

Socio-Economics Significance of Informal Economy in Traditional-Agrarian-Based Society¹

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1. THE BACKGROUND OF THE STUDY

The idea of **informal economy** has undoubtedly received an even greater attention not only from the social scientists but also from the political authorities since last few decades. This growing concern is strongly stimulated by the fact that this economic field does have a huge capacity of securing people's survival. As it is widely known, the informal economy has long been considered as one of the **essential sources of livelihood** for those who live in the lowest social-economic stratum of a community. It has become an inseparable part of the life of the poor since it made them possible of keeping their families alive. Since this economy is strongly associated with marginality and poverty, the informal economy is sometimes considered as a **less prestigious** sector.

Much is known that unemployment may lead someone to the situation where the discontent could be very deep. At this situation, the presence of informal economy could provide the less wealthy people with a '**feeling of security**' so that a social unrest resulting from having a feeling of economic insecurity may be reduced. This explained why the informal economy is of importance from social-political point of view.

Many previous studies showed that this kind of economy is normally run on the basis of **small-scale form** and **less-modern organisation**. In its production activity, the informal economy normally uses much **simpler technologies**. The **household** is probably the most important institution which serves a fundamental basis for conducting

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productive activities. In addition, the informal economy provides the poor people with a huge number of **employment opportunities**.

This study attempts: (1) to understand the concept of informal economy from different points of view; (2) to identify the characteristics of informal economy; (3) to have a closer look on the importance of this kind of economy in a post-traditional society. Literature study is employed as a major approach for this study. The information presented in this poster constitutes a preliminary inquiry necessary for establishing an agenda of a further study. Comments and suggestions targeting on the improvement of this analysis will always be welcome.

2 THE CONCEPT AND THE DEFINITION OF INFORMAL ECONOMY

The most important concept or the earliest milestone on the history of the emergence of informal economy is the statement of Geertz (1968) on the separation of two economic types found in developing worlds. They are: (1) **'the firm-centered economy'** and (2) **'the bazaar economy'**. The firm-centered economy is characterised by an efficient conduct of business, high level of productivity, large quantities of capital, and the use of advanced technology. On the contrary, the bazaar economy is characterised by a low productivity level, labour intensive, small-scale economy, and low level of income. Since then, the dual conception between 'the more advance economy' and 'the traditional economy' has been subject to sharp debates in the public discourses. Today, the understanding of the concept of informal economy experiences a quite substantial change. Since the informal economy becomes a world-wide concern, everyone constructed distinct definition based on his or her own perspective.

In his lecture, Shanin (1999) acknowledged that the informal economy contains at least five related aspects, namely: (1) the principle of **survival** rather than **accumulation**; (2) **socio-logical embedded** understanding; (3) **'style of living'**; (4) indicating a kind of **'moral economy'**; (5) has a close relationship with the concept of **'culture of poverty'**. He also contended that one may simplify the understanding of the concept of informal economy by putting its characteristics on the opposite position as the economic models have. Those characteristics are: (1) **'not registered'** (versus registered economies); (2) **criminal economy** (versus legal economies); and (3) **unofficial economy** (versus official economies).

It is obvious to see that these characteristics are of typical category as one normally use it to identify an economic system normally found in the western countries. Much is known, almost all businesses

existing in the western world are run on a strictly formal basis. The formalities are usually measured by the degree of governmental control over various types of taxes, strict registration, insurance claim, and other law related preconditions for establishing an economic activity or a business.

In the informal economy, one is not necessary to fulfil all of those above-mentioned requirements. In the post traditional society, doing a *business* may simply be regarded as another way of assuming a 'strategy for survival'. An action that is to be established following the change of surrounding circumstances. It is an '**adaptation strategy**' necessary to adjust people's life to the changing environment. Shortly spoken, it constitutes an economic effort that is not merely oriented towards the profit maximisation.

In a post-traditional world, where the society experience a shifting from agricultural to industrial stage of development, the availability of formal exchange institutions necessary to support human existence is usually still lacking. Under such a circumstance, the informal economy will basically serve as a function as an '**exchange institution**' mediating people to exchange their labour and products under a very **loose arrangement**. In this regard, goods and services are exchanged in such a way that a better standard of living or a **better wealth status** of the people involved in those activities is achieved.

In the well-developed countries, a classification on the productive activities, as it was set up under the frame of informal economy, was advanced by Reenoy (1990:19). He categorised three economic branches residing under the 'umbrella' of informal economy, i.e., :

- (1) '**white category**' consists of all fully registered production;
- (2) '**black but lawful**' consists of all legal exchange activities done without involving a bill;
- (3) '**black and illegal**' consists of all criminal activities such as theft, prostitution, and trade in narcotics.

As it has been stated previously, no clear and fix understanding on the concept of informal economy is to be found in the literature. Various understandings from the different perspectives have been constructed either by social scientists or the economists. For this study informal economy may be understood as: '**small-scale activities for producing goods and services done mainly in the family, community or in a loosely-organized economic entity or a 'firm' and are oriented towards exchanges and undertaken on the basis of specific norms**

and conventions that are exclusively different from what the conventional economy of the industrial society normally performs'. The economy remains hidden from formal statistical calculation, sometimes lies in the 'illegal' sphere of economy, and in most cases they remain away from governmental-supported economic programs aiming at fostering the poor'.

Referring to that understanding, the informal economy may include some activities based either on the family or the community that may **not involve an immediate expectation of financial return**. In this regard, it includes: (1) local barter; (2) mutual aid; (3) self-help networks; (4) light construction and repair work. Such networks are commonly found in **pre-industrial economies** but it continues to serve specific needs in industrial or (even) post industrial needs (Gaughan and Ferman, 1987). There are two bases of exchange that are necessarily to be noted, namely: (1) **cash-based** exchanges and (2) **non-cash based** exchanges.

3 THE THEORY OF EXCHANGE

The **exchange conception** developed by Sahlins (1972:191-196) may serve a useful basis for analyzing the mechanism of the informal economy. In his analysis, Sahlins defined three **types of reciprocity** in the exchange relations, i.e.,:

- (1) **Generalized reciprocity** refers to transactions that are **putatively altruistic**, transactions on the line of assistance given and, if possible and necessary, assistance returned. 'Pure gift', 'sharing', 'hospitality' are things that belong to this category of reciprocity.
- (2) **Balanced reciprocity** refers to **direct exchange**. In precise balance, the reciprocation is customary equivalent of the thing received and is without delay. 'Payments', 'buying-selling', 'gift-exchange' belong to this type of reciprocity.
- (3) **Negative reciprocity** is the attempt to get something for nothing with impunity, the several appropriation, transactions opened and conducted toward net utilitarian advantage. 'Gambling', 'theft' and other varieties of seizure belong to this category. The last reciprocal type may serve as a basis for the establishment of 'criminal economy'.

In terms of the degree of **modalities of exchanges**, the concept of reciprocity and the concept of informal economy are actually to go in a parallel direction. The economic organizations of informal economy work

actually somewhere in between those three types of reciprocity. What is also essential to note is that in what domain does an informal economic activity take place. At least three domains are recorded, namely:

- (1) **the family** is frequently considered as the most intimate social domain;
- (2) **the wider social networks** where the balance reciprocity normally takes place; and
- (3) **the outside kin group**, where confrontation between strangers, as normally found in the negative reciprocity, is taking place.

4 THE DIVISION OF INFORMAL ECONOMY

By using the conception of exchange as a tool of analysis, one may virtually understand how wide the spectrum of informal economic activities is. Within this framework, the informal economy does not only embrace the cash-based activities shown in a commercial economy only but it also covers non-cash based activities. According to this framework, the **informal sector**, as it is normally present in the forms of small-scale street vendors, urban petty trading, artisan activities, as well as small-scale home-based industries, constitutes only **a part of the informal economy**. Gershuny (1979) in Reenoy (1990:22) classified three sub-divisions of the informal economy by using social entity as a basis of analysis. These three sub-divisions are:

1. **The household economy** is defined as activities with no financial payment is necessary. The activities are oriented toward providing the members of the household with useful goods and services.
2. **The communal economy** is defined as those activities that are carried out voluntarily and without financial payment for society as a whole or for members of the community. The mutual aid, as it appears in the form of traditional-bound activity, may be grouped in this category.
3. **The underground economy** is defined as activities that also take place in the formal economy or which are often performed by the same people but which **remain hidden** from the authorities. The term 'underground' refers to a situation in which the actors always try to be able to evade taxes, regulations, or other legal actions coming from the authorities.

The work done at the above-mentioned economic levels promise **different degrees of compensation**. The work performed at the household level is usually done with no specific promise of compensation. Beyond the household, a co-operative effort involving exchange in goods and services with a less expectation of immediate return between households may be established. A positive social cohesion is structured when the communal economy is well-functioning. A high financial expectation is taking place in the underground economy, where principles of conventional economy are implemented in the other form of economic activities.

5 THE 'EXPOLARY ECONOMY'

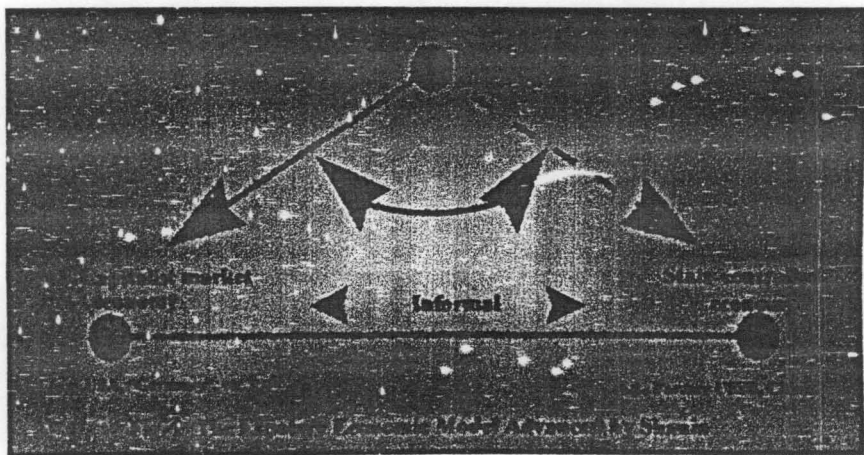
From the '**Marxian-conflict theory**' tradition, Shanin (1999) confronted the position of informal economy against the existence of two dominant economic systems namely:

1. **Capitalist market** (or individual-based) **economy**. This type of economy usually appears in the leading western industrialised countries such as USA and Germany.
2. **State-controlled** (or communal-based) **economy**. Communal economy exists or particularly existed in the former communist countries in eastern Europe (e.g., USSR).

Both economic systems, as they are typically of different nature, form a '**continuum**' where the informal economy is situated somewhere in between of those two opposite poles. According to the thesis of Shanin, the informal economy is always to be subject to external influences of these economic systems. As a result, the informal economy sometimes resides close to one pole rather than the other pole (see Fig. 1). This explains why Shanin called the informal economy as '**expolary economy**'. Within this framework of analysis, the informal economy may possibly exist anywhere. What is of big difference between one to the other type of informal economy is the degree of being influenced by those major economic systems. As people are moving over these two poles, the overall structure of economy shapes a 'pendulum-like movement'. Consequently, the characteristics of informal economy will, therefore, reflect a mixture of influences of both major economic systems.

6. THE RURAL LIVELIHOOD

Livelihoods are simply defined as *'the ways in which people satisfy their needs or gain a living'* (Chambers and Conway, 1992 in Ahmed and Lipton, 1997:6). As it was stated previously, the informal economy plays an important role in the household economy of developing world – it may be a source of livelihood. Its capacity to generate income has made the informal economy in such a way that it becomes a central focus of many rural poor people wanting to pursue survival. For the poor, the informal economy is of particularly importance in time of crises. In this regard, the strength of the informal economy is that it has a remarkable ability of mobilising family labour flexibly from one to another position that the other systems of economies cannot do it. Some important aspects adhered to the informal economy are: (1) ability of keeping livelihood security; (2) to ensure income stability; (3) social relation; (4) ensuring survival. Some previous studies revealed that the involvement in the informal economy has led to a situation where farm households' income rose significantly.



7 CONCLUDING REMARKS

From this conceptual analysis, a number of conclusions can be drawn as following: (1) the informal economy is a particular economic phenomenon that exist all over the world and is run on three different bases namely, the household, the community and on the underground economy; (2) in the post traditional society it occurs as a response to the

effort of securing family's survival; (3) in the exchange activities, the informal economy uses a totally different logical thinking from what is existing in the conventional economy; and (4) informal economy may be regarded as an alternative way of securing one's livelihood.

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