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Formal bureaucracy and the emergent forms of the informal economy

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Formal Bureaucracy and the Emergent Forms of the Informal Economy

Keith Hart*

April 2005

Abstract

The following essay has three parts. The first is a story about fluctuations in the balance of the relationship between impersonal and personal principles of social organization. This draws heavily on Max Weber's interpretation of western history. The second part reviews the concept of an 'informal economy/sector' from its origin in discussions of the Third World urban poor to its present status as a universal feature of economy. The third part asks how we might conceive of combining the formal/informal pair with a view to promoting development. In conclusion I suggest how partnerships between bureaucracy and the people might be made more equal.

Keywords: social organization, development, bureaucracy, democracy

JEL classification: E26, O17, K11, B15

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1 Introduction

We are asked to consider how the informal/formal pair might be linked more effectively for the purpose of development. They are of course linked already since the idea of an ‘informal economy’ is entailed by the institutional effort to organize society along formal lines. ‘Form’ is *the rule*, an idea of what ought to be universal in social life; and for most of the twentieth century the dominant forms have been those of bureaucracy, particularly of national bureaucracy, since society has become identified to a large extent with the nation-state. This identity may now be weakening as a result of the digital revolution in communications and neo-liberal economic policies (Hart 2001a). If there are to be new initiatives combining public bureaucracy with informal popular practices in complementary ways, we need to be aware of this historical context.

The formal and informal appear to be separate entities because of the use of the term ‘sector’. This gives the impression that the two are located in different places, like agriculture and manufacturing, whereas both the bureaucracy and its antithesis contain the formal/informal dialectic within themselves as well as between them. The need to link the sectors arises from a widespread perception that their relationship consists at present of a class war between the bureaucracy and the people. It was not supposed to be like this. Modern bureaucracy was invented as part of a democratic political project to give citizens equal access to what was theirs as a right. It still has the ability to co-ordinate public services on a scale that is beyond the reach of individuals and most groups. So it is disheartening that bureaucracy (‘the power of public office’) should normally be seen now as the negation of democracy (‘the power of the people’) rather than as its natural ally.

Forms are necessarily abstract and a lot of social life is left out as a result. This can lead to an attempt to reduce the gap by creating new abstractions that incorporate the informal practices of people into the formal model. Naming these practices as an ‘informal sector’ is one such device. It appears to be informal because its forms are largely invisible to the bureaucratic gaze. Mobilizing the informal economy will require a pluralistic approach based on at least acknowledgement of those forms. Equally, the formal sphere of society is not just abstract, but consists also of the people who staff bureaucracies and their informal practices. Somehow the human potential of both has to be unlocked together.

The following essay has three parts. The first is a story about fluctuations in the balance of the relationship between impersonal and personal principles of social organization. This draws heavily on Max Weber’s interpretation of western history. The second part reviews the concept of an ‘informal economy/sector’ from its origin in discussions of the Third World urban poor to its present status as a universal feature of economy. The third part asks how we might conceive of combining the formal/informal pair with a view to promoting development. In conclusion I suggest how partnerships between bureaucracy and the people might be made more equal.

2 Bureaucracy and the people: a personal history

One day my laptop was stolen at London’s Waterloo Station. I had been met off the Paris train by a friend and we were deep in conversation while I queued up for an

Underground ticket. I was distracted by someone standing far too close behind me. After, my friend asked ‘Weren’t you carrying a computer case?’ I found the station police and they offered to stamp an insurance claim form for me. I didn’t want insurance, I wanted my laptop back. They told me that, if it was any consolation, mine was the fifteenth laptop stolen that day. I was not consoled. I wanted to know what was being done to break these crime rings. This query was met with silence and eventually I went away, mourning the loss of all the personal data I had not backed up. I imagined a conspiracy of policemen and thieves to share booty stolen from unsuspecting travellers and settled in the end for a more mundane interpretation. I was just a potential trouble-maker who had to be convinced with the minimum of fuss that property is not always protected.

Private property is the ability of an individual owner to command exclusive rights over something against the rest of the world (Macpherson 1978). We assume that, once we have bought an item, we can do what we like with it. Take a look at your personal possessions. What gives you the right to think of them as your own? Your watch, for example, feels as if it is yours simply by virtue of being worn next to your skin. You probably bought it or it was a gift from someone who in bought it somewhere. Market exchange is therefore the source of your right to claim the watch. But what secures the market exchange? Most people barely think about this, until something goes wrong. On a dark night a stranger demands your watch. In your fear and anger you now realize that the state underwrites your claim to own the watch and promises to prevent violent assaults on persons and property. Perhaps you resent the inadequate level of policing for a time; but eventually you settle back into thinking of your possessions as your own and forget about the social conditions that make it possible.

This idea of securing private property through an anonymous state apparatus has been very rare in human history (Hicks 1969). More typically it was understood that ownership is relative to membership of concrete social groups capable of stopping others from taking what is ours. In the extreme case, exchange is carried out by clans or similar groups acting as undifferentiated units (Mauss 1990). More usually individual claims to ownership are modified by such groups asserting a collective over-right, in contrast with the presumptively absolute individual ownership characteristic of private property. Consider the following fictitious example.

A Maasai warrior works as a night-watchman in Kenya’s capital, Nairobi. The Maasai are famous for a traditional way of life based on cattle-herding; and young men are formed into groups of warriors whose task is to defend the herds against all-comers. Nowadays many of them work temporarily for wages, often in privatized security jobs that require a watered-down version of their warrior training. This migrant saves money and, before returning home, buys some commodities, including a watch that he wears on his wrist. On arriving back at his village, he meets an age-mate who says, ‘I like your watch: give it to me’ and he must give it up. Why? Because all property in the village is held by virtue of the ability of warriors to ward off predators, both animal and human; and their solidarity, essential in battle, is undermined by any tendency of individuals to differentiate their own interests from those of the rest. They assert that a man’s wife belongs to all his age-mates, even though it would be rare for sexual access to be demanded by one of them as a right. Our former night-watchman must be taught to recognize that life in the village still rests on different principles from those obtained in Nairobi; and he hands over the watch.

In western legal history the Romans are credited with having invented private property. Before they achieved a strong state linked to extensive markets, property rights were based on the same ability of local kin-groups to assert themselves against similar groups. This was called *ius in personam* and it stated that rights over things are always mediated by concrete personal ties (Radcliffe-Brown 1952). In such societies ownership was derived from either production or consumption: something belonged to you because you had made it or because you needed to use it; and both kinds of right were exercised through membership of local groups. Traders on the other hand wanted to hold property in a wholly different sense: they needed to secure the right to own something they had neither produced themselves nor would use personally, but rather intended to sell for money (Hicks 1969). Moreover, they were exposed to the brigandage of any small group exercising its own local monopoly of violence. In the interest of furthering long-distance trade, the Roman state offered military protection to these private merchants. It supported their claim to *ius in rem*, rights over things unmediated by personal relationships, in other words, the same system of private property that we now take so much for granted.

In order to sustain free circulation of commodities in exchange for money, both the connection between persons and objects and that between persons in groups were weakened in law. Yet physical association between persons and objects is still quite strong ('possession is nine-tenths of the law'), even if the social ties that make ownership possible have receded to the point of invisibility. And any social organization, including the formal bureaucracy responsible for administering the law, requires living persons to implement its rules. The idea of the law of property is thus historically contingent rather than eternal and it is always modified by practice. Most non-westerners live under circumstances that make the idea itself unthinkable. The Roman legal system depended on specific institutional factors which eventually withered away, ushering in a society with no pretension at all to universal law. We call it feudalism.

The Roman Empire was destroyed, not by marauding Germans, who actually wanted to enjoy the perks of civilization, nor directly by Christianity, but by a tax revolt that has a parallel in our world. Max Weber (1974) wrote a magisterial essay on this topic, 'The social causes of the decline of ancient civilization'. He argued that the Roman Empire was at its peak in 150 AD, when territorial expansion reached its limits. The imperial system rested on converting Italian peasants into soldiers and resettling them in conquered lands as *coloni*. The wars generated a ready supply of captives who could be put to work as slaves on large estates consolidated by the Roman aristocracy out of the former holdings of the peasantry. The slaves were kept in single-sex barracks and no attempt was made to breed with them, since their replacement price in the market was cheap. A wide social gulf existed between free and unfree labour.

The end of expansion meant that the supply of new slaves gradually dried up, prices rose and owners were obliged to allow those they had to reproduce, introducing a form of family life that was eventually reinforced by Christianity. The slaves began to take on some of the features of a peasantry. At the same time the state bore down more heavily on the settlers, reducing their legal freedoms in various ways and exacting a heavy tax burden. The empire's need for money was exigent, since the army and a large bureaucracy would only work for cash and cash came from taxes on earnings from trade. Demands made on the towns became so onerous that rich individuals took to the countryside, where they established their own armed camps (or *villas*) and resisted the

authority of the state. This reduced the latter's revenues even more and led to further crackdowns on those sectors of the 'free' population who were not able to escape. Eventually the system broke down and the different forms of labour merged into a single semi-free type which we associate with feudalism. The emperor, Weber concludes, became a rural illiterate, forcing his company on dependent warlords; and the air of his travelling court was permeated with the smell of dung. It took Europe a thousand years to begin a recovery, and another 500 to invent Rome's successor, the European Union.

Feudalism identified society with a few privileged individuals, ultimately with the person of the emperor, the king, the bishop or the local lord, depending on political scale. Their approval was necessary if anything was to be done. Early modern Europe sought to devise public institutions whose benefits were guaranteed equally to all, regardless of who they were or whom they knew. These bureaucracies aimed at a new kind of universal democracy. The great poet of this transition was Shakespeare whose history plays and tragedies all explore the tension between human personality and impersonal institutions. His audiences sat on the edge of their seats, since the future of their own Tudor state was at stake in the drama. If feudalism was a mess and basically unjust, what is the role for human personality in a more equal and universal social system?

In the film, *The Godfather*, a hit-man tells his victim, in a parody of that separation of personal and impersonal spheres of social life that is the core of capitalist civilization, 'Don't take this personal, it's just business'. 'Business' often requires the suspension of ordinary humanity – sacking an employee, calling in a mortgage, enforcing a tax demand. We might be tempted to take such losses personally, but the carrier of the message is merely an instrument of economic logic, 'the bottom line'. Criminal mafias operate on a quasi-feudal basis, combining strong personal ties with violent behaviour outside the law. Yet they exist in a world of modern states, bureaucracy and capitalist markets. No wonder the *mafioso* is confused. He is about to do something that is deeply personal – what could affect an individual more than being disfigured or killed? But he must be detached from the human consequences of his actions. He is just following orders in the name of 'business'. We are appalled and intrigued by the story since it offers an extreme commentary on our own experience of daily life. The hit-man's dilemma is ours too (Hart 2005).

Weber revisited the problem of personal meaning in an impersonal society with *The City: On non-legitimate domination* (Weber 1978). He held that society everywhere is held together by force. But having to beat people over the head to make them comply is expensive. Better to persuade them that your political authority is based on right ('legitimate'). All rulers claim that their power is legitimate and the form of that claim to moral leadership affects how they exercise it. Thus, if the king governs by divine right, he should not arrange for the head of his church to be killed. Weber observed that the moral exercise of power as a right (legitimate domination) was traditionally bound up with the persons of rulers and ruled. The ideas supporting a political system might be impersonal, but they were embodied in relations between actual human beings. This had its downside: getting what you wanted in such a society depended on a highly unequal personalized hierarchy in which most people didn't count at all.

The cities of the Italian Renaissance tried to break with this limitation. They wanted citizens to be equal before the law and rights and duties to be distributed according to universal principles. This democratic movement found expression in new institutional forms: the idea of the 'people'; the university; state bureaucracy; and businesses oriented to the mass market. Weber termed this 'rational-legal domination', rule according to impersonal principles whose justification is the abstract common good, as determined by law and objective reason. There is no room for the morality of persons in such a system. If you go to city hall to complain about your local tax bill, it is inappropriate to get upset with the official you encounter there. It is not their fault. First, check what it says in the record and have the general reasons for it explained. If you are still unhappy, go find your political representative. There is a lot to be said for the equity and efficiency of such a depersonalized system. But Weber noted two drawbacks. First, bureaucrats tend to accumulate unaccountable power that can be used against the people they claim to serve; and in this he anticipated Stalin. Second, the absence of a moral basis for rule (related to the marginality of religion) generates a crisis of legitimacy that can only be filled by charismatic leaders; and in this way he predicted the rise of Hitler.

To summarize, the state is society centralized as a single agency and traditionally this has been embodied in one person, the monarch or latterly the president. Shakespeare's tragedies trace out the implications of this and, if the last of them, *King Lear*, is anything to go by, he concluded that such an arrangement must end in madness and civil war. This has not prevented a strong element of personal rule persisting in representative democracies. Indeed their legitimacy still sometimes rests on hereditary monarchs. The path to non-elective oligarchy and dictatorship remains a short one. At the same time, capitalist economy came to depend from the second half of the nineteenth century on regulation of markets and money by national bureaucracies; and mass production for national and world markets entailed the rise of a management hierarchy within the capitalist enterprises themselves. Although corporations were a long-established feature of mercantile empire, something new occurred when businesses were simultaneously accorded the rights of individual citizens and excused some of their responsibilities, such as personal liability for bad debts (Hartmann 2002). When corporations became legal persons sheltering their owners behind impersonal privilege, the drive to separate personal and impersonal spheres of economic life was reversed. Our political and intellectual culture has not yet recovered from the resulting confusion.

Most of the people attending this conference¹ probably live to a significant degree inside what we may choose to call the formal economy. This is a world of salaries or fees paid on time, regular mortgage payments, clean credit ratings, fear of the tax authorities, regular meals, moderate use of stimulants, good health cover, pension contributions, school fees, driving the car to the commuter station, summer holidays by the sea. Of course households suffer economic crises from time to time and some people feel permanently vulnerable. But what makes this lifestyle 'formal' is the regularity of its order, a predictable rhythm and sense of control that we often take for granted. I only discovered how much of this had become natural to me when I went to live in a West African city slum almost forty years ago (Hart 1969).

¹ EGDI-WIDER Conference on Unlocking Human Potential – Linking the Informal and Formal Sectors, Helsinki, 17-18 September 2004.

I would ask questions that just didn't make sense to my informants, for example concerning household budgets. 'How much do you spend on food a week?' Assuming that someone had a regular wage (which many didn't), it was pitifully small; the wage-earner might live it up for a day or two and then was broke, relying on credit and help from family and friends or not eating at all. A married man might use his wage to buy a sack of rice and pay the rent, knowing that he would have to hustle outside work until the next paycheck. In the street economy people were moving everything from marijuana to refrigerators in deals marked more by flux than stable income. The bulk of migrants constituted then a tidal flow of rootless young men clinging to islands of stability in the form of rich patrons with houses, wives and an entourage of hangers-on. I stayed there for over two years (1965-68) and, after completing a doctorate, I went to work in a development studies institute. There I saw my main task as trying to get this ethnographic experience across to development economists.

3 The informal economy in retrospect

In the twentieth century, capitalism took the specific form of being organized through the state. 'State capitalism' was the attempt to manage markets and money through national bureaucracy (Hart 2001a). Its antithesis is the 'informal economy', a term which originated in the early 1970s. Beginning as a way of conceptualizing the unregulated activities of the marginal poor in Third World cities, 'the informal sector' has become recognized as a universal feature of the modern economy. Evasion of the state's rules unites practices as diverse as home improvement, street trade, squatter settlements, open source software, the illegal drugs traffic, political corruption and offshore banking. The issue of 'informal economy' is thus intimately tied up with the question of how long state capitalism can continue as the world's dominant economic form.

Welfare-state democracy was sustained by 'macroeconomics', a term associated with Maynard Keynes (1936). Only the state could regenerate a damaged market economy, mainly by spending money it did not have to boost consumer demand. The economic boom of the 1950s and 1960s depended on the coordinated efforts of the leading industrial states to expand their public sectors. When Richard Nixon said, 'We are all Keynesians now', he meant that western voters now expected their governments to intervene in the economy for the general good. It all began to unravel soon afterwards in the 'stagflation' of the 1970s when the world economy was hit by economic depression and inflation at the same time. The neo-conservative liberals who have dominated politics in the last quarter-century sought to counter inflation with 'sound money' and to release the potential of the market by getting the state off its back. But their policies often combined 'privatization' with a strengthening of state power. In the process they began to dismantle the twentieth-century consensus that I have called 'state capitalism'.

The idea of an 'informal economy' has run as a submerged commentary on these developments. It came out of the lives of Third World city-dwellers, whose lack of money makes them about as conventionally poor as it is possible to be. By the 1970s it was becoming clear that development was a pipe-dream for Third World countries. Populations had exploded; cities were growing rapidly; mechanization was weak; and productivity in predominantly agricultural economies remained low; the gap between rich and poor was widening. The consensus was that the only institution capable of

mobilizing economic resources was the state. Marxists and Keynesians agreed on this; free-market liberals had no effective voice at this time. The malaise was conceived of as 'urban unemployment'. Third World economies were supposed to deliver jobs, but, in the absence of machine-based industry, employment creation was left largely to the only economic agent of any significance, public bureaucracy. The number of corporate firms offering jobs was embarrassingly small. What, then, could all the other new inhabitants of the major cities be up to? They must be unemployed. Figures of 50 per cent unemployment and more were conjured up by economists. The specter of the 1930s – broken men huddling on street corners ('Buddy, can you spare a dime?') dominated development discourse.

Anyone who visited, not to mention lived in, these sprawling cities would get a rather different picture. Their streets were teeming with life, a constantly shifting crowd of hawkers, porters, taxi-drivers, beggars, pimps, pickpockets, hustlers – all of them getting by without the benefit of a 'real job'. There was no shortage of names for this kind of early-modern street economy. Terms like 'underground', 'unregulated', 'hidden', 'black' and 'second' economies abounded. The best description was Clifford Geertz's account of the *suq* or 'bazaar economy'. *Peddlers and Princes* (1963) is about the contrasting face of Indonesian entrepreneurship. Geertz identified two economic ideal-types in a Javanese town. The majority were occupied in a street economy that he labelled 'bazaar-type'. Opposed to this was the 'firm-type' economy consisting largely of western corporations who benefitted from the protection of state law. These had *form* in Weber's (1981) sense of 'rational enterprise' based on calculation and the avoidance of risk. National bureaucracy lent these firms a measure of protection from competition, thereby allowing the systematic accumulation of capital. The 'bazaar' on the other hand was individualistic and competitive, so that accumulation was well-nigh impossible. Geertz considered what it would take for a group of Reform Moslem entrepreneurs to join the modern 'firm' economy. They were rational and calculating enough; but they were denied the institutional protection of state bureaucracy which was largely the preserve of the existing corporations.

Here and in his later work on the Moroccan *suq* (Geertz *et al.* 1979), Geertz pointed out the irony of an economics that takes the bazaar as its model for studying the decisions of individuals in competitive markets, while treating as anomalous the monopolies preferred by capitalist firms and state bureaucracy. Even more curious, the modern discipline made this discovery in the late nineteenth century, just when a bureaucratic revolution was transforming mass production and consumption along corporate lines. This was when the more powerful states awarded new privileges to capitalist corporations and society took its centralized form as national bureaucracy. Perhaps because he was poking fun at the economists, Geertz' analytical vocabulary was not taken up by them. The antithesis of the state-made modern economy had not yet found its academic name. This came about through a paper I presented at a Sussex conference on 'Urban employment in Africa' in 1971.

The main message of the paper (Hart 1973) was that Accra's poor were not 'unemployed'. They worked, often casually, for erratic and generally low returns; but they were definitely working. What distinguished these self-employed earnings from wage employment was the degree of *rationalization* of working conditions. Following Weber (1981), I argued that the ability to stabilize economic activity within a bureaucratic form made returns more calculable and regular to the workers as well as their bosses. That stability was in turn guaranteed by the state's laws, which only

extended so far into the depths of Ghana's economy. The 'formal sector' consisted of regulated economic activities and the 'informal sector' of all those lying beyond the scope of regulation, both legal and illegal. I did not identify the informal economy with a place or a class or even whole persons. Everyone in Accra, but especially the inhabitants of slums like Nima where I lived, tried to combine the two sources of income. Informal opportunities ranged from market gardening and brewing through every kind of trade to gambling, theft and political corruption. My analysis had its roots in what people generate out of the circumstances of their everyday life. The laws and offices of state bureaucracy only made their efforts at self-preservation and improvement more difficult.

I hoped to interest economists by presenting my ethnography in a language they were familiar with. The idea of an 'informal sector' was taken up quickly by some of them as a concept, so quickly indeed that a report by the International Labour Office (ILO 1972) applying the concept to Kenya came out before my own article had been published. The ILO report suggested that self-employed or 'informal' incomes might reduce the gap between those with and without jobs and so could contribute to a more equitable income distribution. Following the 'growth or bust' policies of the 1960s, they advocated 'growth with redistribution', that is, helping the poor out of the proceeds of economic expansion. This reflected a shift in World Bank policy announced by its president, Robert McNamara, in Nairobi a year later. By now the Bretton Woods institutions were worried about potential social explosions; and they felt that more attention should be paid to peasants and the urban poor. A vogue for promoting the 'informal sector' as a device for employment creation fitted in with this shift.

Most economists saw it in quantitative terms as a sector of small-scale, low-productivity, low-income activities without benefit of advanced machines; whereas I stressed the reliability of income streams, the presence or absence of bureaucratic *form*. When the bureaucracy tried to promote the informal sector – by providing credit, government buildings or new technologies, for example – it killed off the informality of the enterprises concerned and exposed participants to taxation. The association of the idea with the sprawling slums of Third World cities was strong; but the 'commanding heights' of the informal economy lay at the centers of political power itself, in the corrupt fortunes of public office-holders who often owned the taxis or the rented accommodation operated by the small fry. The Marxists argued that it put a positive gloss on exploitation, whereas they believed the poor subsidized capital accumulation with their cheap goods and services (Bromley and Gery 1979).

That was the 1970s. The following decade saw another major shift in world economy following the lead of Reagan and Thatcher. Now the state was no longer seen as the great provider; rather 'the market', freed of as many encumbrances as possible, was the only engine of growth. The informal economy took on a new lease of life as a zone of free commerce, competitive because unregulated. This coincided with the imposition of 'structural adjustment' policies that reduced public expenditures and threw responsibility onto the invisible self-help schemes of the people themselves. By now, the rhetoric and reality of development had been effectively abandoned as the Third World suffered the largest income drain in its history, in the form of repayment of debts incurred during the wild banking boom of the 1970s (George 1990).

So is it possible to assess the informal economy's role in Third World development? There has been an urban revolution there since 1945 with state economic power

concentrated in a few cities, often just one. Rural–urban migration has vastly exceeded the growth of a bureaucratic employment. Even those who have jobs often must supplement them with outside earnings. The growth of cities has not stimulated local agriculture as much as it should, since cheap food imports have been available from the subsidized farmers of the rich countries (Hart 2004). This has only encouraged more of a stagnating peasantry to leave home for the city. The informal economy has in some cases been a source of economic dynamism, even capital accumulation. At the very least, it has allowed people to maintain themselves in the urban areas (Hart 1988a).

The informal economy was from the beginning wedded to the heyday of state capitalism as the conceptual negation of Keynesian macroeconomics – the decentralized activities of ordinary people versus the economic policies of governments. The powers of nation-states have been in decline since the mid 1970s. Many commentators attribute this to globalization, to the rapid integration of world markets for goods and services, money, information and people themselves (Robertson 1992). The market for money is the most important of these in view of the traditional association of currency with states. So powerful have ‘the markets’ become that governments policies must now court the approval of those who buy and sell the national currency.

The world economy has become increasingly informal in recent decades. Illegal drugs are the most valuable commodity traded internationally. Finance has been slipping its political shackles, by relocating offshore where money transactions can hardly be monitored or taxed. The armaments industry is a sea of corruption reaching the core of western governments. ‘Grey markets’ for goods imitating well-known brands (especially videos, CDs and tapes) have been labelled as ‘piracy’. The irrational borders of nation-states are riddled with smuggling. The informal economy is now considered to be a feature of the industrial countries, ranging from allotments and do-it-yourself to the more criminalized economy of disaffected youth (Pahl 1984). Even before the collapse of Stalinist bureaucracy in the Soviet Union and its satellites, it was clear that collectivization had spawned a flourishing ‘black market’, antecedent of the criminal mafias and ‘oligarchs’ who now dominate much of the Russian economy. In Europe, the dissident left has long had a slogan: ‘Think red, work black, vote green.’

Meanwhile, the collapse of the state in many Third World countries has led to the whole economy becoming informal. President Mobutu and his successors have reduced the Congo region to a shambles where soldiers loot at will and politicians keep foreign bank accounts (MacGaffey 1991). Mobutu boasted of being one of the richest men in the world and once hired a train for a lavish party in New York. Or take Jamaica, which in the 1970s was a model ‘middle-income’ developing economy. At one point the value of illegal marijuana sales (*ganja*) was higher than the country’s three leading legitimate industries (tourism, bauxite, garments) taken together. No wonder politics was carried out by armed gangsters and youths left school early to learn hustling on the street. When so much of the economy is ‘informal’, we may question the usefulness of the category.

The term’s original context was the stand-off of the Cold War (Hart 1992). The conflict between state socialism and the free market was frozen by the unthinkable prospect of a nuclear resolution. By the early 1970s state capitalism had taken on a timeless quality as a universal social form. The activities of little people in the cracks of a state-regulated economy were seen at best as a defensive reaction and an aid to survival, surely not as a basis for any serious alternative. It seemed unlikely then that the formal/informal pair contained much potential for movement; but now we know better.

The label 'informal' may be popular because it is negative. It says what people are not doing – not wearing conventional dress, not being regulated by the state – but it does not point to any active principles they may have for doing it. It is a passive and conservative concept that acknowledges a world outside the bureaucracy, but endows it with no positive identity. The informal sector allowed academics and bureaucrats to incorporate the teeming street life of exotic cities into their abstract models without having to confront the specificity of what people were really up to. In sacrificing my own ethnographic encounter with real persons to the generalizing jargon of development economics, I played my own part in this process of rationalization. The 'velvet revolution' of Eastern Europe and the Soviet Union demonstrated that ordinary people could get rid of the most awesome bureaucratic states with remarkably little violence. Who can now think of the state as eternal when Stalin's successors were dispensed with so completely? Nor are the conclusions to be drawn straightforward. We may want to romanticize the informal economy as a little people's alternative, but would we want to live in a Moscow run by gangsters or the KGB?

West Africa's former colonies were among the last admitted to state capitalism and the first to leave. Ghana was already in an advanced condition of political and economic decay in the mid 1960s when I did my fieldwork. Seen in that light, Nima may be thought of as a harbinger of state capitalism's decline. After much of the Third World dropped out of the movement of the world economy, the communist bloc followed suit, leaving America, western Europe and a resurgent Asia to contemplate the consequences for their own societies. The informal economy was the self-organized energies of people excluded by the exigencies of state rule. The question remains whether those energies might take on a more constructive dynamic under current conditions.

4 Combining the formal and informal sectors

'Form' is an idea whose origin lies in the mind. Form is the rule, the invariant in the variable. It is predictable and easily recognized. For example, how do we go about writing a birdwatcher's guide? It would not do to illustrate each species with a photograph of a particular bird. It might be looking the wrong way or be missing a leg... So instead we offer a caricature showing the distinctive beak, the wing markings and so on. That is why idealist philosophers from Plato onwards thought the general idea of something was more real than the thing itself. Words are forms, of course. In his *Science of Logic*, Hegel shows the error of taking the idea for reality (James 1980). We all know the word 'house' and I might think there is nothing more to owning one than calling it mine. But before long the roof will leak, the paint will peel and I will be forced to acknowledge that my house is a material thing, a process that requires my attention. The 'formal sector' is likewise an idea, a collection of people, things and activities that share an idea; but we should not mistake the idea for the reality that it partially identifies.

What makes something 'formal' is its conformity with such an idea or rule. Thus formal dress in some societies means that the men will come dressed like penguins, but the women are free to wear something extravagant that suits them personally – they come as variegated butterflies. The men are supposed to look the same and so they adopt a 'uniform' that cancels out their individuality. Formality endows a class of people with universal qualities, with being the same and equal. What makes dress 'informal' is

therefore the absence of such a shared code. But informality is relative to the eye of the beholder. Any observer of an informally dressed crowd will notice that the clothing styles are not random. We might ask what these informal forms are and how to account for them. The world's ruling elite can be identified as 'the men in suits', because they choose a style invented in the 1920s as an informal alternative to formal evening dress.

There is a hierarchy of forms and this hierarchy is not fixed forever. The twentieth century saw a general experiment in impersonal society whose forms were anchored in national bureaucracy, in centralized states and laws carrying the threat of punishment. The dominant economic forms were also bureaucratic and closely linked to the state as the source of universal law. Conventionally these were divided according to principles of ownership into 'public' and 'private' sectors. This uneasy alliance of governments and corporations is now sometimes classified as 'the formal sector'. What they share, at least on the surface, is conformity to the rule of law at the national and increasingly international levels. How then might non-conformist economic activities, 'the informal economy', relate to this formal order? They may be related in any of four ways: as *division*, as *content*, as *negation* and as *residue*. The first two imply a positive relationship of inter-dependence, the second pair are relatively independent, with an antagonistic relationship or none at all. This classification in turn should inform actions designed to improve the linkages between the two.

The moral economy of capitalist societies is based on an attempt to keep separate impersonal and personal spheres of social life (Hart 2001a; 2005). The establishment of a formal public sphere entailed another based on domestic privacy (Elias 1982). Even if one side came first historically, the other was subsequently built up to constitute complementary halves of a single whole. Most people, traditionally men more than women, divide themselves every day between production and consumption, paid and unpaid work, submission to impersonal rules in the office and the free play of personality at home. Money is the means whereby the two sides are brought together, so that their interaction is an endless process of separation and integration that I call 'division'. The division of the sexes into male and female (*vive la différence!*) is the master metaphor for this dialectic of complementary unity. In Hegel's terms (James 1980), the blurring or confusion of the paired categories is a phase of 'negative dialectic', preliminary to the formation of a new idea. Identifying informal practices, even criminal behaviour, within the bureaucracy constitutes such a blurring: but to resist this is a utopian exercise.

For any rule to be translated into human action, something else must be brought into play, such as personal judgement. So informality is built into bureaucratic forms as unspecified 'content'. This is no trivial matter. Workable solutions to problems of administration invariably contain processes that are invisible to the formal order. For example, when workers cannot or will not go on strike, they sometimes 'work-to-rule' (Scott 1998). This consists of following their job descriptions to the letter (the formal abstraction of what they actually do) without any of the informal practices that actually make these abstractions function. Everything grinds to a halt as a result. Or take a chain of commodities from their production by a transnational corporation to their final consumption in a Third World city. At several points invisible actors appear filling the gaps that the bureaucracy cannot handle directly, from the factories to the docks to the supermarkets and street traders who supply the cigarettes to smokers. Informal processes are indispensable to the trade, as variable content to the universal form.

Of course, some of these activities may break the law, through a breach of health and safety regulations, tax evasion, smuggling, the use of child labour, selling without a license, etc. The third way that informal activities relate to formal organization is thus as its 'negation'. Rule-breaking takes place both within bureaucracy and outside it; and so the informal is often illegal. This compromises attempts to promote the informal sector as a legitimate sphere of the economy, since it is hard to draw a line between smiling women with babies who sell oranges on the street and the gangsters who exact tribute from them. When the rule of law is weak or absent, the forms that emerge in its place are often criminal in character. A good part of modern society consists in protecting the public image of bureaucratic processes from a reality that mixes formal order with corruption and criminality in unacceptable ways. We watch movies about cops and robbers, but we detach these fictions from the rule of law that helps us to sleep at night. An example will illustrate this point.²

A young American anthropologist was carrying out fieldwork among the Japanese mob, the Yakusa. He had cleared his research with the central and local authorities. One afternoon a police inspector started muttering drunkenly in a bar frequented by Yakusa about how the anthropologist was an informer for Tokyo police headquarters. The news spread like wildfire and reached him at his home within the hour. He sat there wondering if he was about to be dumped in the river wearing cement shoes. Before long a message came from the Big Boss to come and see him. When he arrived, the boss showed him a newspaper, 'Look at what they write about us – they call the Yakusa dragons, fiends, witches. You are an anthropologist. I know that whatever you write about us, we will come across as real people. Your research will be good for us. As for the police, they know everything that we do already. They have a lot to worry about, since the public prefers to ignore their complicity in crime. We gangsters have nothing to fear from exposure, since our public image is already low'. This was a couple of decades before 'The Sopranos' became a smash hit for HBO.

The fourth category is not so obviously related to the formal order as the rest. Some 'informal' activities exist in parallel to it, as 'residue'. They are just separate from the bureaucracy. It would be stretching the logic of the formal/informal pair to include peasant economy, traditional institutions and much else besides within the rubric of the 'informal'. Yet the social forms endemic to these often shape informal economic practices. What is at stake here is whether society is presumptively just one thing – one state with its rule of law – or can tolerate a measure of legal pluralism, leaving some institutions to their own devices. The ubiquitous term 'community' addresses this problem.

Communities exist to the extent that their members understand each other for practical purposes; and so they operate through culture (meanings held in common). They do so by means of implicit rules (customs) rather than state-made laws. They usually regulate their members informally, relying on the sanction of exclusion rather than punishment. Social anthropology in its prime focused on the study of small-scale societies ruled by custom, people who exchanged meanings specific to themselves (Evans-Pritchard 1951). European empires, faced with a shortage of resources, turned to 'indirect rule' as a way of incorporating subject peoples into their systems of government on a semi-

² David Stark personal communication.

autonomous basis. This legal pluralism delegated supervision of indigenous customary forms to appointed chiefs and headmen, reserving some of the key levers of power to the colonial regime. Anthropologists played their part in documenting how this might work out (Asad 1973). Any serious attempt to link the formal and the informal today requires a similar openness to plurality of form.

There are communities of place, political communities, communities of interest and virtual or imagined communities (Hart and Munro 2000). The great achievement of the nation-state as a social form was that it successfully combined all four of these. Now centralized states are in retreat, even though their bureaucracies often remain powerful. The word is out for devolution to less rigidly organized 'communities'. The networks of market economy, amplified by the internet, offer more direct access to the world at large. Cheap information allows relations at distance to be made more personal. Now we have to think again about how societies can be organized for their self-improvement or development. 'Community' is a 'feel good' word. Who could possibly be against it? And what a wonderful idea for states short of cash to enrol their constituent communities as partners in development! But such partnerships soon expose the contradictions inherent in linking the formal and informal economies.

Perhaps the best example is contemporary South Africa (Marais 1998; Hart and Padayachee 2000). Even before the African National Congress (ANC) took power, they formulated an economic policy that would harness the energies of the black majority. It was called the Reconstruction and Development Programme (RDP). Redistribution from the white beneficiaries of apartheid could never meet the needs of 30 million poor Africans for income, jobs, education, health, housing, transport, etc. The only solution was for the government to act as a source of capital and coordination for decentralized development mobilizing what the country had in abundance, labour to be deployed by local communities in self-help projects. Two years after gaining power, the ANC replaced the RDP with a new programme, GEAR (Growth with Employment and Redistribution), echoing the slogans of the ILO and the World Bank in the early 1970s. Instead of helping communities to build their own houses, the government relied on foreign loans, imported materials and development bureaucracy (Nustad 2004). South Africa, which began with so much political goodwill, joined the neo-liberal world economy with escalating economic inequality the inevitable result. Why?

Mobilizing communities for self-help sounds fine, but in practice it was incompatible with running a strong centralized state and the ANC entered government with a firm ideological commitment to such a state. The central bureaucracy found that it could not control devolved projects at the periphery. Even worse, the ANC was often empowering its political opponents. Bottom-up development was not compatible with party rule. GEAR recognized that, if the government could not enter partnership directly with the people, it would have to rely more heavily on international agencies and capital. In this way South Africa repeated the continent's post-colonial pattern towards dependence on outsiders. Greater co-operation between formal and informal may require the central power to give up more than it is prepared to do.

A similar conclusion could be drawn from a study of decentralized development in Scotland and three other European countries (Hart 2001b; Bryden and Hart 2004). Here too the aim was devolution from central government in the interest of self-organized rural development. Northern Scotland has been the target of regional development initiatives over a longer period than almost anywhere. Yet we found that central

government offered to release power to communities only to hold onto it, often frustrating any sense of local autonomy. They preferred government-appointed NGOs to elected bodies with popular legitimacy. Over and over again, local initiatives were thwarted by some fiat of a remote bureaucracy. The British government genuinely wanted to offload part of the tax burden by getting people to do some things themselves. They just could not give up control. Even the creation of a new Scottish parliament was hamstrung by the retention of most economic power by the UK Treasury in Whitehall.

What about the multilateral agencies which play such a prominent role in organizing the development of poor countries? Might they take the lead in establishing genuine partnership with individuals and groups located outside the bureaucracy? The World Bank has promoted the informal sector ever since it was coined. As the institution responsible for alleviating world poverty, the Bank is acutely aware that it is a top-heavy bureaucracy remote from the people it would like to help. The 'informal sector' stands for the people in some way, as does 'social capital', another of the concepts much in vogue at the World Bank (McNeill n.d.). How can the Bank promote these ideas without killing them off? Would people be better off left alone by the Bank and its bureaucratic partners?

There is considerable overlap between my analysis and that of Hernando de Soto in *The Other Path* (1989) and *The Mystery of Capital* (2000). In the first, he argued that Peru was a mercantilist state whose over-regulated and impenetrable national bureaucracy served the economic interests of a narrow clique and excluded the vast majority from effective participation in development. The latter was an entrepreneurial peasantry flocking in ever-larger numbers to the main cities. They were forced to operate informally, that is outside the law, in sectors such as housing, trade and transport. Peru's tradition was inherited from the Spanish empire period and the term 'mercantilism' has been used to describe European political economy from the sixteenth to eighteenth centuries (Vaggi and Groenewegen 2003). It was succeeded, principally thanks to Britain, by a free-trade regime more conducive to industrial capitalism. Peru's development in the twentieth century was parallel to that of the west earlier. A massive migration to the towns led to legal exclusion of the poor by mercantilist bureaucracy; but the 'informals' won in the end by cheapening production, making the regulations irrelevant and from time to time erupting in violence. Peru was thus headed for a revolution along French or Russian lines unless the national bureaucracy simplified, decentralized and deregulated itself.

In *The Mystery of Capital*, Peru and other poor countries at the millennium are seen to be trapped in a world economy dominated by the first industrial nations. Red tape is mainly an effect of a global regime that forces marginal states to adopt inappropriate institutional practices. The result is the same, migrants piling up in cities and forced to work outside the law. De Soto claims that there is no shortage of wealth in the non-western world. What is missing is a property regime that would enable the masses to realize their wealth as investment capital. The banking sector is dominated by foreign firms and it runs along lines now standard in the rich countries. Informal property rights cannot be converted into collateral for loans. This is particularly unfair since countries like the USA, which dominates this global financial bureaucracy and the institutions that supervise world trade and investment, made the transition to modern capitalism by allowing flexible informal practices full rein in their own development. It follows that similar flexibility has to be shown today if the poor urban masses are to have a chance

of joining global development on less unequal terms. The alternative is more recruits to terrorist networks and large social explosions before long.

I would substantially agree with this, although my historical perspective may differ in some respects. I have recently argued (Hart 2004) that ‘neo-mercantilist’ might be a better description than ‘neo-liberal’ for the exploitation of weak states by the strong in our current world economy. The classical liberal revolutions, starting with Britain’s in the seventeenth century, were driven by an agglomeration of popular democratic interests led by some elements of organized capital. The urban explosion was really a consequence of the machine revolution in the nineteenth century, when it consisted of four streams – factory workers, domestic servants, the casual poor and criminal gangs. State capitalism, a new alliance between capitalists and the traditional rulers, arose in the leading industrial countries from the 1860s to take control of the cities and to impose an unequal property regime through national laws and bureaucracy (Hart 2001a). The issue now is which political forces might emerge to push through significant reforms of state capitalism. Whoever they are, the excluded urban masses of the poor countries will be likely to play their part; but a lasting solution to the problem will require the active participation of some elements of global capital and the institutional resources locked up in the international bureaucracy.

5 Conclusion

General Forms have their vitality in Particulars, and every Particular is a Man.

William Blake

The ‘informal sector or economy’ has had a brilliant success over more than three decades. It succeeds by lending the appearance of conceptual unity to whatever goes on outside the bureaucracy. In the hands of someone like Hernando de Soto, this intellectual move can have powerful political results. Now, perhaps fearing its own isolation in a ‘planet of slums’ (Davies 2004), the bureaucracy is offering partnership to ‘the informals’. The formal-informal dialectic is intrinsic to both the bureaucracy and the informal economy, as well as between them. We need to know how formal bureaucracy works in practice and, even more important, what social forms have emerged to organize the informal economy. I would now reverse the original impulse to translate my own ethnographic experience into a language suitable for development economists. We must examine the institutional particulars sustaining the practices that now exist outside the rule of law.

The discipline of my formation, British social anthropology, took its lead from the comparative history of jurisprudence associated with Maine (1906) and Maitland (1957). This emphasized the concrete particularity of the customary legal institutions they studied in medieval England or Victorian India. They brought to this exercise the universal vision of imperialists, but they refused to sacrifice detail for the sake of generalization. The British ethnographers likewise documented in immense detail the kinship institutions and religious practices of local groups in Africa and the Pacific. This preoccupation is no longer fashionable: anthropologists today are funded to study

peasants, households, gender, ethnicity and, of course, the informal economy. In my own research I focused on individuals whom I identified as ‘entrepreneurs’ (Hart 1969). I was obliged to study the specific contractual forms of their enterprises, their kinship ties and family organization, their friendship networks and voluntary associations, their religious affiliations, their relationship to criminal gangs and corrupt officials, their patronage systems and political ties. It was only later that I joined the rush to generalize about the population explosion of Third World cities. And eventually, in the context of the digital revolution, I wondered if the informal economy might take on new forms through the medium of long-distance communications (Hart 2001a).

I revisited my earlier research on migrants to Accra through an examination of kinship, trust and contract in economic life (Hart 1988b). The growth of new religious movements, especially Pentecostal Christianity and Sufist Islam, establish connection with world society for their members, by-passing local and national structures that serve only to impede their progress. The issue of criminal organization inside and outside the formal bureaucracy cannot be wished away. These forms fuse in new hybrid organizations, as the following example shows.³ An illegal trade has grown up in the French ports of Marseilles and Montpellier. It supplies cars and car parts to Africa and is staffed mainly by North Africans. They dream of reclaiming the Mediterranean for Islam and ignore official paperwork entirely, relying on word-of-mouth agreements between religious brothers. This traffic has grown so big that the French car industry has shifted its operations significantly southwards to meet a demand that the official records entirely miss. Now Russian and Latin American mafias are involved and the gangs are diversifying to Brussels and Hamburg as part of a global strategy. Nor is mainstream French politics without its criminal side. We are now learning about President Mitterand’s slush fund supplied by petrol companies and wholesale distributors in Africa. And his successor remains tainted by corruption in the Paris mayor’s office.

We will not grasp the potential for improving links between the ‘formal and informal sectors’ unless we confront the cultural specificity of existing economic organizations that cut across the great divide. I have shown that a more nuanced approach might clarify the options available for linking the ‘sectors’ more effectively, which I take to mean more equally. Let us consider briefly the four ways I have identified for articulating the formal/informal pair: division, content, negation and residue.

The attempt to divide an economy into complementary halves requires a massive cultural effort of both separation and integration. The signs are that this effort is failing in the west, if for no other reason than the women’s movement, and in most of the rest of the world it never got started. Even so this idea of interdependent, but separate halves of a social whole is a powerful undercurrent in development discourse and deserves to be subjected to critical examination. Informality as the indispensable content of abstract forms would seem to favour leaving more to people’s imagination and accepting the legitimacy of most informal practices; but of course the official mind generally prefers a formal discourse of regulation. When the informal is illegal, the obvious response is to crack down on rule-breakers; but the danger here is that such moves will be merely cosmetic – the biggest offenders will escape and the law will be made to appear an ass

³ Earlier this decade I was a consultant to a research programme on the informal economy in France, sponsored by the Mission du Patrimoine Ethnologique.

(Hansen 2004). The law could be revised with a view to decreasing the number of offences. Finally, I have supported a more decentralized approach to development that would lead governments to adopt a genuinely hands-off approach with semi-autonomous communities within their jurisdiction. When all of these modes of formal/informal linkage are considered, the prospect of bureaucracy and the people entering a new partnership for development is perhaps even feasible.

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