the conceptualising stage to the planning, implementation, and monitoring stages that makes all the difference.

Tripartite or multipartite structures, processes, and partnerships are called for today to meet the growing challenges for social protection. These include public and private decision makers, as well as workers' or people's representatives. Multiple forums: boards, committees, task forces, and commissions lend themselves to partnerships. It is in these groups that modalities and constraints to full coverage of the poorest of workers can be discussed and worked out.

Coming together to work on concrete programs is of course a win/win situation for all involved. And we have seen that most of all it strengthens workers and their movements, and gives them hope, energy, and courage to face the challenges that lie ahead in the changing world of work.

# Social protection and informal employment in Latin America: from the weak to the strong?\*

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As conventionally measured, informal employment accounts for around one-half of the employed labor force in Latin America, and this share has been rising steadily since the 1980s. There are many unresolved issues regarding the definition, function, and measurement of informality, but a common feature among informal workers is the lack of social protection. Regardless of their employment status and earnings, informal workers show a significantly greater exposure to the risk of poverty, unemployment, and hazardous working conditions. Yet, they are usually excluded from access to formal social protection, public programs, and market insurance. This paper examines the factors behind the vulnerability of informal work, and identifies and evaluates potential means of extending social protection to informal workers.

Over the last two decades, conditions in the labor market have deteriorated in Latin America, while structural adjustment and globalization have reduced the capacity of governments to respond to rising uncertainty and risk. In most developing countries, existing programs to prevent and ameliorate the risk of poverty and unemployment have proved inadequate. The extensive social sector reforms in Latin America have not, on the whole, improved matters. Against this context, there is an emerging consensus around social protection as an effective agenda for social policy in developing countries. This paper discusses whether social protection can prove to be more inclusive of informal workers, and more effective in addressing their vulnerability.

The factors behind the vulnerability experienced by informal workers are many. Their employment is irregular and precarious, formal social protection programs and market insurance usually exclude them, their households are poorly diversified in terms of employment, and informal social protection networks are weak. Reducing the vulnerability of informal workers is a significant policy challenge because, in most cases, the conditions responsible for their greater vulnerability also operate to constrain policy interventions. A number of recent examples of interventions, which have successfully extended social protection to informal workers, are considered. These show that a wider spread of solidarity values can create conditions favorable to the extension of social protection to informal workers.

The paper is organized as follows. Following the introduction, Section I outlines and discusses new approaches to social protection. Section II briefly reviews key measures and trends in informal

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\*This paper benefited from the comments of two anonymous referees, the remaining errors are mine

employment in Latin America, while Section III considers the factors that explain limited social protection among informal workers. Sections IV and V focus on how to extend social protection to these workers, followed by a brief discussion of political economy issues involved in extending social protection. The paper ends with a summary of the main conclusions.

## I. A NEW PERSPECTIVE ON SOCIAL PROTECTION

Social protection has been traditionally defined in terms of a range of public and occupational programs protecting individuals and their households from poverty and deprivation. These include programs covering life cycle contingencies such as maternity and old age, and work-related contingencies such as unemployment or work-related injuries. In the 1990s, social protection underwent a significant transformation. Within the context of economic crises, structural adjustment, and globalization, social protection has come to define an agenda for social policy in developing countries.<sup>1</sup>

Globalization has been a significant factor in the emergence of social protection. The greater openness of developing economies implies a rising vulnerability to changes in global markets, and a concentration of risk on the more vulnerable sectors (IADB, 2000). Globalization increases the need for social protection, while at the same time reducing the tax base of national governments (Rodrik, 1997).<sup>2</sup> Globalization undermines the capacity of governments, especially in developing countries, to respond to increased demand for social protection. A wide range of providers and stakeholders are increasingly involved in social protection, mostly led by national governments, but involving international organizations, NGOs, employers, trade unions, and community organizations. The involvement of a wider set of providers, and the need to assess, develop, and combine interventions into an integrated response, are key factors behind the redefinition of social protection.

Social protection has been redefined as consisting of “public actions taken in response to levels of vulnerability, risk, and deprivation which are deemed socially unacceptable within a given polity or society” (Conway, de Haan, and Norton, 2000). As such, it is broader than social security, which is normally associated with compensatory welfare state programs existing in advanced economies. It is also broader than social insurance, defined as contributory programs covering a specific range of contingencies. It is broader than social safety nets, which are mainly short-term interventions in response to food or income crises. Social protection focuses on poverty and vulnerability (de Haan 2000). It seeks to address the causes of poverty, which are to be found in the multiple risks faced by the poor in their vulnerability to the impact of the realization of these risks, and in their behavioral response to them (World Bank, 2001). Social protection prioritizes poverty prevention and focuses attention on facilitating forward-looking responses to risk by the poor and vulnerable. An important implication is that public interventions are evaluated as investments (World Bank 2001). While acknowledging the important role of public provision

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<sup>1</sup> For a discussion of the transformation of social protection within the World Bank, see World Bank (2001), and for a restatement of social protection within the ILO see ILO (2001b).

<sup>2</sup> For example through the migration of highly skilled workers, the restrictions on tax policy brought about by the need to remain competitive in international markets, and the growth in e-commerce (Tanzi, 2000).

of social protection, and the important role of governments in supporting and strengthening other forms of provision, social protection acknowledges the wider range of providers involved in the production of social protection in developing countries.

This new perspective on social protection has implications for informal workers. These will be explored below, but the next section provides a brief outline of the growth of informality in Latin America.

## II. THE GROWTH OF INFORMAL EMPLOYMENT IN LATIN AMERICA

Two measures of informal employment are commonly used. The *ILO measure* below, defines informal employment as including workers in microenterprises (five employees or less), the self-employed (excluding professionals), workers in domestic employment, and unwaged family workers. An alternative measure defines informal employment as including workers not covered by social insurance programs or labor market regulations. This is referred to as the *uncovered measure* below, and measures the dependent workers not contributing to social insurance programs as a proportion of the labor force.

The two measures of informal employment for Latin America in 1990 and 2000 are shown in Table I

**Table I: Urban Informal Employment in Latin America as a Proportion of the Total Labor Force, 2000 (1990 Figures in Brackets)**

	Men		Women		Total	
ILO measure <sup>1</sup>	44.5	(39.4)	50.3	(47.4)	46.9	(42.8)
of which:						
self-employed	25.3	(21.6)	23.7	(23.2)	24.6	(22.2)
microenterprise	18.7	(17.3)	11.2	(10.4)	15.6	(14.7)
domestic	0.6	(0.5)	15.4	(13.8)	6.7	(5.8)
Uncovered measure <sup>a</sup> (excludes self-employed)	34.4	(31.6)	37.5	(34.9)	35.8	(33.4)
ILO measure <sup>b</sup> excluding self-employed	19.3	(17.8)	26.2	(24.2)	22.3	(20.5)
Uncovered measure plus self-employed <sup>c</sup>	51.1	(46.3)	52.3	(50.0)	51.6	(48.1)

**Data Source:** ILO (2001a) based on household survey and official data.

<sup>a</sup> Includes workers in enterprises with five workers or less, the self-employed and unwaged workers, and domestic workers, as a proportion of the total labor force. Figures are a weighted average of 12 countries.

<sup>b</sup> Share of employees not contributing to social insurance programs. Figures are a weighted average of 10 countries.

<sup>c</sup> Uncovered measure recalculated to include the self-employed and as a proportion of the total labor force.

The figures in Table I show the high incidence of informal employment in Latin America. Roughly one in two workers in Latin America are in informal employment. The incidence of informal employment is higher among women than men. One in every four workers is self-employed, and close to one in every six works in enterprises employing between two and five workers. Nearly one in every six women works in domestic employment.

The *ILO* and the *uncovered measure* are not directly comparable because the latter excludes the self-employed. To enable comparison, two other measures were constructed. Firstly, subtracting the self-employed from the *ILO* measure, yields a measure of informality comparable to the *uncovered measure* (they both focus on dependent employment). This shows that the latter is much higher because a significant share of workers in formal employment are not contributing to social insurance programs. In 2000, the proportion of dependent workers in medium and large enterprises (formal employment according to the *ILO* measure) contributing to social insurance programs was 79 percent (down from 80.6 percent in 1990). Alternatively, the self-employed, who are predominantly outside social insurance programs, were added to the *uncovered measure* yielding a measure of informality as a proportion of the total labor force. It shows the highest incidence of informality at 51.6 percent of the total labor force in 2000.<sup>3</sup> This is the most appropriate measure in context of this paper, as the absence of formal social protection is taken as the defining characteristic of informality. This measure places the emphasis on vulnerability as a key indicator of informality, especially as in Latin America noncontributory social insurance or social assistance programs are largely absent.

There is evidence of a close association existing between informality and income poverty. This is not to say that all informal workers are poor, or that poverty is limited to informal workers and their households,<sup>4</sup> but the incidence of poverty is significantly higher among informal workers compared to formal workers. In a study based on household survey data for the mid-1990s, Orlando and Pollack estimate the share of earners who live in poor households at 25.6 percent among informal workers, compared to 12.7 percent among formal workers (Orlando and Pollack 2000: 29).<sup>5</sup> The ratio of the share of workers in informal employment who live in poor households to the share of workers in formal employment who live in poor households rises from 1.8 percent to just over 2 percent between the mid-1980s and mid-1990s. They conclude that the gap in poverty incidence across these two groups of workers appears to be rising. Other studies have also shown that informality is an important determinant of poverty. Freije Rodríguez (2001) provides a review of literature on this issue, which finds that informal workers in poverty show lower probabilities of transitions out of poverty especially when engaged in lower productivity activities.

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<sup>3</sup> There is a general consensus that informal employment has risen significantly in Latin America in the 1980s and 1990s (Turnham, Salomé, et al., 1990; Charms, 1992; Weller, 1998b). Both Mezzera (1989) and Charms (1992) measure informal employment in the period between 1950 and 1980 using data from National Censuses. They find that urban informal employment remained more or less stable throughout this period. Keeping in mind the lack of comparability of data from before and after 1980, it would appear that this trend was swiftly reversed after the 1980s (the "lost decade" strikes again!). A rapid rise in informal employment followed in the 1990s (Barrientos, 2004).

<sup>4</sup> There is also considerable cross-country variation in the incidence of poverty among informal workers.

<sup>5</sup> They use a USD 2 a day poverty line, and adjust earnings by the average dependency ratio of population to earners. Informal employment, or the microenterprise sector as they refer to it, includes employers and employees in establishments with five workers or less but excludes unwaged workers.

In sum, the incidence of informal employment in Latin America is significant, and it rose in the 1990s. The close association existing between informality, vulnerability, and income poverty underlines the need to address the lack of social protection among workers in informal employment.

### III. WHY DO INFORMAL WORKERS LACK SOCIAL PROTECTION?

It is important to review the reasons for the lack of social protection among informal workers. It is postulated that the lack of social protection among informal workers is a consequence of the orientation of formal social protection, conditions in the labor market, and the limitations of informal social protection networks. These are discussed below.

#### **Why Do Informal Workers Fail to Participate in Formal Social Protection?**

As a general rule, formal social protection programs exclude informal workers and their dependants. In Latin America, the development of social protection programs followed a social insurance model, in which workers, and their employers, make payroll contributions into a fund, from which benefits are paid when designated contingencies materialize (Mesa-Lago, 1991; Barrientos, 1998). The social insurance model excluded workers in informal employment, because of their irregular employment and earnings, and because these constituted high-risk groups (Barrientos, 2004b).<sup>6</sup> Social insurance funds seldom encourage the participation of workers in informal employment.

During the 1990s, a number of Latin American countries replaced their social insurance funds with individual savings plans, in the form of retirement savings plans (nine countries), health insurance plans (four countries), and unemployment savings plans (three countries) (Barrientos, 2004a). At the time of the reforms, proponents predicted these savings plans would operate to reduce informal employment. This was to be a consequence of savings plans generating greater benefits with lower contribution rates, and also of a more direct link between contributions and benefits. In any event, these expectations have not materialized. Social insurance reforms have made very little impact upon informality, and the labor force coverage of the new savings plans has shown a steep decline among both formal and informal workers (Barrientos, 2004a). Individual savings plans are proving to be even less friendly to informal workers.

Some design features of existing social protection programs discourage the participation of informal workers (Barrientos and Firinguetti, 1995; Barrientos, 1996a; 2002b; 2004). Individual savings plans have few solidarity and insurance properties. Basically, a worker only gets what s/he saves, and the uncertain returns from investing these savings. This makes them unattractive to low-income groups who are close to the breadline and unable to save. Moreover, savings plans are highly illiquid. Accumulated pension plan

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<sup>6</sup> There are few examples of informal workers being incorporated into formal social insurance programs, most of which failed. In Argentina, a special social insurance fund was set up for the self-employed, the *Caja de Autónomos*, but it soon ran into financial deficits and was dissolved in the 1994 reform of pensions. There were greater opportunities for the self-employed to participate in mature social insurance programs, as in Chile and Uruguay, where access to benefits did not require a long contribution record. Participants tended to be the better off among the self-employed.

savings, for example, can be accessed only by reaching the age of retirement or dying. For households with irregular incomes, or where livelihoods depend on periodic investment in stocks or capital goods, pension savings plans are singularly unattractive. Furthermore, the insurance coverage provided by these plans is bundled in ways that deter informal workers from participating. Existing social protection programs have not been designed with informal workers in mind, demonstrating the failure of formal social protection in Latin America to include informal workers.<sup>7</sup>

### **The Labor Market: Friend or Foe?**

The capacity to access paid employment is crucial to avoiding poverty, as earnings from work are the most important source of income for low-income households. The labor market is also an important source of insurance against shocks to household income and consumption. Faced with unemployment or unexpected health expenditures, households will often attempt to protect their standards of living by encouraging hitherto inactive members to seek paid work (the *added worker* effect), or by encouraging already active members to work overtime or find a second job. In addition, many instruments of social protection such as maternity leave and benefits, disability pensions, and employer provided health insurance, are dependent on employment. To this extent, the labor market is a friend. At the same time, the labor market is a source of significant risk of unemployment, work-related accidents, health hazards, and disability. The labor market can also be a foe (Barrientos, 2003a). Workers in informal employment are significantly more exposed to labor market risk, and at the same time are much less likely to benefits from employment-related social protection instruments. Among workers in informal employment, the labor market is predominantly a foe to the extent that they are exposed in full to the risks from unregulated employment without being in a position to benefit from the insurance provided by employment-based social protection.

Gaviria (2001) uses household survey data from seven countries in Latin America to investigate the sources of adverse income shocks to households and their strategies in coping with these. Interestingly, he finds that unemployment is by far the dominant source of adverse income shocks. Working from a sample of representative households he finds that 30 percent reported income shocks arising from unemployment affecting one of their members.<sup>8</sup> The next most important category consists of business failures (15 percent of households reported it). The study also investigates the strategies used by households to cope with income shocks, and finds that the dominant strategy is the entry of household members into the labor market. These findings confirm the importance of the labor market as both a source of risk, and an insurance instrument.

*Poor employment diversification among informal workers' households adds to their vulnerability. Orlando and Pollack use 1994 data from household surveys collected by ECLAC for six Latin American countries, and define microenterprise households as those in which earnings from informal work account for at least one-half of the*

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<sup>7</sup> The interesting issue why social insurance eventually covered the whole population in European countries, while it never went beyond formal workers in Latin America, will be explored in Section 5 below.

<sup>8</sup> The countries involved are Nicaragua, Guatemala, Honduras, Paraguay, Ecuador, Venezuela, and Colombia. The sample includes around 1000 households per country. The data was collected in 1999, and the respondents were asked retrospective questions about the impact of the crisis.

*total household income (Orlando and Pollack, 2000). They find that informal households, thus defined, "specialize" in microenterprise activity, such that few households in the sample appeared to receive income from both informal and formal earnings. As they note, this "is somewhat unexpected since, theoretically, striking a balance between microenterprise and nonmicroenterprise activities within the same household could be a way to cope with income uncertainty by reducing risk" (Orlando and Pollack, 2000: 20). Other studies confirm the lack of employment diversification among informal workers' households.*

The effective operation of the labor market is key to the capacity of Latin American households to protect their consumption. This applies with greater force to low-income households who depend to a greater extent on informal employment. Increasingly, it is accepted that efficient labor markets require well-designed and effective labor market institutions (Freeman, 1993; Nickell and Layard, 1999). Effective labor market institutions are an important factor in reducing the vulnerability experienced by workers in informal employment. There has been much discussion on whether informality is a product of weak and imperfect labor market institutions, or whether it is a factor of excessive and costly regulation (Cox Edwards, 1997; Weller, 1998a). For most Latin American countries, labor standards enshrined in legislation explicitly exclude most informal workers. Moreover, ineffectiveness in their monitoring and enforcement ensures labor standards remain largely aspirational. Many labor market institutions have weakened in the last two decades. Trade union density and the incidence of collective bargaining have declined significantly from a low base. Improved market institutions are needed in Latin America to ensure they perform their role in reducing vulnerability among workers, and especially among informal workers.

### **The Limitations of Informal Social Protection Networks**

It has been argued that informal workers are absent from formal social protection programs in part because they develop informal social protection networks of their own. The scant evidence on this suggests the sustainability of informal networks, and their capacity to extend coverage, is limited. A study of 11 microhealth insurance projects in Latin America supports this conclusion (CLAISS, 1999). The sampled projects have a variety of sources of financing and governance structures, but their common aim is to extend health insurance coverage to poor and excluded groups which to a large extent overlap with informal employment. These projects show a measure of success in extending coverage to otherwise excluded groups, but they reach only a fraction of their target population. The indicators of financial sustainability of the sample projects were poor, and, projects were mostly sustainable only where significant government subsidies or support from international donors could be secured. The key problem faced by these schemes was that the combination of high health risk and low income characterising the target population made insurance pooling, and hence self-financing, unlikely. This study echoes the findings of similar studies which underline the limited capacity of informal networks to provide social protection for high risk, low income groups.<sup>9</sup>

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<sup>9</sup> See the review in Morduch (1998).

## IV. HOW TO EXTEND SOCIAL PROTECTION TO WORKERS IN INFORMAL EMPLOYMENT

### Lists and Their Limitations

The heterogeneity of informality suggests that policy interventions should be focused on the specific needs of groups that make up informal employment. This involves consideration of the factors behind the limited social protection of informal workers, as was done in the previous section, and identification of policy areas where improvements can be made. A number of papers set out desirable policy interventions along these lines (Mesa-Lago, 1992; ILO, 2000b; van Ginneken, 2000; Freije Rodríguez, 2001; Mesa-Lago, 2001). This literature concludes that the following interventions would improve social protection for informal workers: reform of existing formal social protection to include informal workers; development of social assistance programs; improved access to credit, technology, training, and marketing for microenterprises; extension and enforcement of labor standards; and support for informal social protection schemes. This is a valuable exercise in identifying what avenues need to be investigated in order to extend social protection, but it takes us only part of the way. This is because it should be acknowledged that the conditions that have led to the growth of informal employment in Latin America at the same time constrain the implementation of many of these policy interventions. The de facto liberalization of labor markets in the region has led to deterioration in the quality of jobs created and to the growing informalization of employment. These labor market changes make it difficult to extend and enforce labor standards, and to widen formal social protection. An extension of labor standards to include informal workers would indisputably improve their access to social protection, but it is hard to see how this is likely to come about while the weight of public policy is on liberalizing the employment relationship. Along similar lines, reforming existing formal social protection, e.g., pension plans and health insurance, to include informal workers makes a lot of sense, but runs counter to recent social sector reforms which emphasize individual saving as the main instrument of formal social protection. It is important to appreciate that the same conditions that have led to the growth of informal employment also make it harder to put in place policy interventions to extend social protection to workers in informal employment.

The list of policy interventions includes all areas where social protection deficits can be observed for specific groups of workers, but a considered assessment of their likely effectiveness is lacking. In the view of the ILO, "country studies have shown that it is impossible to effectively reach out to the informal sector as a whole through the extension of formal sector insurance schemes. It has been estimated that only about 50 percent of the target group can be reached via existing schemes" (ILO, 2000a). Others argue that formal social protection may not suit informal workers. For example, James (2001) argues that the scope for extending coverage of pensions and health insurance to informal workers is marginal, and could be undesirable. As she puts it, many "workers may be better off outside the formal retirement old age security system, with higher take-home pay, which would be reduced by social security contributions. And

the economy may be better off with more jobs coming from lower labor costs, if employers operate outside the social security system” (James, 2001: 155). These prescriptions should not be accepted uncritically, there is much that can be done by formal social protection programs to include informal workers, but the point is that the effectiveness of these policy interventions cannot be taken for granted. The same applies to other policy interventions in the list.<sup>10</sup> Further work is needed to provide a considered assessment of the effectiveness of policy interventions recommended for extending social protection to informal workers.

### **What Works in Extending Social Protection to Informal Workers?**

It may be productive to approach this issue from a different angle, and to ask what works in extending social protection to informal workers. In this section a handful of selective examples are discussed.<sup>11</sup>

#### **Previdência Rural in Brazil**

In 1988, a new Constitution in Brazil signalled a new social contract after two decades of dictatorship (Brumer, 2002). The new Constitution extended social protection rights to workers in informal employment in rural areas. Before 1991, the FUNRURAL program provided pensions to poor rural workers, but the benefits were limited to one per household thus excluding many older women. In the new Previdência Rural program implemented in 1991, all men aged 60 and over, and all women aged 55 and over who can demonstrate having engaged in informal work can access a pension equivalent to a minimum wage. On paper, beneficiaries must have a contribution record, but in practice a simple certification by producer organizations or trade unions is sufficient to establish entitlement. Previdência Rural absorbs around 0.8 percent of GDP and is financed through a tax on the first sale of agricultural produce (covering around 10 percent of pension benefit expenditure) and government transfers to the social insurance funds (covering the residual 90 percent). Access to entitlements does not require inactivity or means tests. In 2000, there were 7 million beneficiaries (of which 4.3 million received an old age pension). Studies have shown that coverage rates are high among the target groups, and especially among informal workers and their households (Delgado and Cardoso, 2000), and that the program has had significant and positive effect on poverty and vulnerability of informal workers and their households (Delgado and Cardoso, 2000; Barrientos, 2003b).

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<sup>10</sup> Social assistance and safety nets are rare in Latin America, and because their financing is procyclical they are not a reliable source of social protection to informal workers (Hicks and Woodon, 2001). A study by Duryea and Pagés suggests that “education, by itself, has a positive, but limited, potential to increase wages above a minimum level in the short run” (2002: 6) and echo well-established findings from the literature to the effect that “extensive investment in training the unskilled would have only a limited role in increasing earnings and reducing poverty” (Duryea and Pagés, 2002: 26).

<sup>11</sup> Unsuccessful examples were not selected.

## Health Insurance for Temporary Workers in Chile

Public service provision to informal workers is potentially a fruitful avenue for extending social protection to informal workers. In Chile, workers are required to contribute 7 percent of their earnings to a health insurance plan with a public insurer (FONASA), or a private insurer (ISAPREs). As health insurance premiums are dependent on the level of earnings, high-income workers are able to purchase more comprehensive plans. The public insurer is an insurer of last resort, and covers the unemployed or inactive, and the poor. However, these people have access to public health care only, which provides a limited range of basic interventions. Temporary workers in agriculture who manage at best four months of employment in the year had few incentives to join because they could get full health insurance coverage only while employed (Barrientos and Lloyd-Sherlock, 2002). Health hazards are very significant among temporary workers in agriculture because of poor working conditions in the farms, packing houses, and cold storage facilities and because of pesticides and other chemicals. Media exposure during the recent presidential election secured a change in the regulations extending full health insurance coverage for 12 months for temporary workers in agriculture with 3 months contributions to the public health insurance plan. This ensures they have access to outpatient and secondary health care through the year. Later on, the contribution requisite was lowered to two months and the cover was extended to all workers on temporary or fixed-term contracts (Barrientos, 2002).<sup>12</sup>

## Mexico's Temporary Employment Program

The Programa de Empleo Temporal in Mexico targets small communities (less than 2,500 inhabitants) in areas of extreme poverty. It is specifically aimed at temporary workers and creates employment opportunities out of season in activities associated with building, improving, and maintaining physical and social infrastructure. The unemployed and the low paid find employment at 90 percent of a minimum wage for a maximum of 88 days in the year to engage in selected projects. The program aims to improve the skills base of beneficiaries. A small component of this program targets communities affected by natural disasters.

## Colombia's Subsidized Regime for Health Insurance

In 1995, Colombia reformed its health insurance and care system. Prior to the reform, Colombia exhibited a segmentation in health insurance common to Latin American countries: the wealthy self-insured used private health care; workers in formal employment relied upon social insurance to reimburse health care expenditures; and informal workers and the poor accessed basic health care from public providers or financed direct purchases. An objective of the reform was to integrate these three sectors and extend coverage. Under the reformed system, workers in formal employment join the Contributory Regime and contribute 12 percent of their earnings to a health insurer, plus an extra 1 percent solidarity contribution if their earnings exceed four minimum wages. The insurers include for-profits and not-for-profit providers. The government sets the cost of an annual basic health care package, and insurers with

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<sup>12</sup> This is financed from contributions to the public health insurance.

high earners redistribute contributions in excess of this value to insurers with low earners. The solidarity contribution plus direct government subsidies are collected into a Solidarity Fund which is used to finance health insurance for informal workers and those with low incomes or out of work by affiliating them to the Subsidized Regime. Municipalities and NGOs provide additional subsidies. The Subsidized Regime has been successful in extending health insurance coverage in Colombia. At the end of 2001, there were 13 million people in the Contributory Regime and 11 million in the Subsidized Regime, covering two-thirds of the population with unsatisfied basic needs. Colombia is, as a result, one of the few countries in Latin America managing to extend health insurance coverage to its vulnerable population (Yepes, 2000; Barrientos and Lloyd-Sherlock, 2002).

### **Codes of Conduct and Labor Standards**

Increasingly, producers in the South are integrated into global production and distribution value chains (Gereffi and Kaplinsky 2001). Northern firms are dominant in these value chains and are able to exercise control over southern producers. Northern firms are coming under pressure from NGOs, and from labor and consumer organizations to require southern producers to introduce labor and environmental standards. A study on export horticulture finds that these global value chains can provide an additional channel through which labor standards can be applied to workers in informal employment (Barrientos and Barrientos, 2002). Labor standards are applied through voluntary codes of conduct, are designed by northern firms, and are implemented by southern producers as a condition of supply. Codes of conduct normally include minimum standards of pay and working conditions, and some include representation rights (S. Barrientos, 1996). These examples of programs extending social protection coverage to workers in informal employment provide some valuable insights. They demonstrate that governments have a central role in leading and orchestrating the extension of social protection, but also that the involvement of a wider range of stakeholders is important. These include national and international NGOs, private and autonomous welfare providers, and community organizations. The role of international stakeholders is growing in importance. An issue underlined by the cases above is the need for social protection instruments to focus on insuring consumption, or more broadly livelihoods, as opposed to providing solely income insurance.<sup>13</sup> The cases also draw attention to the wide range of policy interventions that are needed, and could work. As a group, the examples demonstrate the relevance of the emerging consensus around social protection for informal workers. Most importantly, the cases demonstrate that the extension of social protection to informal workers must go beyond a discussion of specific risks and instruments, important though this is, and target the broader political economy issue of extending solidarity values to encompass informal workers. This is examined in the next section.

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<sup>13</sup> See Zellner, 2001...

## V. THE POLITICAL ECONOMY OF EXTENDING SOCIAL PROTECTION: FROM THE WEAK TO THE STRONG?

It is commonly stated that the spread of social protection in advanced economies involved, in most cases, the extension of programs originally set up for specific groups of workers to all organized workers, and eventually to vulnerable groups. This process of progressive universalization of social protection spread, it is argued, "from the strong to the weak" (Gough, 2000). Whether this characterization accurately reflects the actual processes at work in advanced economies can be open to question (Cutler and Johnson, 2001), but it is accurate in describing expectations among policy makers in the region (Mesa-Lago, 1991). These expectations have failed to materialize for all but a handful of countries.<sup>14</sup> In fact, social protection coverage, both in terms of population and contingencies, has declined throughout the region in the 1990s (Barrientos, 2004a). The "from the strong to the weak" model of the growth of social protection has failed to take root in the region, and welfare production remains strongly segmented. Informal workers, and other vulnerable groups remain firmly outside formal social protection.<sup>15</sup>

Whereas advanced economies have managed to set in place social protection institutions securing a measure of homogeneity in risks and welfare outcomes, Latin American countries have been unable to overcome their strong segmentation in welfare production. Extending social protection to informal workers involves breaking out of this segmentation in welfare, but how is this to be accomplished? The examples reviewed above suggest reversing the process observed in advanced economies. What is needed is to focus social protection initiatives on the more vulnerable, mainly informal workers, and to create the conditions for the spread of social protection from the "weak to the strong." The ethical foundations for this approach can be found in the work of Rawls, for whom public policy must be evaluated in terms of its likely effects on the most vulnerable (Rawls, 1971; Sen, 1999). It is the political economy of this approach that requires more detailed consideration.

Structural changes in the region have replaced an "import substitution" model of development with an "export-oriented" one. In political economy terms, the import substitution model was sustained by alliances of industrial interests and urban industrial and public sector workers. This development model in turn strengthened its support base through mechanisms for capturing and distributing economic rents. Among these, state support for occupational insurance funds played a significant role. The crisis in the 1980s brought to an end the dominance of this development model and also the supremacy of the alliances that sustained it. Public sector and industrial employment and unionization have all declined significantly in the aftermath of the crisis. Employment growth has been focused in microenterprises, services, and nontraditional exports, with a rising share of women (Barrientos, 1997; Benería, 2001). These trends are reflected in the growth of

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<sup>14</sup> Among Latin American countries, only Costa Rica and Uruguay have come sufficiently close to the aspiration of universal social protection, and more recently only Brazil has taken meaningful strides in this direction.

<sup>15</sup> In fact, it could be argued that, increasingly, informality reflects segmentation in welfare and social protection. Maloney shows that it is hard to make a case that labor markets are segmented into formal and informal segments (Maloney, 1999).

informality, and in the increasing overlap existing between formal and informal employment.<sup>16</sup> With the growth of informal employment, and the generalized deterioration of labor market conditions, it can be postulated that exposure to risk and vulnerability associated with informality is now more widely spread through the labor force making it possible to gather support for public interventions targeted on the most vulnerable groups.

The examples above provide some support for this hypothesis. The incorporation of informal rural workers into the pension system in Brazil, the health insurance in Chile and Colombia, and the expansion of labor standards in export horticulture, demonstrates the benefits from focusing social protection interventions on the most vulnerable. In all these cases, the interventions reflect a widening of solidarity to incorporate informal workers, encouraged in most cases by collective action. The majority of the cases reviewed here involve a range of stakeholders, national and local government, social insurance agencies, trade unions, employers, and NGOs under the leadership and coordination of public agencies. In some cases, gains for vulnerable groups are later extended to cover other groups. In Chile, the social protection gains for women temporary workers, the *temporeras*, were later extended to all fixed-term and temporary workers. In Brazil, the success of Previdência Rural has led to consideration of improvements to basic pension provision for urban informal workers. There are encouraging signs that the extension of solidarity values in Latin America can support the spread of social protection from "the weak to the strong."

## VI. CONCLUSIONS

This paper has attempted to consider key issues relating to the extension of social protection to informal workers in Latin America. The paper began by discussing the emergence of social protection as the dominant agenda for social policy in developing countries. Consideration of the factors explaining the lack of social protection among informal workers, and of examples of recent extension of social protection in the region, demonstrated the relevance of the social protection agenda. The new perspective on social protection can provide a valuable framework for the extension of social protection to informal workers. Social protection mainstreams informal workers in a way that social security, social insurance, and safety nets do not.

Analysis of trends in informal employment in the region shows there has been a sustained and significant growth in informal employment. Whether the focus is on occupational status, or on social insurance coverage, measures of informal employment show a rising trend. One in every two workers in Latin America is in informal employment. The correlation existing between informality, vulnerability, and poverty makes the extension of social protection to these workers an urgent issue.

An examination of the reasons for lack of social protection among informal workers pointed to the failures of formal social insurance programs, growing labor market liberalization, and the limitations of informal insurance networks, as key factors. Interventions aimed at these would improve the capacity of these

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<sup>16</sup> See Maloney (1999).

households to protect their livelihoods from risk. However, the conditions leading to the growth of informality also act to limit the feasibility and effectiveness of these interventions.

A brief review of some recent extensions of social protection to workers in informal employment in the region suggests that interventions focusing on the most vulnerable, engaging a wide range of stakeholders, and targeting the protection of household consumption, can be successful. These also point to the fact that a widening of solidarity is fundamental. Compared to the spread of social protection in advanced economies, in Latin America the challenge is to extend social protection "from the weak to the strong."

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# ‘Improvisational Reform’: building collective voice and security in Silicon Valley

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Motivated, sustained, and cumulative tinkering with institutional arrangements is an indispensable tool of democratic experimentalism, of improvisational reform, of jazzlike public action.... (Unger and West, 1998: 11).

## INTRODUCTION

Processes of labor market informalization are most frequently examined in the context of poor countries and marginalized workers. Yet, one of the consistent themes in the study of informal work is that informalization is fundamentally shaped by processes of economic restructuring in the formal economy. Changing corporate structures; the rise of complex outsourcing arrangements; the decline in the institutionalized tripartite social compact between labor, capital, and the state; and increasing volatility associated with the rise of an information economy, all contribute to the informalization of labor in both developed and developing world contexts (Portes et al., 1989). This economic restructuring has resulted in a growing number of workers in formal sector labor markets in the core of the global economy facing increasingly tenuous employment and high levels of insecurity. Therefore, examining new strategies to build collective voice and security for workers that address these processes of restructuring in core labor markets can provide useful lessons that might be relevant in a variety of other contexts as well.

This paper explores strategies for building economic security that have emerged in response to the high levels of insecurity workers face in Silicon Valley.<sup>1</sup> The region, with its high concentration of information technology industries, arguably reflects fundamental changes in work and employment practices associated with a shift from an industrial to an information economy (Benner, 2002; Castells, 1996). There are two fundamental features of Silicon Valley labor markets that have contributed to the high levels of insecurity that many workers there experience. First is a high degree of *labor flexibility*, with rapidly changing work requirements, and high levels of subcontracting, temporary, and contract employment. Second is the importance of *labor market intermediaries*—a wide range of organizations that mediate work practices and broker employment relationships between workers and employers. The increasing *flexibility* and *intermediation* that characterizes Silicon Valley labor markets means that traditional institutions and policies

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<sup>1</sup> Silicon Valley is generally understood to refer to the southern San Francisco Bay region, comprising Santa Clara County and portions of neighboring San Mateo, Alameda, and Santa Cruz counties. It is home to some 2.4 million people and 1.3 million jobs heavily concentrated in information technology and related industries (see JVS:SVN, 2003).

that promote collective voice and social protection for workers, which are based on a model of a stable workplace with clear employer/employee relations, are largely ineffectual.

In response to the ineffectiveness of traditional institutions in this context, two broad alternative approaches may provide some promise in addressing the problems of intermediation and flexibility. First, there is significant potential for improving the functioning of labor market intermediaries. These institutions have received relatively little attention in labor market policy, which tends to focus primarily on the supply and demand side of the labor market. The growing importance of intermediaries provides opportunities for innovative policy interventions that can assist more positive aspects of intermediary activity while hindering their more pernicious elements.

Second, policies for addressing labor flexibility can be improved by understanding the distinctions between flexible employment and flexible work, and trying to transform the growing *individualized employment relations* so they are more aligned with widespread *collective work practices*. The rapidly changing work demands that are inherent in the region's rapidly changing, knowledge-driven industries—such as changing tasks, shifting skill requirements, and varying work colleagues both within the firm and in cross-firm business relationships—requires high levels of social interaction. This social interaction frequently crosses firm boundaries, and the social networks that are built in the process of performing these work activities are critical in shaping individual career trajectories and trajectories of regional competitiveness. In essence, these collective work practices are a critical component of Silicon Valley's labor flexibility. At the same time, however, workers face increasing fragmentation and individualization of employment relations, with no collective representation, diverse individual mobility paths, varied compensation packages, and widespread use of subcontracted, temporary, and contract employment. This employment fragmentation makes workers more isolated and vulnerable to employer malfeasance and labor market shocks. It is possible, however, to promote more collective employment relations that can build on and reinforce the social networks and social support built through the collective work practices. This can be done, for instance, through improving multi-employer collective representation for workers within similar occupations, helping to create a better balance between workers' and employers' needs in the labor market, and by promoting more diverse and collective compensation systems; thus, flattening out the inevitable ups-and-downs in earnings and providing workers with greater resilience in the face of inevitable labor market shocks.

Together, improving intermediaries and promoting more collective employment relations provide opportunities for restructuring labor market processes in ways that would expand the workers' collective voice and build greater security for many workers. Though the specific approaches discussed in this paper are exploratory, they directly address aspects of growing insecurity that are associated with the rise of an information economy, and thus are likely to have relevance in other regions as well.

This paper proceeds first by discussing key features of labor markets in Silicon Valley and their relationship to broader processes of labor market informalization. Of central concern here are the ways that the growth in labor flexibility and intermediation reflects a mismatch between fundamental "new economy" labor market processes and the existing legal and social institutions regulating labor markets. I then move to a more detailed discussion of strategies for influencing the activities of labor market intermediaries,

followed by a discussion of policies aimed at collectivizing employment relationships. In the final section, I discuss some of the strengths and limitations of these strategies for addressing a broader process of labor market informalization and building greater security for workers.

## LABOR MARKET INFORMALIZATION IN SILICON VALLEY

The term "informal economy" refers to a diverse and heterogeneous range of economic activity, which Portes et al. (1989) define as "a process of income generation characterized by one central feature: it is unregulated by the institutions of society, in a legal and social environment in which similar activities are regulated" (Portes et al., 1989). The process of labor market informalization, therefore, is a process in which changes in the institutional environment and changes in production practices create conditions in which a significant portion of economic activity is unregulated. From this perspective, only a small portion of economic activity in Silicon Valley is entirely "unregulated" and therefore fully "informal," though there is anecdotal evidence of some truly informal activity in the area, including street trading (primarily by immigrants), unregulated home-based work, and casual subcontracting relations between software programmers (LaGuerre, 1993; Zlotniski, 1994; Lozano, 1989). More important than full informality in the region, however, is the ways that work practices and employment relationships are only poorly regulated by existing labor market institutions and legislation.

Silicon Valley labor markets are characterized by high levels of labor turnover, and widespread use of nonstandard employment, including the use of temporary agencies, independent contractors, and subcontracted employment systems. In the late 1990s, the Silicon Valley region had two times the national percentage of the workforce employed in temporary agencies, with up to 40 percent of the region's workforce, and up to 80 percent of all job growth between 1984 and 1998, in nonstandard employment relationships. Median job tenure in the region is only three years, and rapid turnover has become the norm (Benner, 2002). In a California statewide survey, it was estimated that only 33 percent of the labor force, ages 18-64, have "traditional" employment (single job, full-time, day-shift, permanent employee, not working from home or as an independent contractor) and only 22 percent had held such a job for three years or longer.<sup>2</sup>

Such labor flexibility would not be a major social concern if it resulted in widespread economic prosperity. Even during the booming '1990s, however, wages stagnated for the bottom half of the labor market and inequality increased (Benner, 1996; Benner, 2002). In 1996, as the cost of housing skyrocketed in the region,<sup>3</sup> an estimated 55 percent of jobs in the Valley paid less than \$15.72 an hour, the threshold of pay in full-time work needed to sustain a family of four without public support (Rosner and Benner, 1997). In addition, with high levels of temporary and contract employment, Silicon Valley workers are particularly vulnerable to economic downturns, as firms are able to shed workers rapidly. The unemployment rate in

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<sup>2</sup> California Work & Health Survey, 1999, Ed Yellin, Principal Investigator. University of California, San Francisco.

<sup>3</sup> Between January 1996 and January 2001, the median house price in Santa Clara County, the core of Silicon Valley, more than doubled, rising from \$251,000 to \$577,500. Source: [www.penwest.com](http://www.penwest.com), accessed 05/2001.

Santa Clara County (the heart of Silicon Valley), for instance, soared from a low of 1.3 percent in December 2000, to 7.7 percent in the space of just 13 months, and peaked at 8.9 percent in October 2002: more than 3 percentage points higher than the national average at the time. By 2003, the region had lost a total of nearly 20 percent of all jobs and average pay declined by 22 percent (Sylvester, 2003). A survey of Silicon Valley workers in June 2003 found that more than a quarter of adults in the valley—a full 25.6 percent—had been laid off at least once since January 2001, and that 34.7 percent had at least one person in their household out of work for more than three months in that time (Steen, 2003; JV:SVN, 2003).

The insecurity and inequality that workers experience in Silicon Valley are not the result of being entirely unregulated, a sign of true informal employment. They are, however, at least in part the result of being poorly protected by existing labor market regulations and institutions. Nearly all of these regulations and institutions<sup>4</sup> either explicitly or implicitly assume relatively stable, long-term, full-time employment for a single employer who largely controls the conditions of employment (Benner et al., 1999; Osterman et al., 2001). They largely ignore the needs of workers who are in nonstandard employment contracts or who move frequently from employer to employer. The system for ensuring collective representation for workers, for instance, based on well-defined "communities of interest" in stable workplaces, makes it nearly impossible for workers in unstable work conditions to have collective representation (Friedman, 1994; Gould, 1993; Stone, 2004). Self-employed workers, independent contractors, and temporary workers are largely ineligible for unemployment insurance (U.S. Department of Labor, 1998). Workplace antidiscrimination and health and safety legislation largely assume legal employers have the ability to control employment conditions, which frequently does not apply to workers in subcontracted employment or employed by temporary agencies.<sup>5</sup>

What is needed to address these problems is a sustained public dialogue aimed at a comprehensive reform of labor market institutions so they are more in line with these information economy labor practices. Efforts made in recent years to spark such a debate have had little effect.<sup>6</sup> While the success of such efforts will depend on political leadership and political will, it will also depend in part on a clear understanding of policies that can address fundamental new labor market dynamics. In an effort to contribute to that understanding, what follows are some exploratory proposals for institutional reforms that are built on fundamental dynamics evident in Silicon Valley labor markets related to the widespread use of labor market intermediaries, and the problems of insecurity associated with labor flexibility.

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<sup>4</sup> Including the National Labor Relations Act of 1935, the Fair Labor Standards Act of 1938, the Social Security Act of 1935 (which also established the unemployment insurance system), Title VII Civil Rights Act, the Age Discrimination in Employment Act, the Occupational Safety and Health Act, and so on.

<sup>5</sup> In one particularly poignant example in 1999, an assembly worker who was employed by Manpower Temporary Services in a warehouse packing Hewlett Packard printers became concerned about respiratory problems. He discovered that one of the chemicals in the ink cartridges used in Hewlett Packard printers had been linked to respiratory irritation and was a possible carcinogen. When he asked that an air quality check be conducted in the warehouse, he lost his job. He filed a complaint with the California Industrial Relations Board, which took more than 20 months to determine whether to fine Hewlett Packard or Manpower or both. Ultimately, the California labor commissioner ruled that Manpower, as the legal employer, had violated the employee's right to express health safety concerns at work. In this case, however, Manpower had no power to order an air safety check at the plant or to improve air circulation systems in the facility (Jayadev, 2000).

<sup>6</sup> Example given, the 1994 Dunlop Commission's efforts to promote labor law reform (U.S. Department of Labor, 1994), or the MIT-sponsored Task Force on Reconstructing America's Labor Market Institutions (Osterman et al., 2001).

## LABOR MARKET INTERMEDIARIES

One of the more striking characteristics of Silicon Valley labor markets is the prominence of a wide range of intermediaries that help both employers and workers navigate through the complex and unpredictable labor market. Workers turn to intermediaries to help find jobs and to deal with changing information and skill requirements. Employers turn to intermediaries to help find workers and to help address fluctuating work demands. Intermediaries themselves have taken advantage of these needs of both workers and employers, and have actively expanded their activities, helping to further reinforce their importance in the regional labor market. Intermediaries respond to critical problems that are prevalent in flexible labor markets, such as high search costs, imperfect information, and increased risk. Intermediaries are thus emerging as critical institutions shaping the dynamics of flexible labor markets and thus labor market outcomes for both workers and employers (Benner, 2003b).

There are broadly three different types of labor market intermediaries that are active in Silicon Valley, distinguishable by organizational structure and origins. These include:

- *Private sector intermediaries.* Temporary agencies, contractor brokers, web-based job boards, and professional employer organizations all place workers with many different skill levels across a range of occupations and industries, from assembly and clerical positions to high-end computer programmers and engineers. What distinguishes all private sector intermediaries is that they are market-based organizations dependent on selling their services and ultimately making a profit in order to survive. As a result, private sector intermediaries are primarily oriented towards meeting the needs of employers. While they may provide some assistance to job seekers, their revenue and thus their profits come from employers. While they clearly contribute to the profitability of their client firms, the implications of their activities for workers' career paths or the long-term sustainability of the regional production complex is much more contradictory. Private sector intermediaries rarely engage in significant skills development or training for the workers they place. Though many temporary agencies offer self-paced computer courses, this training serves largely as a screening device to identify workers with significant initiative, rather than a substantial investment in worker training (Autor et al, 1999). In an environment where skills and ongoing learning are so essential for workers' career paths, private temporary agencies do little to improve labor market outcomes for workers. Furthermore, to the extent to which they contribute to an under-investment in training by their client firms—because of more limited attachment to their workforce—these private sector intermediaries may actually undermine the long-term competitiveness of the region as well.
- *Membership-based intermediaries.* These are intermediaries whose organizational base is rooted in the membership of individual employees. This category includes professional associations, guilds and guild-like organizations, and various union initiatives, which have become increasingly prominent in recent years (Benner, 2003a). The activities of these organizations range from creating job listings and organizing networking opportunities to providing skills training and building learning communities.

Many, though not all, also engage in advocacy activities, such as promoting codes of conducts or lobbying for particular legislation. Overall, their activities help build ties between workers and employers, and shape the nature of that relationship in ways that are primarily aimed at improving the labor market outcomes of their members. Membership-based intermediaries are typically rooted in particular occupations, in which the skills, knowledge base, work practices, and labor market experiences associated with each occupation provide organizational coherence and shape the structure and activities of the association. The skills and knowledge development that occurs in these occupational communities is as important for the region's long-term competitiveness as it is for individual workers' outcomes (Benner, 2003c).

- *Public sector and nonprofit intermediaries:* There are a number of public sector programs and educational institutions that directly play an intermediary role in the labor market as well. In recent years, these programs have expanded their activities and grown more explicit in building their role as intermediaries. These include three types: first, a wide range of public workforce development and training organizations that have become increasingly integrated into a "one-stop career center system" aimed at improving their effectiveness as intermediaries; second, education-based institutions, which have become more active in providing adult education and customized job training for employers (including developing specialized curriculum and training programs geared to employers' needs, and providing a wide range of on-site custom training for employers); and third, community and nonprofit organizations that engage in job training and placement activities, and are more strongly integrated into particular communities of disadvantaged workers than public workforce development institutions. As the public sector has become more aware of the importance of intermediaries in the labor market, these initiatives have expanded in size and become more conscious about being more comprehensive and strategic in their approach.

All three types of intermediaries are quite widespread in Silicon Valley. A recent survey of workers' job search experiences found that one out of four people had held a job that they got through an intermediary in the previous three years (Pastor et al., 2003). This is likely a conservative estimate of the impact of intermediaries in the labor market since it doesn't include jobs found through web-based intermediaries, and doesn't examine the extent to which social networks, which account for the largest single means of job search, were built through intermediary activity.

Intermediaries have contradictory impacts on labor market outcomes for workers, in some cases undermining opportunities for upward mobility, and in other cases helping build those opportunities. There has been little sustained public attention, however, to affecting the activities of intermediaries as a whole. Typical approaches, such as reforms of public sector workforce development activities, or strategies to reduce temporary employment, tend to be fragmented and ineffectual. There is growing attention being paid to what are being called "workforce intermediaries," a subset of all labor market intermediaries that are more specifically focused on helping disadvantaged workers (Giloith, 2004; PEERS, 2003; Fischer, 2005; Fitzgerald, 2004). These newer initiatives are providing useful insights, but have yet to be integrated into a more comprehensive approach to influencing all types of labor market intermediaries.

## Intermediaries and Labor Market Policy

Most labor market policy has been directed either towards the demand side of the labor market (e.g., subsidizing particular types of development, or regulating employment practices) or to the supply side (typically through promoting skills development). It is possible, however, to develop public policy directed at intermediaries. One approach clearly is to attempt to regulate temporary help firms and other intermediaries that act as legal employers of contract workers (e.g., employee leasing firms and contractor brokers). This may include such provisions as limiting the length of time someone can be employed in a "temporary status"; trying to ensure equal pay for equal work; clarifying provisions for collective bargaining and coemployment status; improving access to health care; and so on (Theodore and Mehta, 1999; NELP, 1999). Such provisions are relatively weak in the United States, though they have been somewhat stronger in Europe (Messmer, 1994; Overman, 1993; Houseman and Osawa, 1995). While such regulatory efforts are important, they sometimes have unintended consequences that tend to undermine their overall impact on improving labor market outcomes. For example, a legal case arguing that Microsoft should make their contract workers eligible for the same employment benefits provided to permanent workers actually resulted in Microsoft strengthening the distinction between permanent and contract workers rather than making contract workers eligible for their generous benefits (De Haas, 1998). Similarly, a Flexicurity Act in the Netherlands with a provision requiring temporary firms to give many of their workers "permanent status" after a certain period of time, resulted in many temporary workers being laid off prior to the law taking effect.<sup>7</sup> This is not to suggest that regulating intermediary activity is not worthwhile, but simply to suggest that where firms have a high demand for labor flexibility, they are likely to find ways of subverting many kinds of regulation.

Another perhaps more promising approach is to put significant resources into promoting the development of positive intermediary models that can then replace more negative intermediaries. With adequate public assistance, many nonprofit and membership-based intermediaries could find win-win opportunities, meeting the needs of firms while also providing better career outcomes for workers. For intermediaries to be effective in building such win-win opportunities, they must move beyond the short-term, placement orientation that characterizes most intermediaries today—an orientation that is reinforced by most publicly funded programs which emphasize placement to the detriment of retention and advancement issues. Longer-term, more in-depth relationships with both employers and workers are important for developing effective understanding of employers' labor force needs, providing effective formal training and informal learning opportunities, and contributing to improved competitiveness of firms over time. Developing the capacities, relationships, and resources to do this effectively, however, is not easy. It requires sophisticated knowledge of labor market and economic trends, access to a range of skill training, the ability to build trusting relationships with multiple employers often with very different labor force needs, and the ability to provide opportunities for workers with a range of backgrounds, skill levels, and career aspirations. Developing this capacity will require a significant and sustained commitment of public funds, including funds to support networks of relationships between different intermediaries who may specialize in different

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<sup>7</sup> See <http://www.euro.euroworld.eu.int/1999/01/feature/nl9901117f.html>. Accessed 10/1/2005.

activities, thus promoting greater coordination and cooperation between the variety of different intermediaries in regional labor markets.

Even promoting existing positive intermediary activities, however, is limited when intermediaries simply accept the demand side of the labor market as given. In this context, intermediaries may be able to improve workers' mobility, but don't affect the quality of jobs or working conditions being offered by employers. It is possible, however, for intermediaries to have a more direct impact on the quality of jobs, though in both positive and negative ways. Private sector temporary agencies, for example, typically act as the legal employer and thus have some leeway in setting wages, benefits, and working conditions. This is especially true with the growing trend of larger temporary help agencies moving to on-site arrangements with their client firms. There they take on direct personnel management responsibilities and in the most developed cases even responsibility for managing work flow and productivity (Bernhardt et al., 2001; *Staffing Industry Review*, 1997). For the majority of workers, wages in temporary help agencies are lower than those for comparable workers in client firms, and what they offer their workers is limited by what their client firms are willing to pay (Houseman et al., 2001; Erickcek and Houseman, 1997). Yet, there are cases where temporary agencies will advocate for higher wages for particular workers, and an increasing number of nonprofit and membership-based intermediaries are experimenting with becoming "employer of record" for the workers they place, as a way of trying to improve their placements and give them greater leverage for paying higher wages (Neuwirth, 2004; Carre et al., 2003). Some membership-based intermediaries have also been promoting codes of conduct and other advocacy efforts as a way of improving job quality (Bernhardt et al., 2001). Finally, in the cases where union hiring halls are linked with multi-employer collective bargaining units, these intermediaries can maintain high wages and employment security, at least when high-skill levels contribute to greater productivity to help union firms be competitive against nonunionized competitors (Wolf-Powers, 1999). At the moment, under U.S. labor laws, pre-hire agreements (important for maintaining hiring halls) are only allowed in the construction industry and multi-employer bargaining units are rarely approved outside the building trades and entertainment industry (Friedman, 1994).

Specific policy mechanisms that might be pursued to move intermediary activity in a more positive direction might include the following:<sup>8</sup>

- *Incentive structures.* Any public funding or subsidies of intermediaries, including possible tax structures, should be explicitly geared towards meeting two fundamental objectives: providing long-term opportunities to all employees and meeting the needs of disadvantaged workers. Achieving this will require reforming existing funding streams, which neglect training and career mobility in favor of rapid placement, even if it is a dead-end, temporary job. Funding instead could be focused on career advancement services such as planned mentorship relationships, annual "follow-up" contacts with career planning objectives, or ongoing "alumni" services. Intermediaries of all types could be encouraged to design their own innovations through funding bonuses based on the demonstrated

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<sup>8</sup> Pastor et al., 2003.

long-term income growth of clients. In addition, support could be provided for membership associations that are currently generally excluded from public training funds.

- *Public disclosure.* Legislation should increase public knowledge of the services provided by intermediaries, the benefits received by their employees, and the economic consequences that follow placement for the short term and long term. While some advocacy groups attempt to rate temporary agencies based on their willingness to agree to codes of conduct, adequate information to inform potential users is unlikely to become available without government regulatory requirements.
- *Performance targets.* Intermediaries that are recipients of either direct or indirect government support (such as training funds) should be required to meet performance standards based on job quality as well as success in placement. Local and regional requirements could be based on existing formulations including living wage ordinances, prevailing wage laws, or local self-sufficiency standards.
- *Networking and coordination.* High performance intermediaries, such as community colleges and unions, can become more effective if they coordinate their activities and form networks with public and nonprofit organizations that offer support services. Public policy should encourage innovative forms of collaboration both between these standard-setting intermediaries and between them and other intermediaries that may profit from their experience and philosophy.

Whether restricting negative intermediary practices or providing support for positive practices, the underlying premise of these proposals is the recognition that intermediaries have become a fundamental component of the structure and dynamics of labor markets. Efforts to entirely get rid of intermediaries and build a stronger direct tie between workers and employers are likely to prove ineffective and possibly detrimental to the vitality of regional economies. The best approach is to accept intermediaries as a reality in contemporary labor markets, do our best to understand the forces contributing to their activities, the impact of their efforts, and influence their activities in ways that lead to desired outcomes.

## **LABOR FLEXIBILITY AND THE SOCIAL WAGE**

In addition to the widespread importance of intermediaries, the second fundamental characteristic of labor markets in Silicon Valley is the high level of labor flexibility. As many analysts have argued, some aspects of this labor flexibility have been critical for the region's economic success. The region's open labor markets, with rapid circulation of workers, information, and knowledge between firms, has contributed significantly to the region's remarkable 40-year record of innovation and dynamism (Saxenian, 1996; Saxenian, 1994). The widespread use of independent contractors and temporary workers, combined with the ease with which firms hire and fire workers and restructure their subcontracting relationships, facilitates their ability to adjust to rapidly changing technology and competitive conditions. Yet, as pointed out previously, labor flexibility also has a significant downside, evident in the high levels of insecurity and inequality that workers in the region experience.

The challenge for labor market policy in this context is to develop strategies that can help improve labor market outcomes for workers while also promoting competitiveness throughout the region. In attempting to meet these dual goals, it is useful to make a distinction between *flexible work* and *flexible employment*. *Flexible work* refers to the actual activities workers perform, the skills, information, and knowledge required to perform those activities, and the social interaction involved in the process of performing that work. *Flexible employment*, on the other hand, refers to the contractual relationship between employer and employee, including compensation systems and management practices. Rapid changes in *flexible work*—in the quantity of work; in the skills, information, and knowledge required to perform that work; and the social interactions involved in that work—are largely rooted in the dynamics of competition in information technology industries, where continual innovation is central for competitive success (Shapiro and Varian, 1998). This importance of innovation is related to the increasing importance of information and knowledge in the economy, and the rapid change inherent in producing information and knowledge as commodities. These dynamics are particularly evident in information technology industries but also have applicability in a wide range of other industries as well—wherever information (both in analytical and aesthetic form) is an important part of the value of the commodity or service being produced (Lash and Urry, 1994). In essence, flexible work is an essential component of competitive success in the information economy.

In contrast, rapid changes in *employment*—including high levels of turnover, shorter periods of employment, and widespread contingent employment contracts—are only partly shaped by the importance of flexible work. The nature of the employment relationship is also shaped by the legal, institutional, and organizational environment that is deeply rooted in an older industrial economy, as described previously. This mismatch between contemporary employment practices and outdated labor market institutions allows many firms to pursue flexible employment relations for a variety of reasons, such as simply cutting costs or shifting risk, that have little to do with promoting long-term competitive success. The recognition that flexible employment is primarily shaped by the institutional and legal environment, rather than underlying economic changes, suggests significant scope for intervention strategies, without threatening economic dynamism.

In developing these intervention strategies, I want to argue the value of promoting an increased social wage. In essence, a social wage provides compensation on a broader more equitable basis, based not on a worker's individual contribution to profitability, but based instead on their membership in a broader society. Frequently the term is used to refer specifically to public expenditures, in which tax revenue is used to provide benefits to citizens through such programs as education, subsidized health care, housing assistance, and the like (Moudud and Zacharias, 1999). It is important to recognize, however, that direct public expenditures are not the only mechanism through which compensation can be "socialized" or spread through a broader community of workers. During much of the twentieth century, for instance, it was large corporations with well-developed internal labor markets who implemented compensation systems that had the effect of socializing the wage distribution within the corporation. In these systems, compensation was not based solely on an individual's direct contribution to the firm's profitability, but was instead partially based on seniority, with systems that tended to raise workers' wages at the bottom and limit them at the top. This wage compression was further reinforced through the training practices of these

firms. With a high value of firm-specific knowledge, new hires were frequently given lengthy training programs, with firms willing to forego immediate contributions to the firm's activities in the knowledge they would reap ample rewards over the long period of time employees would stay with the firm. Compensation for new employees was greater than their contribution to the firms' profitability, but firms would gain in the long run from their employees' increased productivity, given compressed wage structures. In essence, these compensation systems were not based on individuals, but were structured based on the relationship between different groups of workers in a firm—a limited social wage within the corporate community.

Ironically, during this time that the employment contract for many workers was socialized across large firms, work itself, at least in classic blue-collar jobs, was in many ways more individualized. Taylorized management practices and assembly lines ensured that much (though not all!) of the control over the pace and intensity of work was removed from the workers' control. Traditional assembly line work tied workers to a particular space on the shop floor, making it difficult to have social interactions with anyone more than a few feet away. Specific work tasks were often proscribed by long and complex job descriptions and bureaucratic rules, further limiting the room for worker initiative. Overall, then, during much of the twentieth century, broad sectors of the U.S. labor market could be characterized as having *individualized work practices but socialized employment contracts*. Clearly this representation is not accurate for all types of work and employment, but it is a useful characterization of the dominant labor market practices that existed in the largest, most dynamic sectors of the U.S. industrial economy in much of the twentieth century.

In contrast, in Silicon Valley, which represents the largest and most dynamic sectors in the contemporary information economy, labor markets can be broadly characterized as involving an increased *socialization* of work, and an increased *individualization* of the employment contract. With high levels of self-employment, temporary and contract labor, rapid mobility between firms, and the near absence of unions in high technology industries, employment contracts in the region are largely driven by individuals' negotiating skills and the market value of their skills, experience, and relationships. In contrast, however, work tasks (and the information and knowledge they involve) depend on high levels of social interaction and communication, not just in the workplace but across firm boundaries. Complex production networks mean that workers frequently collaborate with colleagues in other firms in the course of their work activities. Much of the knowledge required for work is not firm specific, and workers gain the required knowledge through their participation in dense social networks and their interactions with colleagues in a variety of different contexts. Furthermore, long-term career success for workers is also increasingly dependent on social interaction, as the strength and character of people's social networks fundamentally shapes their work trajectories.

By recognizing the central importance of these social work processes to overall economic competitiveness, and acknowledging the existence of socialized compensation systems in the past, it is possible to develop arguments for innovative new compensation systems that can result in a greater social wage and thereby help minimize the insecurity that workers face in volatile labor markets. Social wage systems could either be built through formal public sector programs, or they could be encouraged through

building on collective work processes to help formalize collective representation amongst occupational communities of workers, or workers within industrial clusters. Below I will discuss some ideas for innovative compensation systems that can increase the social wage and build on these work practices. I look first at those that have emerged in information technology industries; then innovative compensation systems that have emerged in the entertainment industry (which has similar work and employment practices at the IT sector); and finally at government policy initiatives. First, however, I will turn to some reforms in the industrial relations system required to promote more collective representation along occupational or industry cluster lines, rather than within the workplace, an essential component of building greater security in the context of these individualized employment relations.

### **Reforming Industrial Relations**

The current labor relations system discourages representation for workers in flexible employment relations. Under the current system, for workers to gain collective representation, they must identify and defend a clear and sufficient "community of interest" with a clear employer, and ensure that a majority of workers within that community vote for collective representation even in the face of significant employer opposition. Rather than being based almost exclusively on increasingly ephemeral worksite-based communities of interest, an improved labor relations system should encourage collective representation along somewhat more stable occupational and industry lines, with the community identified informally through similar work practices and labor market experiences. One well-developed presentation of what such a system might look like is Charles Heckscher's (1996) *The New Unionism*. His system doesn't depend on collective bargaining, but instead collective strength is built through "associational unions," whose activities focus on advocacy, legal representation, and the provision of a broad range of educational and service activities. To be fully effective, however, associations must also be able to enter into contractual agreements with employers—with individual companies certainly but more importantly with multiple employers and industry associations. This would give them greater ability to curtail bad employment practices, improve career opportunities, and negotiate improved compensation systems. Building representation along such occupational and industry lines, however, would require some significant changes in labor law (Stone, 2004). At the minimum, it would require provisions for allowing pre-hire agreements and creating incentives for promoting industry-wide bargaining, which are currently prohibited outside the building trades (Friedman, 1994). Workers should also once again have the ability to exert economic pressures on employers. Many such efforts used to be legal prior to the Taft-Hartley Act of 1947 and, in fact, millions of nonfactory workers—teamsters, longshoremen, waitresses, cooks, musicians, and others—who successfully organized between the 1930s and the 1950s relied on pre-hire agreements; recognition picketing; secondary boycotts; limitations on nonunion or nonunion goods; and other approaches to secure bargaining rights. Making these approaches legal once again would make representation more possible for subcontracted workers, as well as for more mobile professionals, consultants, and technical workers. Another legal reform that would assist collective representation is to develop mechanisms for minority representation, requiring employers and industry associations to negotiate with groups of workers, even if they didn't have majority representation. In essence this would help lower the bar for workers seeking assistance in negotiating better employment relationships, by

allowing a minority of workers to have outside support even if they are not able to convince a majority of the need for union representation.

In many cases, employers would be resistant to the expansion of collective representation, thus requiring significant political pressure based largely on collective organizing amongst workers in an industry cluster. In many situations, however, it is possible to develop win-win strategies in which employers also benefit from collective organization in an industry, and thus might be less resistant to workers' collective representation. This is particularly evident in cases where unions or other workers' associations can solve collective actor problems that employers face, particularly around skills development and training. All employers like to have a well-trained workforce, but individual employers have little incentive to contribute to training their own when high levels of turnover mean they are unlikely to reap the benefits of increased training investments. In a classic collective actor problem, what is rational from the perspective of individual firms ends up undermining skill development in the industry as a whole. This dynamic was evident in the "shortage" of information technology workers the U.S. experienced in the late 1990s. Many detailed examinations of this phenomenon made it clear that management practices and the institutional framework of skills development were a key part of the problem, helping to explain the ineffective response to the rapid growth in demand for information technology workers at the time (Cappelli, 2000; National Research Council, 2001). Unions and other workers' associations organized on an occupational or industry level could help solve problems like this, by negotiating with employers to invest in regional training programs and collaborative learning networks. Workers would gain from improved career opportunities, while employers would be able to capture many of the same gains from investment in human resources in organized regional labor markets that they used to capture in internal labor markets. When unions or professional associations play a strong role in helping with skill development and promoting improved competitiveness in the industry, such win-win strategies are possible (AFL-CIO Working For America Institute, 2000).

## **Social Compensation System**

Collective representation, however, is simply one avenue towards improving working conditions. The greatest challenge unprotected workers face is the unpredictability of earnings over time, and the vulnerability to layoffs and economic downturns. With high levels of volatility, information technology workers face frequent periods of unemployment, while sustained downturns often require complete career shifts. Long-term skill obsolescence can result in declining earnings over time as well. In essence, workers face increased risk in contemporary labor markets. One of the basic principles of mitigating risk in all contexts is to spread the risk across larger numbers of risk-bearers, and to diversify, in this case, income streams. In essence, promoting broader social wage systems becomes an essential tool in mitigating the impacts of our high-risk economy (Mandel, 1996). What follows are some schematic suggestions of ways that an increased social wage could be implemented in innovative ways, looking first at initiatives that have emerged from information technology industries themselves, then in related industries (e.g., entertainment), and finally those that are not industry specific but depend instead on direct government policy.

One way to increase the social wage would be to expand the use of stock options, which have been a critical form of compensation for certain middle- and upper-level employees in Silicon Valley. While the bursting of the late 1990s stock market bubble has made many stock options worthless, they still provide a valuable model in which employees can benefit from the increased value of the entire company, not just their own work. Of course there are problems with the way stock options have been provided to date. Most importantly, they have generally been made available to only a relatively limited portion of the direct workforce, primarily executives and higher-level professionals, excluding many lower-level employees and "indirect workers" (e.g., temporary, independent contractors, and subcontracted workers). It would be possible, however, to pass legislation prohibiting discrimination in the provision of stock options, similar to legislation prohibiting discrimination in the provision of health and pension benefits. This might require, for instance, that stock options be provided to all employees if they are provided to any employees, perhaps in proportion to their salary.

An even broader, more ambitious approach would be to promote increased access by workers' to stock ownership in the economy. One innovative proposal developed in the Silicon Valley context was to create a California Lifelong Learning Fund (Benner et al., 1999). The idea behind this proposal was that all businesses operating in the state would be required to make annual payments (including possible stock contributions) to a fund that would then be invested primarily in California-based companies. This would have the effect of helping to improve the California economy, but revenue from the fund over time would then be made available to all residents of the state. The concept was based on the Alaska Permanent Fund, which was established through an Alaskan constitutional amendment approved by Alaska's voters in 1976. It provided that at least 25 percent of oil revenues paid to the state would be deposited into a public savings account and invested for the benefit of current residents and all future generations of Alaskans. In the Alaskan case, dividends from the fund are paid directly to all Alaskan residents (this totaled \$1,963.86 per person in 2000).<sup>9</sup> The proposal in California was to make the funds available to every state resident, but only specifically for education purposes, and to help (albeit disproportionately) lower-income residents. While the proposal never made it beyond the conceptual stage, it was an innovative idea that built directly on the notion that work in an information economy is a collective task, requires collective learning, and should be rewarded at least in part through collective means.<sup>10</sup>

Another direct way of mitigating risk is to expand workers' access to income beyond wage-labor, such as promoting asset ownership and equity stake in economic enterprises. One model that workers themselves could try to negotiate for is to have some portion of their compensation linked with the revenues generated from projects they have worked on. This idea builds from the model developed in the Motion Picture and Television Industry, another highly volatile, information-based industry. Unions in this

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<sup>9</sup> See <http://www.apfc.org>.

<sup>10</sup> A similar principle underpins an even more ambitious proposal developed in a national context. In *The Stakeholder Society*, Bruce Ackerman and Anne Alstott propose that every U.S. born resident be provided with a \$80,000 "stake" when they turn 18 years old, to be funded out of an annual wealth tax. The motivation for their proposal is primarily to address inequality in economic opportunity, but clearly it could also decrease workers' vulnerability to labor market shocks through expanding their wealth and thus, diversifying their income sources.

industry<sup>11</sup> have negotiated a compensation system with the Alliance of Motion Picture and Television Producers (the dominant employers' association) that includes the provision of *residuals*. These are additional payments to workers for the exhibition of a product in media other than the one for which it was originally created (e.g., movies shown on TV), or for its reuse within the same medium subsequent to the initial exhibition, and payment continues as long as the product continues to be sold. Residuals have become an extremely important source of income for many people in the industry. For actors in particular, residuals account for 46 percent of all compensation in 1990. For actors in television commercials, who are at the bottom of the acting hierarchy and mostly only receive the minimum pay scale, residual compensation is particularly important, amounting to four times as much as initial session fees (Gray and Seeber, 1996; Paul and Kleingartner, 1994; Christopherson and Storper, 1989). It is possible to imagine similar compensation systems being negotiated by associations of workers in high-tech industries as part of their compensation packages, and thus have income sources even when they are unemployed.

At the broad governmental level, another clear area where reforms are warranted, and could help spread risk and diversify income streams for workers, is in the area of the unemployment insurance (UI) system. Designed more than 60 years ago to provide partial, temporary replacement of wages to workers during temporary cyclical downturns, this system has now become outdated, making it more difficult for unemployed workers to benefit. The UI system assumes that layoffs are primarily temporary, not structural, and that workers will return to the same job or industry. It provides no assistance to help workers develop new skills or get retraining—indeed it discourages workers from getting significant retraining since workers lose their benefits if they are not actively looking for work, even if this involves going back to school to get skills for a new career. Furthermore, the eligibility requirements for unemployment benefits exclude many unemployed workers, particularly those in nonstandard employment relations,<sup>12</sup> and by the late 1990s only 42 percent of the unemployed actually received UI benefits, down from a high of 75 percent in 1975. The benefits provided through unemployment insurance are also inadequate, typically only replacing 40-45 percent of a worker's wage up to a maximum benefit. Such a low replacement level provides little assistance for people trying to refine or expand their skills to meet the needs of our rapidly changing economy. Consequently, the program does little to reduce chronic and repetitive unemployment (U.S. Department of Labor, 1998). Reforms should expand eligibility, increase benefit levels, and make it easier for workers to continue to receive benefits even while improving their skills or shifting careers. In essence, the goal should be to transform the unemployment insurance system into a "retraining and reemployment insurance" system.

A more innovative "layoff insurance" program should also be seriously considered. This concept, which has gotten support from some labor economists, is designed to compensate workers for income losses they may experience after being laid off. Since the 1980s, between 45 and 50 percent of displaced full-time workers who find full-time replacement jobs within two years are consistently earning less than they

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<sup>11</sup> Primarily the Screen Actors Guild (SAG), the Writers Guild of America (WGA), and the Directors Guild of America (DGA).

<sup>12</sup> Including the self-employed, many part-time and temporary workers, anyone who may have left a job for any reason other than being involuntarily laid off, and anyone still unemployed after the time limit for benefits, typically 26 weeks, though it varies by state.

earned prior to being laid off—a full third typically earning more than 20 percent less than prior to being laid off (Hipple, 1999). Layoff insurance would supplement pay for these workers for a period of time even after they get a new job, helping to make up a portion of their lost income. This would cushion the impact of the disruption, while helping workers plan more confidently for the future knowing they wouldn't suddenly find themselves with much lower pay for an extended period of time. It would also encourage people in their efforts to move to a new career or industry, knowing they can supplement their lower earnings for a period of time until they gain more experience and expertise (Jacobson, 1995; Baily et al., 1993; Mandel, 1996).

Clearly one of the other areas with the most pressing needs is health care benefits, and in particular addressing the problems associated with the current system of employer-based health insurance. The current system is very poorly suited for a mobile workforce and rapidly changing industries. Workers without a long-term, stable employment relationship, including many part-time, temporary, and contract workers along with many low-wage workers, all have a more difficult time getting health care insurance. Meanwhile, the substantial administrative costs involved every time someone switches an employer wastes unnecessary resources while providing suboptimal care for large sectors of the workforce. The goal of an efficient, truly universal single-payer system may seem impossible in the current climate. Nonetheless, health insurance coverage should not be based on one's place of work. One highly innovative program in Silicon Valley provides universal health insurance coverage for children, funded in part through funds the City of San Jose and County of Santa Clara received in the Tobacco Industry lawsuit settlement (Long, 2001). Other opportunities include promoting portable union benefits programs or collective programs available through professional associations, which would allow for the benefits of economies of scale in purchasing and administration. Many small businesses would benefit from such expanded systems as well, since they would be able to reduce administrative costs of benefits systems.

## **CONCLUDING REMARKS**

Obviously the reforms and new ideas outlined above are schematic, and far from a complete program for building collective voice and security in volatile labor markets. Rather than develop a detailed set of policy proposals, however, my purpose has been to explore more far-reaching concepts and ideas. Labor markets in the information economy are significantly different from those that existed during the height of the industrial era. The policies, programs, and institutions that shape contemporary labor markets, however, still reflect many of their industrial age origins. As a result, the working conditions for many workers are poorly regulated, and consequently, workers are poorly protected from the volatility inherent in contemporary high-risk labor markets. In essence, workers at the core of the most dynamic information technology-based region face processes of labor informalization that make them highly vulnerable.

The proposals to address this problem that are outlined here are primarily conceptualized in the context of a relatively vibrant economy. Furthermore, they are not designed to address the conditions of extreme poverty that many workers in true informal employment situations face. As a result, clearly the strategic approaches outlined in this paper would be limited in their ability to significantly impact the lives of truly

impoverished or marginalized workers trying to survive at the margins of contemporary society. The strength of these proposals, however, lies in their attention to fundamental features of labor markets that seem associated with an information-based economy. This lends them particular salience in current policy debates, since it suggests that what is required to address broader problems of informalization is not simply incremental tinkering with existing institutions, but a more far-reaching restructuring of labor market institutions to make them more suited to contemporary labor market dynamics.

In addition, many of the proposals suggested here provide intellectual support for policies being proposed in other contexts with more desperate economic circumstances. For instance, the arguments for greater socialization of compensation systems provides further support for the economic benefits of social wage programs in various forms, such as the Basic Income Grant currently being debated in South Africa (Samson et al., 2002) or other forms of basic income being proposed in Europe by the Basic Income European Network (BIEN).<sup>13</sup> The arguments for improved mechanisms to ensure multi-employer collective bargaining arrangements could help provide resources to workers in subcontracted sweatshops of major multinational firms. The arguments to try to influence the activities of a wide range of intermediary organizations might bring to light effective ways of restricting exploitative labor brokers, and supporting membership-based intermediaries in a variety of different contexts.

Regardless of the utility of these ideas for specific application in different contexts, the central argument remains the same: Processes of labor market informalization are not limited to peripheral workers and regions of the work economy, but are in fact characteristic of fundamental transformations in labor market processes in the core of arguably the most dynamic region in the emerging information economy. As a result, developing new strategies for building collective voice and security will require far-reaching approaches that don't assume that "good jobs" are characterized by stable work and unmediated employment relationships. There is an urgent need for more creative thinking and the exploration of more extensive policies that can directly address the structure and dynamics of labor markets in the information age.

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<sup>13</sup> See <http://www.bien.be/>

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# Informalizing and privatizing social reproduction: The case of waste collection services in Cape Town, South Africa

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This paper focuses on waste collection strategies in Black townships of Cape Town, South Africa during the first phase of local government restructuring (1997-2001). Despite the “one city, one tax base” aspirations of the antiapartheid struggle (see Robinson, 1998), in 1996, shortly after the political transition, the postapartheid government enthusiastically adopted the neoliberal GEAR policies that have led to continued stratification of urban services and growing inequalities<sup>1</sup> (Terreblanche, 2002; McDonald and Smith, 2004; Bond, 2000; Miraftab, 2004; Cheru, 2001). The community-based and women-only strategies used by the Cape Town local government in this period exemplify the interwoven nature of labor in the realms of production and reproduction<sup>2</sup> and how the interests of capitalism are served by dominations established through race and gender.

This paper examines the Cape Town municipality’s treatment of waste collection services in black townships as an example of a neoliberalizing local government providing items of collective consumption:<sup>3</sup> to wit, a municipal government restructured as a market actor and pressured by financial constraints to recover the costs of expanding municipal services to a new constituency (the newly incorporated black townships). The case study reveals two aspects of local government’s provisioning social reproduction within a neoliberal policy framework: (1) A public good, and hence presumably a public responsibility, is privatized by being moved both to private sector subcontractors (in this case, Tedcor Ltd.) and to the private sphere of households and women’s domestic responsibilities (in this case, women-only Masicoce and volunteer groups). (2) The privatizing local government participates in labor flexibilization for providing public services. Most research has examined labor flexibilization and informalization in production and

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<sup>1</sup> The studies on poverty and inequality reveal that these inequalities have indeed grown in the last decade. The share of income for the poorest 40 percent of households, for example, has steadily declined from 1991 to 2001; from 1996 to 2001 alone the decline was at a rate of -3 percent. For the households with the highest 20 percent of income, however, the share of income grew from 71.8 percent in 1991 to 72.2 percent in 2001 (Terreblanche, 2002: 33).

<sup>2</sup> Here reproduction is defined as activities at both the household and the state levels that maintain “the labor force through provision of basic needs and through broader processes of social reproduction” (Klak and Lawson, 1990: 305). In stressing the links between production and reproduction, Bakker and Gill (2003: 22) state the importance of seeing social reproduction as both a productive potential and a condition of existence for the expanded reproduction of capital and social formation—not simply equate reproduction with care economy, important as that is.

<sup>3</sup> Castells (1983) defines collective consumption as the social processes in consumption of the services produced and managed collectively. Production of collective consumption items—i.e., public services— is necessary to reproduction of labor power and/or to the reproduction of social relations.

profit-maximizing behavior of private sector companies<sup>4</sup> or the income-generating strategies of the poor; this paper, however, focuses on social reproduction and the behavior of the public sector.

By revealing the role of the local government in the privatization and informalization of social reproduction, the paper also sheds light on the fluidity of realms constructed as production and reproduction. In this case a municipal government, whose constitutional laws make access to municipal services a public responsibility and citizenship right, met the pressure to recover operating costs from service fees by associating those services with the domestic sphere and justifying the use of women's unpaid work through volunteer or other community-based groups. The paper argues that this case exposes the fallacy in binary constructs of production/reproduction public/ private and underlines their contested social construction.

The paper relies on both secondary information and the field information obtained in Cape Town in the summers of 2001 and 2002.<sup>5</sup> The first-hand information comprises a series of open-ended and semistructured interviews with the city officials at the unicity (the term used for unified municipality), private company operators, and individuals contracted for waste removal in the informal sector townships, in addition to the community members of various waste collection schemes described here. An important secondary source of information is an earlier investigation by the International Labor Research and Information Group (ILRIG) into partnership schemes for waste removal in Khayelitsha (see Xali, 2001; Qotole and Xali, 2001).

The organization of this paper is as follows: Section I explores the current financial framework of the Cape Town municipal government, as groundwork for understanding the environment that increasingly constrains local governments to operate as private sector entities and to adopt market principles of full cost recovery. Section II outlines the strategies used by the government to serve the black townships of Cape Town during 1997-2001. Those strategies include a public-private partnership hiring nonunionized male and female workers from among the township's unemployed, and two campaigns that rely exclusively on the labor of local women, as volunteers or as casual workers with no job security or employment benefits. Section III, the interpretive framework, stresses the state's privatization and flexibilization of labor for social reproduction. Drawing on feminist scholarship that articulates the relationship among gender, production, and reproduction, this section discusses the gendered nature of global neoliberal policies in both conceptualization and effect, and how those policies privatize the public interest and dissolve the public realm. Section IV tries to answer the salient question of how the South African state, in its postapartheid moment, can justify exploiting impoverished women's casual and unpaid labor. In that regard, the section discusses the significance of (1) the patriarchal gender values that ascribe "municipal housekeeping" to

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<sup>4</sup> The Confederation of Employers of South Africa (COFESA) offers a good example of industries' labor flexibilization practices. COFESA "advises employers on restructuring their production such that employment contracts are converted into service contracts, and employees become independent contractors. The firm is then run as a network of contractors. While the activities of COFESA and similar organizations are aimed mainly at bypassing minimum standards labor legislation and collective bargaining agreements, the organization has been able to use arguments of empowerment and microenterprise development to justify its activities. The organization claims to have restructured employment contracts in over 13,000 companies, thereby creating a network of over 700,000 'independent contractors,' who were previously employees in the restructured companies" (Valodia, 2001: 877, citing Jones, 1999).

<sup>5</sup> The interviews for this project were conducted in the summer of 2001 by the author and were followed up by her student assistant, Nicole Lamers, in the summer of 2002.

women's "motherly" and moral duty; and (2) the rhetoric of voluntarism and black empowerment that misconstrues labor as skills training. The concluding section stresses the gendered nature of the neoliberal state's privatization agenda for public services, in its reliance on the free and casual labor of women. Also noted is the way in which the public sector actively participates in labor flexibilization, and how the distinctions between established public/private, production/reproduction are subservient to the interests of capital accumulation.

## I. CASE STUDY

### Local Government's Financial Environment

Postapartheid South Africa set out to integrate segregated areas and reduce the disparities in access to urban services and decision making through restructurings of government and basic services. Across the nation, local governments were established to decentralize government decision making and give localities more responsibilities. In the Cape Town metropolitan area, the process had two phases. In the first phase (1995/96–2000), administrative units were redemarcated to form a reduced number of local governments spanning the racialized areas; the second phase (2000 to present) created one municipal government (the unicity), which unified all the local governments in Cape Town into a single financial unit with a common system of taxation and one budgetary environment. To facilitate direct input on development by community groups through the local government, Integrated Development Plans (IDPs) were called for; Reconstruction and Development Program Forums (RDP forums) were also created in every community and township for community participation and communal decision making. Local governments were to work closely with RDP forums to come up with IDPs setting development priorities for their communities.

Subsequently, however, local governments have found themselves with only a limited ability to fulfill the IDPs and to deliver basic shelter and services to the poor. The reasons are clear: the government restructuring increased the mandate of local municipalities; yet, according to the Financial and Fiscal Commission in 2001, the amounts of intergovernmental grants from the central to the local levels fell in real terms to 85 percent less than those in 1991 (ILRIG, 2001: 26). With so little intergovernmental transfer of funds (4 percent) (Coopoo, 2000: 6), 90 percent of the unicity's budget comes from local revenues. Those revenues include the sale of bulk services such as water, sanitation, and electricity (85 percent) and, to a limited extent, property rates and levies (Watson, 2002: 77, citing Ministry of Provincial Affairs and Constitutional Development, 1998).

Thus since 1994 local governments have been caught between a rock and a hard place, working with limited budgets, yet responsible for enlarged constituencies. To manage, local governments restructured their delivery of municipal services. One strategy was "ring fencing" the budgets for specific services, meaning that each service had to recover its own cost. Another strategy was to shift the provision of public services to the private sector; that was facilitated by the Municipal Infrastructure Investment Unit

(MIIU), based at the Development Bank of South Africa with funding from international donors and the central government. MIIU promotes the outsourcing of municipal services and helps municipalities form partnerships with private companies.<sup>6</sup>

### **Unicity's Waste Collection Strategies**

Today the Cape Town unicity covers an extended area with a population of over 3.5 million. A combination of municipal (i.e., council) and private or community-based (i.e., noncouncil) waste collection services covers this population's almost 832,000 service points. Service ranges from full coverage by the municipality and/or private companies regularly collecting waste at each residence, to the rudimentary service in which the municipality or private companies collect waste periodically at communal skips. In between those levels of services are several community-based schemes in which both private companies and residents collect and sometimes also remove waste; those schemes are found particularly in the areas newly incorporated into the unicity's service responsibility, namely black townships and informal settlements.

The noble rationale for restructuring the waste collection services in Cape Town was to ensure service to all areas of the city, including the newly incorporated black townships and those informal areas that had receive(d) no or minimal services. The city officials and planners involved in formulating these strategies were interviewed for this research and for the most part had the interest of the communities in mind. The outcome, I argue, nevertheless failed their expectations in that it promoted not only labor casualization, but also differing levels of services that reproduce apartheid's spatialized hierarchies. Elsewhere, I substantiate this assertion and depict the present structure of waste collection services for Cape Town residents; I refer readers to that article for full documentation (Miraftab, 2004).

This paper examines only the early phase of the waste services restructuring (1997–2001), and a series of pilot projects that were the basis for the unicity's official schemes adopted in 2001. In those projects the use of gendered discourse justified treatment of waste collection as an activity belonging to the realm of social reproduction performed by the unpaid or low-paid labor of women. That, I argue, constituted the direct participation of the state in labor flexibilization and blurred the distinction between the public and private sectors.

During the study's time frame, three community-based waste collection strategies were operating in recently incorporated townships. They are discussed below: a partnership scheme (Tedcor) that embraced the private sector; the community and the municipality; and two women-only strategies that the unicity called campaigns (Masicoce and volunteer groups).

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<sup>6</sup> Established in 1998, MIIU in its first three years launched partnerships with a value of over ZAR 5.6 billion. At the 1998 exchange rate this equals a bit less than one billion U.S. dollars. For more on MIIU, see their website at <http://www.miiu.org.za/>

## Partnership Scheme

The partnership scheme was implemented in Cape Town in 1997. The local authorities subcontracted a private company (Billy Hattingh Co.—BH later sold to The Entrepreneurial Development Corporation—Tedcor) to perform garbage collection. BH in turn subcontracted unemployed members of the local community, referred to as local entrepreneurs, who were responsible for daily management of the scheme. Entrepreneurs supervised waste collection by local laborers and had valid driving licenses to operate the garbage trucks and carry waste to designated dumpsites. The local laborers, too, were recruited amongst unemployed members of the community. Their work consisted of collecting and removing waste from the contracted area's 50,000 service points (approximately 300 to 700 shacks and dwellings per worker, per week), sweeping streets and sidewalks and collecting illegal dumping from public spaces. At the time of the fieldwork, under this scheme in Khayelitsha, 9 jobs were created for entrepreneurs (seven men and two women), and 100 jobs were created for local laborers (split male and female). BH workers, with five-year contracts at the official minimum wage of South African rands (ZAR) 1,300,<sup>7</sup> earned less than two-thirds of the wages for formal municipal workers.<sup>8</sup>

## Masicoce, or One-Person Contract (OPC)

This is one of the two women-only, community-based waste collection strategies of interest here. Masicoce, or one-person contracts, started in Cape Town in 1997 originally as the Clean and Green project, initiated under the auspices of Keep South Africa Beautiful (KSAB)<sup>9</sup> and promoted by an NGO called The Fairest Cape.<sup>10</sup> During 2000–2001, before local governments' unification and as part of a larger campaign to promote voluntarism and community-based action, the Clean and Green project was taken over by the Cape Town municipality and changed its name to Masicoce ("Let's dean up!" in the Xhosa language). Masicoce, in its original formulations as Clean and Green and as one-person contracts (1997–2000 and 2000–2001) involved women only. The scheme used one contractor (hence its name) within the community to oversee the recruitment, firing, and performance of local unemployed women. For the 2000–2001 period, the scheme hired 105 women (one for every 350 dwellings) full time, but on nonrenewable, one-year contracts with no benefits, at a fixed monthly wage of ZAR 800 (not quite one-third of what formal municipal employees received). They were provided with brooms and plastic bags, and carried the bagged public waste to specific points for deposit into skips. However, the periodic removal of the skips to the dumpsite by other contracted private companies often lapsed, leaving workers with the additional burden of rebagging trash that had built up around the overflowed skips and been torn by animals.

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<sup>7</sup> Based on exchange rates of July 2002, this equals approximately U.S.\$130.

<sup>8</sup> Monthly wages of Tedcor workers are about ZAR 1,300 (U.S. \$130), versus those of ZAR 2,200 (U.S. \$220) for unionized municipal workers. Based on the exchange rates of July 2002.

<sup>9</sup> This movement had been inspired by the Keep America Beautiful movement. In South Africa, as a movement to promote voluntarism, KSAB has operated in other regions of the country since 1995.

<sup>10</sup> It was funded by South African breweries (supplying plastic bags and brooms) and also by the Public Works Department, which at the time was in charge of the waste collection services for the newly integrated areas.

## Volunteer Women's Group

The second women-only strategy operating in black townships of Cape Town was comprised of volunteer groups. These groups were promoted by local councilors as part of a larger campaign launched in 2000, the Mass Action Campaign (MAC)—a play on the famed ANC Mass Action Campaign during the years of antiapartheid struggle—to encourage voluntarism and community-based action.<sup>11</sup> The volunteer women sweep the streets and collect trash from public spaces. These groups work mostly in areas of the city with no services other than periodic removal of waste from communal skips. For the women volunteers, incentives vary from improved hygiene of the neighborhood streets and protection of their children from, e.g., broken glass, used condoms and syringes, to an enhanced possibility of employment in the paid, community-based waste collection schemes. At the time of the field research (July 2002), about a dozen volunteer groups operated in Cape Town.

Many of the volunteer women interviewed in Khayelitsha, Boys Town, and Onati did not know how the various programs differed. Some were disappointed, to say the least, when given only plastic bags, but no pay. Others were aware of the voluntary nature of their work, yet hoped that it would improve their chances of work with the Masicoce or Tedcor schemes. Hard-working and desperate to find a source of income the women continue their free work, cleaning at home and also in the neighborhood, with hopes that their efforts will eventually lead to “real” jobs. They also have the moral satisfaction that in this way they are carrying out their responsibility of caring for their children and the community they live in.



Volunteer women waste collectors. Cape Town, South Africa. Photo by the author 2001.

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<sup>11</sup> It is important to keep in mind the ways in which local party politics play into both the rhetoric of waste collection and the strategic choices of elected city officials. Western Cape and Cape Town constitute the strongholds of parties in opposition to the ANC. Indeed, in the national elections of both 1994 and 1999, the ANC did not win majorities in this region. In the local government elections of 1999, the Democratic Alliance, the alliance of Democratic Party (DP), and National Party (NP) won the local elections and constituted the city officials. Cost recovery strategies discussed in this paper should not, however, be interpreted as particular to Cape Town or the local opposition parties; the ANC-dominated national government has also spearheaded the neoliberal GEAR agenda within the national government.

## II. CONCEPTUAL FRAMEWORK

### Informalizing and Privatizing Social Reproduction

The literature examining neoliberal globalization finds one consequence of it to be the feminization of poverty (Kingfisher, 2002; Mittleman, 2000). Whether called restructuring and liberalization, in the first world, or structural adjustment and debt management in the third world neoliberal policies, by withdrawing public support for basic and social services, have intensified the exploitation of women's labor and have furthered their impoverishment. The policies assume the availability of women's infinite and elastic labor; they bank on women's free and underpaid work at home and in the community to compensate for the erosion of the public realm and the abandonment of its responsibilities.

Socialist feminist scholarship of the 1970s, which demonstrated that domestic work is as much a part of the productive process as manufacturing is, made a significant breakthrough in tracing the connection between housework and waged work for the capitalist processes of accumulation (McDowell, 1991). An emerging scholarship pushes that revelation further through an expanded notion of labor that rearticulates formal-informal linkages (Benería, 2003) and the production-reproduction nexus (Bakker and Gill, 2003) in the context of neoliberal globalization.

With a focus on the industrial, postwelfare societies, Bakker and Gill (2003) hypothesize "the contradiction between global accumulation of capital and the provisioning of stable conditions for social reproduction" (*ibid.*: 27) or what Lawson and Klak (1990) call the current crisis of reproduction. In their compelling analysis Bakker and Gill (2003: 18) argue that the ontology of neoliberalism entails "not only multiple forms of commodification, but also new patterns of exploitation and control of labor in the production-reproduction relationship." Following Bordie (1994), they assert that accumulation of capital in its current crisis has had to reprivatize social reproduction. That process moves social reproduction to the family, where it "naturally belongs," and to the market, where women's traditional caring activities are commodified.

Feminist empirical scholarship in third world cities has contributed to those insights by further opening the category of labor and expanding the scale of analysis that considers the provisioning of social reproduction. Such studies reveal that women's labor force participation through the informal economy is significant for both the national and the global economy (Benería, 2003) and that women's subordinated labor force contributes significantly to the informal production of urban space and the development of urban neighborhoods (Miraftab, 1998; Moser and Peake, 1995). Furthermore, this scholarship shows how the privatization of social reproduction in third-world cities also occurs at the community level through women's informal labor on neighborhood care. As in postwelfare societies the household is the primary site of privatizing social risk and social reproduction (Kingfisher, 2002), so in third-world societies,

neighborhood and community constitute a prominent site for such a process. Women's community care through their affective labor, though it does not generate income, produces relationships that gives them access to services and resources.<sup>12</sup> Women's unpaid community management in unserved, periurban neighborhoods organizes for self-help provision of the services that are missing (Miraftab, 2001; Chant, 1996; Moser, 1993; 1987). Elsewhere (Miraftab, 1998) I refer to these processes as feminization of informal urban development, whereby in many third-world cities women are "unpaid urbanizers."

Third-world states' budget cuts have eliminated much of the intended development in cities, including infrastructure and such collective consumption items for informal settlements and poor populations as schools, roads, water, shelter, electricity, and health clinics. Similarly, privatization of public services or strategies of cost recovery for them have led to evictions and service cut-offs for the poor (Miraftab and Wills, 2005). Those policies also have expanded the range, scope, and depth of women's labor exploitation in poor households and informal settlements. The absence or inadequacy of urban services in poor neighborhoods has generated additional and new ways of exploiting women's work in social reproduction (Elson, 1992; Benería 1992; Gonzales de la Rocha, 1989). One example, as discussed in this paper, is the unpaid or poorly paid performance of municipal waste collection services by women.

The present study of the waste collection strategies of Cape Town's municipal government contributes to the scholarship articulating the conjuncture of capitalism and patriarchy in dissolving and depoliticizing the public realm (Bakker, 2003; Kingfisher, 2002; Clark, 2004). As the crisis of capital accumulation requires conquering new markets, marketizing new realms, and commodifying new terrains, the state itself comes to think and act like a market actor (Brown, 2003). Cape Town is a case in point: the municipal government cost recovery policies privatize and flexibilize the labor in its collection of waste, a service that is in the interest of the public and hence clearly a public responsibility. But the local government moves that responsibility to private firms and to the private sphere of women's responsibilities for household and community care (Samson, 2005). It further promotes labor flexibilization by disassociating itself from the labor that is providing social reproduction service, and allowing others (subcontracting firms or individuals) to use women's unpaid or underpaid labor in precarious conditions. That process in poor black townships simultaneously depoliticizes the public realm and intensifies women's burden.

Discursive justification plays a critical role in that process, as analyzed below. In failing to deliver public services, an inherently legitimizing activity for a state, the Cape Town municipality seeks legitimacy for that strategy by using the discourses of gender empowerment and job training.

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<sup>12</sup> For example, in low-income townships of Cape Town, South Africa, Pointer and van Heusden's ethnographic study (2005) reveals that for households whose services have been cut off for nonpayment, women's affective labor in building a strong relationship with the wider community is the key to their access to water and other services they have been deprived of by the municipality's cost recovery policies.

### III. ANALYSIS

#### Gender and Municipal Housekeeping

Conjoined motivations of poverty—dire need for some source or hope of income and “morality,” doing something to better things for their children and community as “good women/mothers”—drive the participation of poor women in the low-paid or unpaid programs described in this paper. As breadwinners of their households in an environment with no prospects of jobs, the township women who work in the community-based waste collection schemes are desperate for any source of income, no matter how little or insecure. At the same time, as caregivers of their families, they also are concerned with their children’s health and safety. Thus, they join the Masicoce for minimal pay or a volunteer group for no pay in hopes that their work will eventually lead to a “real” job. But they also feel moral satisfaction that they are thus carrying out their responsibility to care for their families and for their neighborhoods. The mingled rationalizations emerge as one group of volunteer women interviewed explain their activity:

We are the volunteer group, we started from last year [2001], May 7th, we were 150 members at that time. We were supposed to clean the street area....That is our purpose. We are sweeping from 8AM to 3PM, but when it is raining we don't sweep....We are using our own brooms....[the councilor] says to us that he will get us something. He said he will go to the minister to get us something, but he hasn't yet....our streets were so dirty, and we were not working, doing nothing at home—so we decided to collect garbage to clean our area. And there were so many condoms everywhere and the children would play with them and it is so dirty and also there is HIV....we also want something for us....They should give us something—we are hungry. I have no money to pay for food or school for the children—they should give us some work (Interview, 2002).

These women, who spend all day sweeping the streets of their neighborhoods without pay, cling to hope for a job in the future as well as valuing the immediate reward of protecting their children from cutting their bare feet or playing with used condoms. Khayelitsha men, who stand all day along the shoulder of the entrance to the nearby N2 highway, also often end their day without pay but have only the hope of being picked up to sell their labor the next day. Gender values shape the distinction between the women’s and the men’s days spent without pay in hope of a future job. The gender codes justify time spent in unpaid labor by women as something more than an economic activity in that it contributes to their other area of responsibility, as caregivers. The desperate conditions of poverty combined with gender codes and values are what neoliberalism taps into to finance governments’ cost recovery agenda.

Here one may note McGurty’s (1998) historical account of waste collection in turn-of-the-century Chicago. In the absence of any acknowledged state role in urban services for the growing city, waste

collection was in the hands of private sector contractors. In response to the great public health risks thus imposed on the city's inhabitants, women through their women's clubs and associations, worked to have waste collection recognized as a responsibility of the state. But to do so they had first to justify their activism in a public realm that the patriarchal society defined as the realm of men. The women used "municipal housekeeping" as the banner under which they asserted their involvement in such an issue as collection of waste. They proclaimed their "womanly duty to provide a clean and nurturing home" and hence their moral obligation to extend "their domestic caretaking into the neighborhood streets"<sup>13</sup> (McGurty, 1998: 27, 30).

A century later, as neoliberal urban policies urge the state's abdication from providing basic services in favor of the private sector doing so, the rhetoric of gender roles is again invoked to justify women's involvement with public waste collection. This time, however, the women are not well-off but poor, and it is not their ability to change policy, but their poorly compensated or even unpaid manual labor that is at issue. And it is the city officials and the private sector contractors undertaking waste collection who are using gender-specific rhetoric—in their own interest.

The significant role of Cape Town women in waste and garbage collection is not coincidental, but entrenched in patriarchal gender relations that extend women's domestic responsibilities to municipal housekeeping. Patriarchal gender ideologies that see chores as solely women's responsibility go on to assign them the cleaning of neighborhood spaces as well, as an extension of women's duties to protect their families from filth and harm (Beall, 1997; Samson, 2003). This ideology when internalized by women lends itself to capitalism's cost-cutting logic, particularly in its neoliberal version, by justifying the underpaid and casual labor of women, e.g., in collecting municipal waste.

This case example exposes the interwoven interests of the neoliberal state and patriarchal gender hierarchies, and how privatizing local governments, as well as private sector firms, furthers the casualization of labor, especially among poor women. Also noteworthy here is the fluidity with which provision of waste collection services shifts between the conceptual realms of production and reproduction. Gender ideologies and beliefs support the shift of activities to provide basic public services from the realm of production, where it is assumed that men perform them for pay, to the realm of reproduction, where it is assumed that they will be performed unpaid by women.

### **Labor Misconstrued as Skills Training and Empowerment**

Claiming kinship with the analogy of "teaching people how to fish rather than giving them a fish," a senior Cape Town official interviewed tries to present these waste collection schemes as opportunities for women's job training, giving them skills to enhance their employment eligibility elsewhere. That official also explicitly disavowed the state's role in the employment of municipal workers: "As local government we do not employ, we empower others to employ people from disadvantaged backgrounds."

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<sup>13</sup> Ironically, women and trash have historically been connected. Research undertaken in different parts of the world underline a strong gender dimension in waste collection strategies (see Assaad, 1996; Beall 1997; Ali et al., 1998; SEWA, 1988).

Using the rhetoric of training enables the municipality to obscure its responsibilities to its formal work force, allowing private individuals or firms to hire casual labor at lower wages for the work of providing municipal services. In none of the three waste collection strategies examined in this paper does the local government recruit, supervise, pay, or dismiss workers. Rather it contracts services to private sector firms such as BH/ Tedcor. Those firms then sidestep the formal municipal workers, hiring unemployed local labor at half the cost and double the workload. Or the private firm subcontracts to an individual, e.g., Masicoce, who then hires women for casual labor at less than minimum wage and with no job security. Whether the work is shifted to a private firm (Tedcor), an individual (Masicoce), or a volunteer community group, the Cape Town municipality avoids responsibility for labor conditions in the provision of municipal services. Labor casualization among the unicity's unemployed, disadvantaged population is thus relied on to reduce local government's costs for services.

Furthermore, by calling its Masicoce strategy a "*campaign*," the unicity tries to present it as a voluntary action. That ploy takes away a significant right from the workers. Referring to the scheme as a campaign identifies the women working in it not as *employees* but as *campaign members*. Consequently, their payment cannot be considered a wage to be measured by the criteria of fair labor compensation. The Masicoce women's remuneration at less than the official minimum wage (ZAR 800 versus the ZAR 1,300 official minimum wage)<sup>14</sup> and with no benefits is represented as simply an amount the government offers to support their campaign participation, "job training," and acquisition of "new skills." It therefore escapes assessment as the compensation of labor.

Two main arguments used by city officials to justify the schemes using temporary and below minimum-wage labor are (1) black empowerment, for Tedcor entrepreneurs; and (2) skill training, for Masicoce women. A review of the programs, however, finds only negligible returns for the workers. The Tedcor scheme hires only nine individuals as local entrepreneurs, of whom only two are women. In the Masicoce scheme, the actuality is that sweeping streets and picking up litter develops no new skills leading to other employment. Keeping the Masicoce contracts as temporary does spread the year's income among more women, but the City's argument that it also spreads an opportunity to "acquire skills" is transparently specious. The scheme has no long-term benefit for its women workers. After one year, their incomes and chances for employment are as bleak as before. Moreover, as one of the residents state, the one year with a source of income leaves them in difficulty later because they start credit and financial commitments that soon have to be interrupted.

The examination of these schemes reveals how, within a neoliberal policy framework of cost recovery, municipal governments participate in the flexibilization of labor just as the private sector corporations do. Empowerment of blacks and women, and skill training for disadvantaged township women are the spurious discourses used to legitimize dissolution of the public realm and public responsibilities. Patriarchal gendered interests and neoliberal accumulationist interests conjoin to reduce the public interest to the sum

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<sup>14</sup> ZAR 10 equals U.S.\$1, based on exchange rates of July 2002.

of individuals' interests. Any political notion of public realm and common good is stripped of legitimacy (Kamat, 2004).

#### **IV. CONCLUSION**

The case analyzed in this paper contributes to several debates within the feminist and urban scholarship. First, the analysis here reveals the gendered nature of neoliberal urban policies of cost recovery, which rely on investing the free labor of women to provide collective consumption items. In the third world the use of female casual labor is part and parcel of the governmental project of minimizing expenditures for basic public services. These policies, gendered in nature, are also gendered in effect: they pile on women's burdens of free labor for home, for community, and then for the municipality.

Second, the analysis shows the resiliency of capital, in managing its crisis of accumulation by shifting capital's burden from public to private and from production to reproduction. The current global neoliberalism restructures the realms of production and reproduction, redefining the responsibilities of the public and private sectors and blurring the distinctions between them. As in the waste collection case studied here, shrinking the public sector's responsibilities ultimately privatizes the public realm. The public sector's responsibility is moved to private subcontracting firms and to the private sphere of household and community care for social reproduction. What emerges clearly is the deception in constructing realms of production/reproduction, public/ private, and informal/formal in polar relations.

Third, the paper demonstrates how labor flexibilization is not unique to the private sector. As local governments increasingly embrace the private sector's mantra of cost recovery and treat their citizens as no more than customers, they abandon the distinction between government and the private sector in addressing the public good. As illustrated by the privatizing of local government in Cape Town, the public sector is increasingly responsible for labor informalization and flexibilization. This public sector trend calls for attention in the ongoing debate on globalization and labor casualization; most of the relevant literature has focused only on the behavior of private sector companies. The present study brings to light how local governments, as well, promote casual and flexible labor to manage their costs for providing services.

The neoliberal South African government, in its postapartheid moment, uses gender beliefs and values to justify the use of women's free or cheap labor in the black townships, and to disguise its participation in labor flexibilization. In the Cape Town case studied here, gender ideology intertwined with the rhetoric of voluntarism and empowerment obscures the actual nature of women's labor in the waste collection schemes and the state's furthering of precarious and casual conditions of labor in the black townships.

#### **ACKNOWLEDGEMENTS**

I am most grateful to the dedicated and irreplaceable efforts of Nicole Lamers during fieldwork in Cape Town. I also acknowledge ILRIG, in particular Mthetho Xali for his valuable assistance with fieldwork, and

John Pape for his field support and feedback on an earlier draft of this paper. I have also benefited from pertinent input and comments by participants in the Rethinking Labor Market Informalization Conference at Cornell University, where this paper was first presented in 2002 and participants in the Illinois Program in Humanities Conference on Reproduction at the University of Illinois, Urbana-Champaign same year. I also thank Ken Salo, Mildred Warner, and Melanie Samson for their comments and suggestions. Responsibility for any shortcomings of the paper remains with the author.

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# Informality in urban space: Spatial implications and political challenges

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This brief essay seeks to bring together two discursive realms that exist in parallel research universes: the first is concerned with the processes and impacts of the increasing informalization of labor markets with globalization (the subject of this volume) and the second is concerned with understanding the processes and impacts of urban spatial growth in the global South. In doing so, the essay raises questions about the political challenges that increasing informality in urban space presents for both social mobilization that is seen as desirable by those who seek change, and episodic collective violence that effective governance seeks to prevent.

The two discursive realms have intersected earlier, mostly in studies of informal shelter provision and territorial claim making in urban areas. However, little attention has been paid to debates that seek to understand the relationship between the workplace and living spaces, one notable exception being feminist scholarship that focuses on home-based work. There is also another tradition, summarized by Asef Bayat (1997; 2000) that has explored the nature of “marginality”—the current equivalent of which can arguably be seen as informality—and its influence on the structure and politics of urban life. A slightly different argument will be made here: that *space* and our understanding of the spatial growth of cities must be brought into the informalization debates if we are to understand the full implications of increasing informalization of labor markets on cities and the attendant political challenges that it poses. Increasing informalization combined with the increasing nesting of work in living<sup>1</sup> produces particular patterns of urban growth that reflect deepening social segregation. These spaces restrict mobility by first restricting and then intensifying inequity of access to employment, material resources, and safe employment contributing, in turn, to further informalization and entrenched cycles of poverty. One result is the etching of sociospatial inequities into the urban landscape, shaping contentious politics—from collective mobilizing to episodic violence—in specific ways.<sup>2</sup> The term “contentious politics” is used intentionally.<sup>3</sup> By bringing together

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<sup>1</sup> As David Harvey pointed out in an early essay on the ideology of planning: “the organization of work is predicated on a separation between work and living” (Harvey, 1995: 189). This principle of separation pervades planning and public policy. However, various factors from changes in employment relationships, and decline in manufacturing and increase in service-oriented industry in a globalizing world, to significant technological change have contributed to the erosion of barriers between work and living. This is truer of those at the extremes of the income scale.

<sup>2</sup> There is a large literature on the politics of violence in urban settings, to which I cannot do full justice in this essay. The intention here is to show that entrenched and increasing informality, whether in spatial or labor market realms, creates inequitable and unjust conditions that intersect favorably with the politics of caste, religion, and nation to explain the construction of episodes of violence. Other writers have written extensively about the role of the state and violence specialists (Tilly, 2003; Brass, 2003), or the role of associational ties in promoting or diminishing violence in civil society (Varshney, 2002; Beissinger, 2002).

<sup>3</sup> See Aminzade et al., 2001; McAdam et al., 2001; Tilly, 2003

“macro- and micro-level approaches, structure and intentionality, under a single rubric” contentious politics allows us to analyze the construction of a range of social movements and organizing processes (King, 2004: 438).

The arguments made will rest on evidence from two Indian cities, Delhi and Ahmedabad, where the growing informal economy and the politics of informal labor have been studied extensively. The primary focus will be on the politics of “informals,” Cathy Rakowski’s (1994: 3) term for the men, women, and children who work in the informal sector, to which I will add: particularly those who remain poor, and are forced to live in informal/illegal settlements in urban neighborhoods or “localities,” a term that better describes the sites of enmeshed networks of labor, employment, and shelter. The Delhi and Ahmedabad cases are similar in that they demonstrate the construction and rearrangement of urban space as a patchwork of deeply segregated localities in cities and along urban peripheries, driven by a politics of informality that is both the everyday politics of stealth, survival, and encroachment, as well as the seemingly sporadic episodes of collective violence and the politics of redress. The cases differ in that they demonstrate the construction and rearrangement of urban space taking place under somewhat different conditions. Ahmedabad is a globalizing city undergoing massive shifts in its economic manufacturing base, where the political economy of increasing informalization of labor and its intersection with the politics of caste and nation are crucial. In contrast, the Delhi case demonstrates how environmentalism and elite-led pressures to modernize and sanitize the city by the expulsion of certain forms of industry construct the urban periphery and the politics of informals. The essay is in two parts the first discusses the discursive realms mentioned in this introduction to clarify conceptual categories and their relationships, and the second looks closely at the cases of Delhi and Ahmedabad to draw out the spatial implications and political challenges of increasing informalization of labor markets in particular local contexts.

## **TWO REALMS: INFORMALIZATION OF LABOR MARKETS / INFORMAL URBAN SPATIAL GROWTH**

Informality—which was named and began to be defined in the early 1970s following the ILO report on Kenya and Keith Hart’s study of the Ghanaian economy—is here to stay.<sup>4</sup> Our understanding of the informal economy is gaining depth, even as it is becoming clear that there is still a lot to learn. The early debates, summarized by Caroline Moser in an article (1984) and a book chapter (1994), centered on employment, work, and poverty, with much of the research focusing on concept clarification, in both definitional and operational terms, as well as on the linkages between the informal and formal sectors. Policy recommendations included appropriate macroeconomic interventions to promote investment and growth as well as the best means to promote microenterprise development and other services for informal workers. However, as industrial restructuring, liberalization, and globalization intensified through the last two decades of the twentieth century, other issues came to the forefront, including the effects of

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<sup>4</sup> See, ILO. 1970. *Towards Full Employment: A Programme for Columbia*. Geneva: ILO  
ILO. 1972. *Employment, Incomes and Equality: A Strategy for Increasing Productive Employment in Kenya*. Geneva: ILO  
Hart, Keith. 1973. “Informal Income Opportunities and Urban Employment in Ghana” *Journal of Modern African Studies* 11, 1: 61-89.

labor standards and regulatory structures on informal sector workers, and the role of nongovernmental organizations in both a political microenterprise development, and intensely politicized organizing for change (Rakowski, 1994).

In reviewing research on the informal sector, Rakowski (1994) proposed a typology that broadly divided the structuralists from the legalists. The structuralists' perspectives were rooted in the initial ILO studies on labor markets and were informed by Marxist and dependency theorists, who linked work in the informal economy to the uneven nature of capitalist development. The structuralists noted the absence of the state, and projected it as the crucial regulatory and policy setting actor that could enforce equity of labor conditions, wages, and status of workers. In contrast, the legalists, emphasized informality as a rational economic strategy, and repositioned informals as entrepreneurs whose spirit of enterprise was stifled by state imposed institutional constraints. For both structuralists and legalists, however, a central concern was to understand the relationship between poverty and informalization. The modalities of employment, sector, gender, and age were shown to be important, and policy formulations emerged from our understandings of these modalities.

Attention also began to be paid to the political challenges attendant in the informalization of work in the current age of hyperglobalization. Researchers portray the informal economy as either the fictive space of last resort, where the poor lacking any other means of survival gather to seek refuge, or as a collection of individual and occasionally collective, acts of resistance, deliberate ingenious responses to hostile and adverse economic conditions. Rakowski's classification of structuralists and legalists is less applicable, as both the state and the ingenious informals—whose every action is often interpreted as a form of political resistance to the formalized spaces being created by modernizing and exclusionary structures of global capital and development—are present. Aili Marii Tripp's (1997) study of women working in the informal economy in Tanzania and John Cross's (1998) work on street vending and taxi services seek to demonstrate these positions. Researchers like Jan Breman (2001; 2002), however, shifted the focus from the openings for collective mobilization to the ways in which the struggle to improve living conditions in the landscape of informal sector labor is hampered by the weak articulation of collective action (2001: 30-37, electronic edition). In following the politics of "footloose labor" in the western state of rural Gujarat, and the fortunes of millworkers who got thrown out of formal sector employment and into work in the informal sector in Ahmedabad, Breman also made, amongst other points, specific connections between increasing informalization of the labor system, and the trends toward spatial segregation, as well as escalating social violence. He sought to show the ways in which the deterioration of work and labor conditions and the weakening of unions that had bridged intercommunal divides in a variety of ways, combined with the politics of caste, religion, and nation to lead the urban poor to become the grist of the communal violence mill. The work of people like Tripp or Breman, however, remains somewhat distant from the literature on the politics of informality rooted in territorial formations—the slums and squatter settlements where many informals live.

Like the debates on the informal economy, early research on informal housing first focused on definitional and conceptual issues, before moving into prescribing interventions in housing and land markets. As mentioned earlier, the two realms that we are looking at here—one focusing on work and employment in

the informal sector, and the other on urban spatial issues, especially through the lens of shelter and informal housing—remained largely separate, with some exceptions, particularly in research and activism, structured around gender and home-based work as the crucial organizing principle.<sup>5</sup> One result of this separation was that space rarely became an important variable in the informal sector debates, and our understanding of the relationships between labor markets in the informal sector, policy responses to it and the spaces in which urban residents live and work remains poor.

The informal housing literature (in which most of the spatial references to informality are embedded) emerged initially from studies of settlements in Latin American cities. Innovative early work sought to redefine squatting and slums by exploding “myths of marginality” (Perlman, 1976) and exposing it as an elite instrument of social control over a laboring class that was the product of particular capitalist structures (Castells, 1983). Squatting and land acquisition helped explain the politics of informality as a politics of protest, of collective mobilization for survival, and a fighting economic chance. Several major works followed and over time, the policy world too began to respond to the shift in perspectives on who squatters were and what they could do by promoting upgrading, legalization, and land titling programs (Rodwin, 1987). The location of settlements, from the occupation of state-owned marginal lands to the development of settlements on the urban periphery also came to be studied.

The majority of the urban poor however, did not mobilize and seek redress for blatant injustices, and Scott’s (1985) landmark work on the everyday modes of resistance of Javanese peasants helped elaborate the survival strategies of those who were perceived as powerless. While adherents to the survival thesis “undoubtedly contributed to recovering the Third World poor from ‘passivity,’ ‘fatalism’ and ‘hopelessness’... ‘their overemphasis on the language of survival strategies maintained the poor as victims, as lacking agency” (Bayat, 1997: 56). Bayat’s own work in Tehran and Cairo provided another perspective on the everyday politics of informality in the face of increasing informalization of work amidst spreading informal settlements. He emphasized a “street politics” that signifies an articulation of discontent, a politics of redress, not protest, where noncollective but prolonged direct action to achieve gains is interspersed with episodic collective action in defense of gains. *Pace* Scott, Bayat’s work emphasizes not just quiet everyday resistance and creeping encroachments in urban space, but also focuses on the episodic moments of open protest that mark the point when encroachments have spilled over the tacit agreement between the state and poor. The state’s regulatory apparatus then kicks into gear, and retaliation can be swift.

As important to understanding this mix of the everyday and the episodic in the politics of informality is the emergence of historical work, such as Nandini Gooptu’s (2001) expansive study of the politics of the urban poor in early twentieth century northern India. Gooptu examines “the emergence of a casual, informal, urban workforce in the interwar period, and illuminate[s] its momentous political and social consequences in arena’s far outside the workplace” (2001: 429) to highlight the significance of the social construction of

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<sup>5</sup> Methodology is another reason for the separation (also see footnote #1). Labor market literature tends to focus on the worker and the workplace as the unit of analysis, while the literature on informal housing focuses on the housing unit, the household, and more recently, the individual, as the unit of analysis. However, as the essay’s introduction emphasized, feminist theorists who sought to understand women’s work did explicitly address this issue. Organizations like SEWA also spanned this divide through mobilization strategies that focused on work, gender, and locality.

the poor and of poverty. In the process, she demonstrates the ways in which these constructions shaped both public policy and political relations in late-colonial India. Two issues raised by Gooptu are germane to this essay: the ways in which local planning policies shaped sharply divided urban localities, and the forms of contentious politics—response, protest, and violence—that resulted from the intersections of the politics of informality, caste, religion, and nation. Through careful archival work on the effects of local policies, and the study of vernacular cultural responses like the *nautanki* and the *akharas*, Gooptu's work addresses an important gap in the informalization literature.<sup>6</sup> What is striking is the resonance of her observations on late-colonial northern India with the situation in contemporary Delhi and Ahmedabad, where space and territory intersect with work and laboring practices to shape a range of political responses from collective mobilization to violence.

Breman, Bayat, Gooptu and the work of organizations like the Self-Employed Women's Association (SEWA)<sup>7</sup> in Ahmedabad, lend support to the central argument of this essay: that urban space must be explicitly brought into the debates around informalization of work and labor. Research that is emerging out of India on urbanization trends, city growth, industrial clusters, and increasing informalization of the labor force in the face of restructuring pushed by liberalization and market-friendly economic policies can also be drawn on to support this claim. As a planner focused as much on planning processes and the design of local level institutions as on the spatial realm within which they take place, I wish to make the case for having *space*—not just modalities of employment, sector, gender, or age—be an organizing principle in thinking about the processes and impacts of increasing informalization, and how we build collective struggles for change in vibrant but fractured urban environments. This is not a new or revolutionary idea. Lefebvre (1991), Castells (1983), Harvey (1989), Massey (1992), Swyngedouw et al., (2003) amongst others, have explored the relationship between power, sociospatial relations and their expression in the production of space(s). However, the discursive realms of informalization—particularly in labor markets—and the impacts of spatial planning have had the tendency to remain somewhat separate. This essay will bring these realms together by examining two relationships that will help draw out the spatial implications and political challenges of increasing informalization of labor markets, in particular local contexts.

The first relationship to be examined in the context of the two cases is that between the informal economy and the work of informals at the scale of the local, so as to understand its relationship to the production of urban space. Supporting this argument is the notion that space underpins livelihood, as Lefebvre (1991) argued, and that work is nested in the larger structure of livelihood.<sup>8</sup> Space is not a neutral backdrop, an empty abstraction, or a field existing in the social sense only

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<sup>6</sup> The *nautanki* is a genre of folk play or popular vernacular theatre and the *akharas* are local gymnasiums or wrestling dens which served as a site for training a specialized group of wrestlers and as a center of a physical culture.

<sup>7</sup> SEWA is a well-known trade union started by Ela Bhatt.

<sup>8</sup> Consider, for example, this passage on the embeddedness of women's lives from Tripp's study of the informal economy in Tanzania: "Women's entrepreneurial activities are heavily embedded in their daily lives and are part of a whole array of day-to-day activities. Women's involvement in the market takes place with in the context of all of these life-sustaining activities and is not separate from the many other dimensions of life. These activities include childcare, family care, buying and cooking food, housecleaning, keeping the home and its surroundings tidy, physically building houses, clothing the children, fetching fuel and water, taking care of the health of the family, taking care of the disabled, elderly and sick, cultivating, tending cows and goats, helping neighbors with needs, taking care of the poor in the community, organizing celebrations, helping raise funds for the community, helping with extended family needs, assisting other women in childbirth, assisting in funeral preparations, helping in the husband's business, and many other such activities. These alternative logics are revealed in a number of ways (1997: 120)."

for an activity to take place. It simultaneously defines activity, even as it acts to reinforce inequities in power and resource allocation, and the formation of identities. The urban spaces thus produced are sometimes physically bound in the larger context of the city and the region; but more crucially, they serve to further circumscribe work and the movement of workers in the informal economy, as will be discussed in more detail later.

Related to this issue of a dialectical relationship between the informal economy and space, is the second question: does the very nature of urban space production shape responses to the political challenges of informality? John Cross (1998, 2000) has made the point that both extent of visibility and territoriality of forms of informal work (street vending, taxi services, and land invasions being his three examples) are important conditions in shaping forms of protest and social movement organization in the informal sector. But what if the urban spaces in which informal activity takes place, the spatial life world of informals, are as important a condition? Bayat (1997, 2000) has shown that urban streets, public space *par excellence*, are crucial to the episodic nature of the politics of informality. The street provides the space where passive networks can be activated for contentious collective action. This essay will focus however, on the ways in which urban space *restricts* mobility and in doing so, plays a role in increasing informalization of work, which then shapes the possibilities for the exercise of power or protest, collective organizing, and governance.

These are some of the questions that occupy researchers such as Breman (2001, 2002) and Mahadevia (2001) on Ahmedabad, and Benjamin (1996), Baviskar (2001) and Bentinck and Chikara (2001) among others, on Delhi. Building on their work and Bayat's insights, this essay will focus on the periodic sudden outbursts of protest and violence that can be linked both to the swelling ranks of workers in precarious informal work settings and to the divided inequitable urban settings that mark contemporary cities in the global South. These outbreaks mark extreme disruptions in everyday sociospatial power relations in cities; but, in doing so, they throw into relief our lack of understanding of the ways in which spatial life-worlds of the urban poor are articulated and the impact of public policy and planning on the lives of the majority of city residents. The implicit question, of course, is how informality in these fractured urban settings affects the arduous process of urban governance and the maintenance of social order. It must be emphasized that the intention is not to demonize the poor or to say that poverty drives people to violence. Neither poverty nor primordial loyalties are seen here as causal factors in urban violence. They do, however, lead to forms of sociospatial segregation and inequality, which this essay does argue are fundamental to the construction of forms of contentious politics.

## INFORMALIZATION, THE WORK OF INFORMALS, AND THE PRODUCTION OF URBAN SPACE



The two case cities are Delhi, capital of India—parts of which pay tribute to formal Master Planning,<sup>9</sup> and Ahmedabad, often likened to Manchester in the UK for its once prominent role, second only to Mumbai, in the Indian textile industry. Ahmedabad is also the largest city in Gujarat, currently India's second most industrialized state, and in the news since 2001 as a site of violent Hindu-Muslim riots. The city has seen communal rioting before, but it is the changing nature of the riots and the responses to it that are crucial to the argument being made here.<sup>10</sup> Studies of Delhi and Ahmedabad have been conducted by scholars from a range of disciplines—economists, sociologists, planners, demographers, anthropologists—and by some activists who are interested in explaining various aspects of the working of the informal economy.

Delhi is India's third largest metropolis with a population of about 9.8 million within its municipal boundaries in 2001.<sup>11</sup> The metropolitan area is estimated to have a population of about 13.8 million (Dhar Chakrabarti, 2001: 1). The city sits on land that has been continuously settled for about 2,500 years, and

<sup>9</sup> There have been two Master Plans for Delhi (MPDs) implemented in 1962 and 1990. Designed to be classic comprehensive plan documents, the MPDs are routinely flouted by politicians, administrators, and well-connected elites with other priorities (a well-known example being the time that the city hosted the Asiad Games in 1982) and have also been criticized for their lack of attention to Delhi's real issues, including the fact that the majority of residents live in settlements that are deemed illegal and work in the informal economy, a sector that the plan prefers to ignore. The ways in which Master Plans, a crucial tool of modernist planning, have routinely excluded the poor and ignored their needs is a subject of several studies, including James Holston's (1989) classic critique of Brasilia. For recent critiques of Delhi's master plan see Dhar Chakrabarti (2001), Benjamin (1996, 2000), Bavis kar (2001), and Roy (2000).

<sup>10</sup> Communal riots have occurred in 1969, 1985, 1986, 1990, and 1992-93.

<sup>11</sup> Population figures from provisional tables released on the Census of India website [[http://www.censusofindia.net/results/slum1\\_m\\_plus.html](http://www.censusofindia.net/results/slum1_m_plus.html)]. Accessed July 2003.

as India's capital and showcase city, its infrastructure and housing needs have received more attention than almost any other urban area. It is also India's fastest growing metropolitan area, drawing immigrants from both rural areas and the smaller towns and cities of northern India. Ahmedabad, in contrast, is a smaller city with a population of about 3.5 million, within its municipal boundaries, and while it shows physical growth amidst suburban sprawl, its economy has seriously stagnated with the decline of its manufacturing base and the periodic episodes of communal clashes between Hindus and Muslims. Like Delhi, it too has a historic walled city, established in 1546 AC, at its core. Both cities have large administrative infrastructures and well-established bureaucracies for municipal governance. However, like most Indian cities more than half their population lives in informal settlements and works in the informal sector. Places of residence are in, around, or close to places of work. Slums, shantytowns, and localities with an intense mix of small-scale industry and businesses are as pervasive as modern skyscrapers, gleaming corporate offices, malls, large factories, and individual bungalows behind high walls.

The case of Delhi and Ahmedabad illustrates both the similarity and the differences in the ways in which particular patterns of urban space are produced. In Delhi, the focus is on the impact of the expulsion of small-scale industry employing large numbers of informals following enforcement of environmental and land use planning principles, while in Ahmedabad, the focus will be on the impact of a two-decade-long restructuring of the textile industry amidst globalization.

## Delhi

What is the nature of the relationship between the informal economy, the work of informals, and the production of urban space in Delhi? Brief descriptions of three economically vibrant lower-income localities in the city provide a glimpse into these relationships. The housing in these localities has been variously classified as slum and squatter settlements or *jhuggi-jhompri*, which have a population of about 2.5 million; as *unauthorized colonies* with a population of about 1 million, which may look somewhat more formal in terms of the construction materials used but have a similar environment and lack legal status like squatter settlements; or as *urban villages* that have been absorbed into the city, but due to their lack of basic urban services exist much like slums. Not included here are approximately 70,000 *pavement dwellers* and the 2 million people who live in *Legally Notified Slum Areas*, mostly in the severely overcrowded, old walled city of Delhi, an area originally meant to accommodate about 60,000 residents (Dhar Chakrabarti, 2001: 4-8).

Networks of labor, employment, and shelter are thickly intertwined in many lower-income localities. The first locality to be described, for our argument here, is Vishwasnagar in East Delhi, a mixed-use cluster where housing does not fit easily into any one of the categories in the previous paragraph. Vishwasnagar has over 2,000 mostly home-based enterprises which in 1995, produced about 40 percent of the total domestic market for cables and conductors—both for the high-end industrial market and on the low-end, for TV and cable. Economic activity in Vishwasnagar is not just centered around a range of manufacturing enterprises of various scales, it also generates other economic activity like a parallel trading environment, the local manufacture of capital machinery, a number of transportation options, an array of local retail services, and—this is important given the partly illegal nature of the settlement—a sophisticated local real

estate market that provides a range of production settings through a variety of contractual arrangements. Solomon Benjamin (1996, 2000), from whose work this description is drawn, estimated that in 1995 Vishwasnagar produced about 25,000 jobs in direct employment and about 35,000 indirect jobs. In the 1991 electoral rolls, there were 21,000 voters living in the neighborhood.

A second locality, Gopalpur, surveyed and described by Johan Bentinck and Shilpa Chikara (2001), is a small village of about a thousand residents that was absorbed into the city in 1991 and over a period of two decades, saw itself get transformed into an urban informal industrial cluster and settlement. It too has a range of small enterprises, mostly dealing with plastic waste and metal fabrication and a substantial number of households participating in piece rate contractual work, putting together cassette tapes for example.

The third locality, Samaipur, is large like Vishwasnagar but more spatially heterogenous: it consists of the original urban village, an adjoining squatter settlement, the unauthorized Sanjay Colony thriving through carefully cultivated ties with local political patrons, as well as a formal "industrial estate" established by the government. Bentinck and Chikara (2001: 5) write, "when visiting Samaipur the smoke, the garbage, the filthy water in the open drains and stagnant pools, the noise level, and the enormous number of people can overwhelm the outsider. But first impressions do not tell the whole story." The entire area contains about 1,200 enterprises. Of these about 500 smaller units are located in Samaipur, which follows the locational patterns of Gopalpur fairly closely. The residents of Sanjay Colony tend to have factory jobs in both the industrial estate and the village. In both villages, Gopalpur and Samaipur,<sup>12</sup> much of the land continues to be held by the original residents who then lease it out to entrepreneurs who come in from the city. The workers, mostly migrants from Uttar Pradesh and Bihar, live in the vicinity. The degraded living conditions in Gopalpur and Samaipur amidst the belching smoke from factories and high noise levels coexist with a thriving, vibrant economy.

Such localities house over half of the Delhi metropolitan area's 13.8 million residents. The government estimates that about 63 percent of employment in Delhi is generated in the informal sector mainly, in manufacturing, transportation, and retail trade activities (Dhar Chakrabarti, 2001). This is much lower than the oft quoted estimate that more than 90 percent of India's employment—which accounts for about 50 percent of total GDP—is in the informal sector (Kundu and Sharma, 2001: 10). The continued growth and vitality of Vishwasnagar, Gopalpur, and Samaipur is through encroachment and quiet expansion where everyday transactions make for a politics of stealth, survival, and patronage. Even the naming of "Sanjay Colony" in Samaipur after Indira Gandhi's second son signifies the careful attention given to these issues.

To continue with the story, in November 2000, responding to a long-standing public interest writ petition originally filed in 1985, and the government's lack of response to an 1996 order asking for compliance by December 31, 1999, the Supreme Court of India issued a contempt notice on the Delhi administration. The notice ordered the immediate closure and subsequent relocation of all industries in nonconforming (mostly residential) areas of the Master Plan.<sup>13</sup> The petition was originally filed by a well-known

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<sup>12</sup> This pattern is not common and outsiders generally hold land. There are a total of 106 urban villages in Delhi.

<sup>13</sup> On July 8, 1996, 11 years after the first filing, an activist judge, Justice Kuldeep Singh, took action and ordered the closure of 168 hazardous industries located in contravention of the MPD. In three months between September and November of the same year, another 823 units were ordered closed,

lawyer/environmentalist, M.C. Mehta, in response to the contradictions between the Master Plan's prescriptions and ground realities. The original filing was a response to air pollution caused by stone crushing units that ignored the locational and zoning provisions of the Master Plan.<sup>14</sup> However, 11 years later when the petition was finally acted upon by the Supreme Court, the focus of action had shifted to what had begun to be perceived as the main culprit in Delhi's worsening air pollution problem: industrial units, mostly small-scale industries in nonconforming areas. As a number of commentators have noted, a combination of elite environmentalist and consumer action groups shaped by

upper-class concerns about health, safety, aesthetics, and leisure in concert with the state drove this process (Baviskar, 2001; Roy, 2000).<sup>15</sup> The process reads like a reiteration of the earlier sanitization and cleanliness drives documented by Gooptu (2001) in the towns of late-colonial northern India.

The impact of the November 2000 court order was enormous. If enforced fully, it could have thrown close to 2 million people out of work, and potentially closed about 98,000 industrial units. One immediate result was large-scale violence and rioting. Schools closed, eight buses were burnt and all trade unions struck work in support of an all Delhi *Bandh*<sup>16</sup> called by the Small-Scale Industries Action Front. A national weekly reported,

As was to be expected, the owners and workers of the SSIs [small-scale industries], who faced the prospect of loss of livelihood, took to the streets, bringing traffic to a halt. As the rampaging mob began burning government-owned buses, the police resorted to several rounds of firing. Three persons were killed and several others injured. There was no let-up in the fury for some days (*Frontline* 17, 25, December 9-22, 2000).

Delhi's laboring poor's minimal gains were threatened and the swift violent response—in marked contrast to the stealthy manner in which the settlements grew and flourished—is reminiscent of Bayat's descriptions of informal settlements in Tehran and Cairo.

Another result (in response to a previous court order passed in 1996 that had shut down about 823 industrial units, of which 168 subsequently moved out of Delhi) was the government's acquisition of 1,903 acres of land in the town of Bawana, about ten miles north of Delhi, to relocate non-water-polluting industry. Water-polluting industry was to be relocated to another town in the north, Narela. The government planned to offer incentives to move industry to outlying areas in the adjoining states of Uttar Pradesh, Haryana, and Rajasthan. About a year after the riots, the industries minister announced that

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affecting about 50,000 workers. The Court ordered that compensation be paid to workers but only one industry owned by the State Government complied. The Court also asked the Delhi Government to create a list of polluting units and implement the provisions of the MPD. Four years later, angered by the continued noncompliance of the state, the Court passed the historic November 17, 2000, order requiring all polluting industries in residential areas to be shut down and subsequently relocated.

<sup>14</sup> See Interview with M.C. Mehta in the journal *Frontline* 17, 25, December 9-22, 2000 [<http://www.flonnet.com/fl1725/index.html>]. Accessed July 2003

<sup>15</sup> This becomes even clearer when a government study has noted that industrial units are not the biggest pollution source, which have been identified as emissions from 3 million registered vehicles (70%), emissions from power plants (13%), and from industrial units (12%) (Dhar Chakrabarti 2001: 18, quoting White Paper on Pollution in Delhi with an Action Plan, Government of India, Ministry of Environment and Forests, 1997: 6).

<sup>16</sup> A *bandh* (in Hindi, closure) is a lightning strike that shuts a city down.

2,900 plots (out of an estimated total of 16,000) were ready for possession in Bawana. By April 2002, the government expected 14,000 industrial units employing about 133,000 workers to relocate.<sup>17</sup> The experience of the 168 big industrial units that had moved out of the city in 1996, and failed to reemploy the vast majority of their workers, was ignored.<sup>18</sup>

What was the effect of this Court order on the localities that were described earlier? Bentinck and Chikara (2001) report that after the city returned to its everyday rhythms, Samaipur residents used their political connections to get large parts of their village declared an industrial area. Polluting factories are allowed to operate in such areas. Most of the factories in Gopalpur, in contrast, have closed. People have begun to move away. Some factories run illegally at night, others try and pay off inspectors to get their designation changed. The general thinking seems to be that factories will shut down or move further away from the city, into the neighboring states of Rajasthan and Haryana, for example, since they will not be able to meet any new standards of pollution control that the Delhi government may require, and still remain economically viable.

Across Delhi, a diverse set of responses has been observed. Many large owners with factories closer to the city center have chosen to convert industrial land to commercial and retail or office space that often fetches higher returns. Some have moved investments into other areas. A number have chosen to move further out into Rajasthan like the factory owners of Gopalpur.<sup>19</sup> To quote Baviskar, "the ability to weather displacement varies with the capital, material and symbolic, at one's command" (2001: 11).

But what have we learned about the relationship between the informal economy and the production of urban space? *First*, that dynamic, informal economy industrial clusters, such as Vishwasnagar, Gopalpur, or Samaipur, establish clearly demarcated mixed use settlements, that often fall under the rubric of slums and squatter settlements and which rely on particular patterns of political patronage and the everyday politics of stealth and encroachment to circumvent the legal system and the zoning functions laid down by the Master Plan. The Master Plan seeks to establish state authority through standardization, and the separation and regulation of the spaces, in which Delhi's residents may reside, work, labor, play, or shop. Using James Holston's terminology,<sup>20</sup> these settlements are usurpative spatial formations where government authority

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<sup>17</sup> Plans to build 50 lakh (5 million) low-income housing units were also announced, though little has happened since. See news story "2,900 Plots Ready for Possession in Bawana Industrial Estate," in Times of India, November 13, 2001, [<http://www.timesofindia.indiatimes.com>]. Accessed July 2003

<sup>18</sup> A number of reasons contributed to workers' refusal to move to new locations including the distances which the units moved from workers' places of residence (often around the original location of the factory itself) and the lower minimum wages in the areas they moved to. The large factory owners, who had convinced the Court to agree that they could move anywhere in the country, chose to move hundreds of miles away to other States and benefited both from the sale of their industrial land in Delhi, and additional incentives from other State Governments looking to attract industry.

<sup>19</sup> A report titled, Things Fall Apart – Voices of Women Affected by the Closure of 168 Units by the Janwadi Adhikar Manch showed that families of workers in the big units that moved were severely impacted. Of the 53 households interviewed, only 16 had a stable source of income and women and children had taken to piece-work to support the family. Some workers had been employed for up to 20 years in the factories but could still not afford to relocate when factories moved far away as in the case of G.D. Rathi Steel Ltd. that moved to the city of Alwar in Rajasthan. Workers who refused reemployment at the new location were eligible for only six months of wages as compensation, in contrast to compensation of six years wages in the case of closure (Rajalakshmi, 2000).

<sup>20</sup> Describing usurpative settlements on Brasilia's periphery, Holston writes, "This formation usurped government authority in the sense that it encroached upon its sole right in the Federal District to found settlements, distribute residential rights, regulate property relations, authorize

has been gradually encroached on by those who lack rights to productive lands and legal residence. The location and clustering of work and shelter is crucial to their residents' survival and livelihood strategies. *Second*, as the settlement flourishes, it draws more workers who know they can find itinerant work, casual or semiregular wage labor, or more established work in factories or piece rate work, all without an expensive commute or a search for formal housing that can cut deeply into their meager wages. *Third*, when the state moved to shut down polluting factories, it displaced nonconforming land uses, which when deprived of productive land then relocated further out, creating yet another cluster around which the economy could grow. The process is iterative. Samaipur and Gopalpur, for example, were once villages on the urban periphery. The exemption of villages from zoning regulations initially attracted Delhi-based entrepreneurs, which then lead to the intensification of informal sector enterprises and so on. This process of displacement of industrial clusters to the periphery is abetted by the outward push of low-income residential areas due, in part, to differential land rates specified in the Second Master Plan (1982-2001): commercially zoned Delhi Development Authority land is worth 100 times the land that is demarcated for lower income residential purposes (Roy, 2000).<sup>21</sup>

It is also important to note who the informal workers are and where many of them come from. In Delhi, about 92 percent are migrants from the states of Uttar Pradesh, Haryana, Rajasthan, and Bihar: three of which rank very low on all development indices. There is little information on their exact moment of arrival into the city, but research indicates that the majority of migrants are unskilled, illiterate, and often seeking to escape the poverty and oppression of the countryside.<sup>22</sup> Their move into Delhi "either through desire or violence" to imperfectly quote Malkki (1992: 24), swells the ranks of workers in the informal economy (85% come from rural areas and another 15% from small towns). There is thus a rearrangement of regional and even national space on an urban/small town/rural axis, turning on the issue of work in the informal sector. The cities, and particular localities in them, then become the spaces of subsistence work and survival on a grand scale.

What we have in Delhi then, is a city of fractured localities shaped by economic necessity. We also have patterns of urban growth shaped by the location of work and residence of informals and by the expulsion of work under problematic principles of environmental and land use planning. The episodic violence and riots that followed the November order died down almost as quickly as they started. Petitions were submitted to both the local and the Union government, but at the time of writing this paper little had happened to secure the rights of the displaced workers. The political challenge for organizing remains acute. As Roy points out, "traditional organizing methods" based on fordist production models are failing the needs of the workers in the informal economy. Instead, he suggests that

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constructions, and the like ... [leading to] a recurrent pattern of urban development: those who lacked the rights to settle organized to usurp" (1989:270)

<sup>21</sup> Land rates are as follows: Rs. 140 for housing for economically weaker sections; Rs. 1000 for public and semi-public lands; Rs. 3,000 for industrial plots and about Rs. 6,000 for commercial uses (this has gone up to Rs. 16,000 in current projects).

<sup>22</sup> Illiteracy rates were high (total 71.2%, amongst men 51% versus women 83.4%); for the first 1-3 years mostly single male households, longer duration families had an average size of 4.6 persons (average for city 5.2 persons). Migrants come from UP/Haryana/Rajasthan (80%), Bihar (12%), and other states (8%).

[o]rganisation at the place of residence ... provides a strong supplementary force to the strength of labour. It not only draws the worker's family into the larger social arena, it also provides the potential for sustaining the struggle for a better life, not just a better job. Within the context of globalisation and privatisation as an answer to upper middle-class aspirations, there is an emerging possibility of emphasizing the right to safe livelihoods for workers in a democratic society (2000, electronic edition).

## Ahmedabad

The expulsion of informal work to the urban periphery is seen under different conditions in Ahmedabad. Here the production of urban space is linked to the fortunes of the textile industry. In 1960, at the height of its vitality, composite spinning and weaving textile mills and allied industries accounted for about two-thirds of the industrial production of Gujarat and about half of total employment. A quarter of the working factories were based in the eastern areas of Ahmedabad and about 83 percent of total industrial employment in the city was in composite textile mills, the backbone of the state's economy. The textile workers with their relatively stable jobs and strong unions formed the "labor aristocracy" (Breman, 2001).

The importance of the textile mills to the economy declined as the economic base began to diversify.<sup>23</sup> Jan Breman has argued that the policies of economic liberalization implemented across India starting in 1991, was seen in Gujarat from the late 1960s onwards. Few rules were implemented to formally regulate industry and when owners shut down mills (in the face of increased unionization and costs for technological upgrading) to seek higher return on capital elsewhere, they met little opposition from the state. Meanwhile, the emerging industries of cement and petrochemicals, among others, located in Surat, Vadodara, and Baruch districts, and Ahmedabad continued to decline. In the decade between 1982-83 and 1992-93, the share of total industrial output of the textile industry dropped from 36 to 15 percent and the share of total employment was reduced from 69 to 30 percent (Mahadevia, 2001: 146).

The decline of the composite textile industry led to large numbers of textile workers being retrenched starting with 6,552 workers in 1982. As the industry continued to shrink, the retrenchments increased with another wave of closures in 1988 when over 20,000 workers lost their jobs. The final figures vary: Mahadevia (quoting Patel, 1997) estimates that 67,541 workers were retrenched between 1982 and 1997 while the Textile Labor Association estimates that a total of 100,000 workers (about 18 percent of the city's population) were retrenched between 1982 and 1995 (Jhabvala, 1995, quoted in Mahadevia, 2001: 148). The vast majority of these workers got little or no compensation. Where did these retrenched workers go? Very few left the city, and both Mahadevia (1998, 2001) and Breman (2001) demonstrate that the majority moved into the informal sector.

Through a careful analysis of changing workforce structures and economic census data, Mahadevia shows that larger numbers of workers were entering the informal sector workforce in Ahmedabad city as

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<sup>23</sup> Within the textile industry, small powerloom units where pay is mostly by piece-work have become the norm. The exception (in terms of large mills) is those producing synthetic fabrics or fabric (like denim) for export markets.

compared to the rest of the state. The rates of growth of women workers is higher than that of men leading her to conclude that falling household incomes were forcing more household members, especially women, into the workforce on a full-time basis. By analyzing employment growth rates for the Ahmedabad Municipal Corporation, separately from that for the Ahmedabad Urban Agglomeration, Mahadevia also shows that more men workers were absorbed in nonhousehold sectors in the peripheral areas of the city<sup>24</sup> while growth rates for women workers were greater within city limits. Women tended to stay closer to their places of residence and to obtain jobs in the household manufacturing informal sector. Mahadevia's analysis of census and economic data is supported by several surveys and case studies.<sup>25</sup> Retrenched millworkers did find lower-wage employment in other sectors, but as household incomes continued to fall and living standards declined, women's participation in the informal sector labor force—particularly in lower-income households—increased. SEWA's 1993 survey of its members (22 percent of whom still had husbands working in the textile industry) indicated that two-thirds of them lived below the poverty line. It also showed that there was a substantial over supply of labor leading to wages being pushed down to below 50 percent of minimum wage. A more recent survey of 600 households by Breman and Patel supported by anthropological fieldwork with 60 households in 1999-2000, also supports these findings (Breman, 2001). Incomes of millworkers who had lost their jobs were typically about half to four-fifths of their previous earnings, and were well below minimum wage. In addition most of these workers did not enjoy the job security or stability that they had before and their living standards had seriously deteriorated.

Spatially, the localities where the mills were concentrated began to decline as the mills closed, and jobs were lost. As the eastern peripheries began to draw more workers, increasing tensions between Hindus and Muslims drove the Muslim minority away from the older mill neighborhoods into contained slums and settlements on the other side of the river. In roughly the same period (between 1981 and 1996-97) the numbers of people living in slum areas almost doubled (Breman, 2001, quoting Dutta and Batley, 1999: 39-42), even as the middle- and upper-class neighborhoods of high rises, shopping malls, and sleek buildings continued to expand in the west (Patel, 1995; Spodek, 2001). In its quest to keep urban spaces as planned modern places for the elite of a global city, the city government became more stringent both in its planning and management of the city and in the implementation of various tax collection laws and other public policies. One example being major antiencroachment drives in the city that were led by an active and often, over zealous Municipal Commissioner, in response to the increase in the number of hawkers in the city, "an activity to which many displaced workers had resorted to" (Mahadevia, 1998: 258). Mahadevia's work clearly indicates that the pattern of centrifugal urban growth in Ahmedabad under the logic of globalization was supported and many ways even led by increased informalization in labor markets.

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<sup>24</sup> Industries in the peripheries (mostly in the eastern areas) included diamond cutting and polishing ateliers, small-scale powerloom units, and other manufacturing establishments with low-capital intensity and fluctuating production capacity that resulted in unstable informal sector employment. Male workers remained mostly in nonhousehold manufacturing, and as participation in the sector declined (from 46 percent in 1981 to 38 percent in 1991) tended to move into trade and commerce (from 20 percent in 1981 to 26 percent in 1991) and construction (3 percent in 1981 to almost 5 percent in 1991) (Mahadevia, 2001: 150)

<sup>25</sup> See Patel, B. B. (1990) Survey of Workers of Closed Textile Mills in Ahmedabad for Planning for Alternative Employment. Ahmedabad: Gandhi Labor Institute; Jhabvala, R., and Bali, N. (undated) My Life, My Work – A Sociological Study of SEWA's Urban Members. Ahmedabad: SEWA Academy. This was based on a 1993 survey of SEWA members.

Ahmedabad's fractured localities, similar to those in Delhi are made possible by the everyday politics of patronage and survival. The segregation in and between these localities was deepened by the losses experienced by the retrenched millworkers. As in Delhi, the large scale of these localities, as well as the segmented and highly volatile nature of both the spaces and structures of work and living, present huge obstacles to political organizing for change. Breman (2001) writes,

Although strikes and other forms of militancy are common, they are usually sudden, fragmented and more or less spontaneous eruptions of dissatisfaction. Such recurrent acts of resistance are restricted to disconnected local conflicts, flaring up and dissipating again in a short time. This incapacity to express power and solidarity systematically rather than sporadically is in the first instance a consequence of the segmented and highly volatile nature of the informal labour regime.

In the city where SEWA pioneered trade union organizing amongst women street vendors, few organizing models have emerged amongst the thousands of displaced millworkers.<sup>26</sup> Moreover, the shift to the informal economy has served, in most cases, to accentuate the reliance and trust on ties of caste and faith in localities, further exacerbating existing divisions.<sup>27</sup>

Starting in February 2002, Ahmedabad saw the worst communal riots between Hindus and Muslims since independence. While rioting has taken place many times before, the violence of 2002 scaled new horrors. Breman (2002) has made the persuasive argument that it is the 85,000 millworkers forced into a downward spiral of precarious jobs in the informal sector on the urban periphery who became the grist of the communal riot mill. For him, there is no coincidence in the fact that the violence between Hindus and Muslims was greatest in the old industrial areas of the city on the eastern banks of the River Sabarmati, where the majority of retrenched millworkers now live. Earlier cycles of violence had already started the process of ghettoization of the Muslim community and over time Ahmedabad has become a city of localities segregated not just by privilege and wealth, but also by religious affiliation.

Breman also suggests that structures of trade union organization (the work of organizations like the Majdoor Mahajan Sangh) that had preached and consciously kept communal harmony in earlier riots (despite caste and faith affiliations with particular jobs and tasks in the mills) have shattered and with it any hopes of holding the urban community together (Breman, 2002). This argument echoes the findings of Ashutosh Varshney (2002) who has argued that it is the level of bridging capital—present in longer-term patterns of communal interaction between Hindus and Muslims and often established through various forms of political action—that effects the durability of communal peace. In contemporary Ahmedabad, for all the reasons outlined above, communities have increasingly split along traditional lines of religion and caste, which makes them vulnerable to manipulation by the politics of exclusion practiced by the Bharatiya

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<sup>26</sup> Breman and Mahadevia have both noted that caste and faith always played a major role in the organization of work in the mills and in the representation of workers in the Textile Labor Association, TLA, the major union to which about half the workers belonged. In addition, all the major unions in India (much like the rest of the world) made a colossal error in choosing to focus only on the formal sector.

<sup>27</sup> This is not true in the case of SEWA's members, many of whom are Muslim women. The union has emphasized gender interests and the commonality of problems women face as residents of poor localities.

Janata Party, the party of the Hindu religious right, as well as by other religious groups. The argument is a simple one: there is no associational platform left for social mobilization and collective action that bridges difference.

The story of Ahmedabad's growth is thus both similar and different from that of Delhi. Both cities are a patchwork of segregated, segmented localities where the spaces of work and living overlap to various degrees. The case of Ahmedabad illustrates the production of space as a result of the processes of deindustrialization and restructuring of the textile industry while the case of Delhi reveals the difficulties associated with imposing environmental regulations in mixed industrial clusters. Throughout, the rift between the life and image of these messy localities and the global, modern Master Planned spaces of the middle and upper classes remain clear and sharp. The imperative of statecraft, of state led policy-making and planning to regulate and standardize in the shadow of images of global modernity, widens the cleavage between the informal and the formal sectors. Illegality is an important dimension of this scenario, as is the spreading privatization of service provision, both issues that Edesio Fernandes (2002) and Faranak Miraftab (2002) have addressed in much more eloquent and detailed terms at the conference.

And what of the political challenges these localities pose? The indisputable connections between the assertion of gains through the modality of a personalized, patronage-based politics of stealth, and the sudden, episodic, disconnected nature of protest, and—to quote Breman once more, “the segmented and highly volatile nature of the informal labour regime” begs the question of how the cycle can be broken.

## CONCLUSIONS

This essay sought to bring space into the discussions on the processes and impacts of increasing informalization of labor markets. It argued that space, not just modalities of employment, sector, gender, or age, but also *space* needs to be an organizing principle in thinking about the processes and impacts of increasing informalization and how we build collective struggles for change in vibrant but fractured urban environments.

Space here was understood not just as a backdrop to urban activity and action, but as simultaneously defining urban activity, in the process, reinforcing inequities in power and resource allocation. Related to this issue of a dialectical relationship between the informal economy and space, were the ways in which urban space *restricts* mobility and in doing so, plays a role in increasing informalization of work; thus, shaping the possibilities for the exercise of power or protest, collective organizing, and governance

The lower-income localities of Delhi and Ahmedabad described above were informal economy clusters of mixed residential and industrial uses that produced segregated urban spaces that were slowly being pushed out into the periphery, helping create cities whose metaphorical centers are state zoned and regulated spaces for the elite, empty of the people whose labor produces much of the city.

The political implications of this deepening segregation are significant. Organizing people living in segregated, mixed-use localities that seem to be the basic building blocks of the urban fabric, presents a political challenge not just in terms of articulating a collective platform for the everyday politics of informality and the livelihood related struggles of workers in the informal sector, but also in terms of creating equitable urban governance structures.

What are the ways out of this seeming impasse? Edesio Fernandes (2002) and others have pointed to one range of possible responses through the reworking of legal systems. In this we should include the ways in which planners demarcate and regulate space. Land use, zoning, and nuisance policies in the localities of Vishwasnagar or Samaipur clearly need to be defined differently from the ways in which they are currently understood and implemented. They need, for example, to reflect the complexity of enmeshed sociospatial networks of employment, work, real estate, and shelter as well as the residents' own perspectives on the priorities for change. Another important issue is the consequences of abatement of environmental hazards—a topic that we cannot do full justice to here. Equally crucial are urban policies that focus on providing equitable services and making productive land and other resources available to all groups.

But governance is more than the equitable provision of services and resources. It is also about institutional accountability and the incorporation of citizen needs and aspirations into policy. It is these issues that point to the importance of community organizing in the localities where residents both live and work as Dunu Roy and Jan Breman so accurately addressed in the context of the problems of the politics of informality in Delhi and Ahmedabad.

As important, though not the focus of this essay, is the suggestion that the cities of the global South, riven as they are by informality and its consequences, provide examples of segregated localities that are very different from the ways in which we understand racial, ethnic, or economic segregation in European or North American cities. Understanding informality in urban space, its spatial implications, and political challenges creates opportunities to shape an urban theorizing rooted in the various local contexts of Southern cities, not just the Northern global city-laboratories of London, Chicago, or Los Angeles that have produced most of our urban theories to date.

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Globalization, deep economic restructuring, and neoliberal policies have transformed the world of work and labor markets in the North and the South. Contrary to expectations of those who studied the “informal sector” in the 1970s and 80s, the informal economy keeps expanding. This collection brings together an interdisciplinary group of researchers and activists to rethink informalization and the world of work. Together they explore the processes and reasons behind the growth of informal activities and the possibilities for generating decent work and equitable labor markets under the present conditions.

*Rethinking Informalization* includes papers that examine the heterogeneity of informal activities, the processes that generate its growth, and the lack of concern over increasing economic and social inequalities. Some contributions focus on the need to rethink social protections for labor and the generation of decent work. Others focus on the linkages between informality and poverty, and the final essay focuses on the impacts of informality on the segmentation of urban space and politics.

The volume will be of interest to anyone concerned with the continued growth and dynamism of the informal economy, as well as its pernicious effects on workers lives everywhere.

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