The Informal Economy as a Catalyst for Sustainability

William Ruzek

Department of Geography, Florida State University, 600 W. College Ave, Tallahassee, FL 32306, USA; E-Mail: williamruzek@gmail.com; Tel.: 1-920-328-4940

Academic Editor: Marc A. Rosen

Received: 13 September 2014 / Accepted: 17 December 2014 / Published: 23 December 2014

Abstract: Sustainability typically involves the balancing of three major factors: the economy, the environment, and some notion of equity. Though the economy is already a key aspect, the recognition of the informal economy, seems to be absent from the many possible permutations of these three. This paper will explore the various aspects of the informal economy and how it can make a considerable impact on achieving a more sustainable future. Specifically, this paper focuses on how the informal economy can encourage the sustainable use of goods, while offering an alternative to the regulated market economy. By supporting the informal sectors such as farmers markets, street vendors and non-market activities, a shift away from a car-dominated society and singular economic trajectory can begin. The informal sector can provide, social capital, promote local economies, create jobs and provide the need economic shift toward a sustainable future.

Keywords: informal economy; economy; sustainability; development; alternate economy; eco-localism

1. Introduction

Sustainability was first “officially” mentioned in the Report of the World Commission on Environment and Development: Our Common Future, where it was defined as “development that meets the needs of the present without compromising the abilities of future generations to meet their own needs” [1]. This report included lists of changes that compromise a sustainable future with sustainable development, primarily reducing world poverty and allowing socioeconomic growth in developing worlds. Since the report was released, various academics have discussed, argued and picked apart the WCED, sustainability, the indicators of sustainability and steps needed to become sustainable [2–6]. Within the sustainability dialect there is a widely mentioned balancing of the “Three
Es”, these being Economic, Environment, and Equity [7,8]. These three parts are the foundations of a sustainable society, each relying on the maintenance of the other, and without a proper balance, a movement toward sustainability is impossible. Within each of these three categories there has been focus on the impact of policies, the importance of the environment, and environmental justice [9–13]. Though work has focused on changes needed within the economic sector, few have examined the changes outside the current accepted economic model. Examining the local and global economies through the current lenses of capitalism and globalization, the road toward a sustainable future may seem bleak. The ideals of a non-capitalist based sustainable society [14] may work in theory but have failed in practice. This could be the same for other ideals, such as disarmaments of nuclear weapons and the equality of economic and monetary wealth [15–17]. Grand ideas that in theory would revitalize the world are sometimes impractical to implement. This article argues that the informal sector can help add the needed shift in economic models, while maintaining pieces of capitalism, allowing it to be a dynamic link and step toward a sustainable future. The informal sector can provide the balancing of the “Three Es” and provide an intra- and inter-generational future. Before an analysis of the informal economy or sector (used interchangeably throughout this paper) can be accomplished, there must be a working definition of sustainability as well as the informal economy. Sustainability was previously mentioned, with the definition given by the WCED as well the “Three E” approach. The brief and short introduction to sustainability is in no way a complete description or history of the various terms and uses. It is the purpose of this paper to identify how the informal sector can help lead the way toward sustainability, not a discussion or history of the contested terms of sustainability, indicators, markers or visions [3,6,18]. To simplify the various arguments, this paper uses the WCED definition as well as addresses how the informal sector applies toward the economy, environment, and equity or the “Three Es” of sustainability. Not without various critiques it allows sustainability to be examined on the basis of development and projected needs. Other aspects of sustainability can include the aspect of global population, collaborative consumption and sharing; though important aspects in the sustainability dialogue these factors are not included in this paper. Though collaborative consumption and sharing can play a decisive role in a sustainable future, however the focus of this paper is the context of the informal economy, which can include collaborative consumption, within the sustainability framework. Therefore, in tandem, one must understand the informal economy to understand how it can be used toward a sustainable future.

The informal economy or informal sector is a broad term that refers to the many aspects of a country’s economy that are not taxed or monitored tightly by any form of government and are not included in the GNP of that country [19]. A few examples of the informal sector includes farms markets, garage sales, street vendors, open air markets, and flea markets. Various collaborative or sharing economies can also be included within the informal economy sector, such as eBay or Craigslist. Other informal aspects can also include a wide variety of non-market activities such as home projects, volunteer work or other nonprofit driven markets. Other labels for the informal sector vary greatly each carrying their own narrative, such as the illegal economy, hidden, shadow, unobserved, invisible, alternative, shadow, black market or unofficial [20]. By looking at the terms describing the informal sector, one can see the varied opinions and aspects of the informal sector, from alternative economy to black market. In this paper, the informal sector will be referred to as one that is the opposite of the formal sector or one that is tightly controlled, monitored and quantified in the GNP.
Not to be omitted, the informal sector can have negative and destructive divisions as well and these will be addressed later in this paper.

The informal economy has been around since the beginning of civilization, not only as a “primary” economic form but in various alternate forms to avoid government regulations and laws. Titles such as the “black market” are indicators of this covert operation. Throughout history, governments have tried to control the economic aspects of their territories, though no policy has been able to maintain absolute control and the population has always found ways in which to sell goods and services without the need for governmental control and restrictions. Some scholars have believed that the economic development in developing countries would cause the informal sector to disappear. The informal sector was merely a stepping-stone to a formal economy. Though with 1.6 billion people currently employed through the informal sector is it far from a mere stepping-stone to a formal economy [21]. The informal economy can refer to various employment options in developing, transitory and developed countries. Many of these are the only form of employment in these areas. Unfortunately, the informal sector also includes the various negative aspects associated with it [20]. Though this paper is intended to promote interest in future study of the informal sector, one cannot negate or omit the various negative aspects of the informal sector. Informal economy workers do not have the same commodities that their formal economy counterparts can enjoy, such as health care or possible job security. Despite this, every country, including those in the “first world”, have a significant portion of their economy stemming from the informal sector [22]. Schneider’s study of 110 countries found U.S. tied with Switzerland with the informal economy making up only 8.8% of the GNP, Italy with 27% and Georgia with 67.3%, to characterize the lowest to highest. Though others have already focused on the negative aspects associated with the informal sector and percentage of GNP, this paper hopes to show the many benefits that the informal sector can provide. The informal sector can provide needed dynamic job creation, social capital, local economies and the needed shift away from current economic models. This paper hopes to explore each of these aspects and the impacts the informal sector can have toward a sustainable future.

2. Informal Sector: Job Creation

“Today more than half the workers of the world, or approximately 1.8 billion people, earn their living off the books and their numbers are growing” [21] (p. 2).

Critics may claim that the informal sector is just a portion of the path to “true” economic power within the formal economy [20,23]. This is in line with capitalism and the globalization of the world brought on by the developed nations, monetizing every aspect of life [24]. Though by focusing on pulling nations out of poverty, one is creating more demand and higher consumption thus a vicious circle [5,7]. This could be shown true as developing nations are vying for “inclusion” into the developed world, hoping to mimic their tastes, consumption and required “needs”. The commodification of the world seems to pushing the transition and developing economies into the commodified global system [1]. However, this vicious cycle of consumption and demand assumes a status quo in the economic values and system. Though the informal sector is deemed a movement toward the formal sector, it is expected to grow to encompass 2/3 of the global workforce by 2020 [21]. This would seem to indicate that the current economic system or the formal regulated market economy is failing to adapt to changing needs
or is functioning improperly. The growth of the informal sector perhaps can be attributed to a failing formal sector or gaps within the formal sector. The current size and expected growth of the informal sector indicates these failures and a need to change the status quo or perceived true market economy.

Throughout times of crisis, economic collapse or war, the informal economy is sometimes the only operational economy in many countries. This sector allows for the exchange of goods and services without the need for governmental support, or regulation. A quick example of such an exchange would be that of a street market, vendors or popular websites such as craigslist that encourage direct consumer interactions without the need for larger government support or regulations. These exchanges use cash and can operate without any larger form of organization. The informal sector can also allow for the employment of those unemployed, underemployed or unemployable. This allows for the absorption of excess labor in an effective and rapid way, something the formal sector lacks. A quick example of the absorption of excess labor as well as dynamic job creation is that of urban trash collectors. With up to 2% of the population in Asia employed in this manner, the informal economy can allow for a cleaner and sustainable city [25]. The dynamic nature of the informal sector was more evident when a “formal” process of a recycling governmental organization was attempted in Cairo, reducing the recycling rate drastically, while during the informal process the “unorganized and uncontrolled” trash collectors recycled up to 80% of trash [25]. However, rapid job creations does have drawbacks and can allow for the development of “shantytowns” or squatter villages, usually lacking in basic infrastructure [19,20,23,26]. Other negatives aspects can be the rapid rise of black market or illegal markets to maximize profit by bypassing regulations. Despite these negatives that come with the rapid influx of labor, the informal sector can provide services and goods to those otherwise too poor to afford “formal” goods. The street markets and vendors are sometimes the sole supplier of goods to much of the world’s population [27]. With flexible markets and no government regulations, the informal sector can dramatically change according to the needs, wants, and desire of the population without much effort. As small entrepreneurs observe the needs and wants of their community they can adjust to a community level the type of products offered as well as the prices of these products. This can help tailor to the niche markets in particular cities as well as reflect the overall costs of a product better. Both of these aspects are something the formal economy lacks as changes take global corporations months of bureaucracy and due to the economy of scale the products rarely reflect the environmental costs and total cost of the product. Both of these aspects will be discussed later in the paper.

With the rapid transition of the global workforce moving toward the informal sector—1.7 billion currently to over 4.5 billion by 2020 [21]—the informal sector will become the new face and future of the urban center. Though by design or failed current economic strategies, the proper management and organization of cities must include the informal sector, embracing the qualities of the informal sector that can drastically help create job and livelihoods where there are none. The informal sector can be the sole economic support of an individual or a supplementary job that complements the formal economy, the latter being the standard amongst the developed world. By combining the economic flexibility, dynamic changes, and reliability of the informal sector with the infrastructure and perhaps even some regulations of the formal economy, the new jobs created by the informal sector can help provide sustainable development around the world.
3. Informal Sector: Local Economy

“Economic sustainability is best secured by the creation of local or regional self-reliant, community economies” [28] (p. 83).

Local goods and local business, in much of the developed world, have been a type of nostalgia, something heard from your grandparents or relatives reminiscing about the “good old days”. Locally produced and sold goods can have a dramatic impact on the sustainability of the city, lifestyle and in some cases perform better than globalized mega-corporations. The informal sector can help drive local movements around the world, an example being a local farmers market, which in many developing countries is perhaps the only place to buy food. Throughout much of the developed world, the informal economy can be a choice, while in less-developed areas it is out of economic necessity [1]. Despite your socioeconomic standing, by allowing the informal sector to flourish unhindered by government regulations, it can create local economies; each adapted to the community’s needs, wants and shifts in trends. This “eco-localism” [28] can provide the needed changes to drive cities and communities to a more sustainable future. The measure of eco-localism is not merely monetary capital, as in for-profit corporations, but a five-fold mixture of natural, social, physical, financial and human capital [28]. By incorporating social, physical and human capital into the economic system, the goods can bear the true cost and create a sustainable community. Not all economic activities are driven by the sole factor of profit as the eco-localism aspect of the informal economy can prove.

One of the aspects of the informal sector that rarely occurs in the formal sector is that of personalization. Each vendor at a street market or farmers market is growing or selling for that selected community. Very rarely does a local vendor sell over a 1000-mile radius with various stores, street vendors and products. Since each vendor is usually only concerned with the local community, the local community becomes attached and is needed for the success of their business. This co-dependency is not the case with large box stores, or multinational corporations, as a local community is a very small fraction of their overall business. This local-first approach is key in the eco-localism and can provide significant support to local economies by turning the popular NIMBY (Not In My Back Yard) to IMBY (In My Back Yard) as residents take pride in the locally produced goods [28]. The local economy can also provide a unique product line or craft for each community and region. This will further specialize each region and take into consideration the distance traveled by the produced products. If the goods cannot be made within a specific community then alternatives must be found. This raises the concept of local economic boundaries when dealing with the local economies. An example is Ithaca NY, which has a radius of 20 mile in which “local economy” money can be used, and thus reinforces inter-local economic relationships and reduces resource leakages [28]. The size of the community and the range of products and services that the community has decided on can determine these boundaries [29]. This allows each community to have a different size “pulling area”, thus still allowing for a local economy while expanding the range of local influence. By keeping production within the local community, the connection between goods and initial production can be understood. This is in contrast to the current globalization that takes the goods away from the production thus distancing the consumer from the producer, geographically and economically. By linking the distance and production with that of the consumer, goods can reflect the environmental
impact of creation. This, along with the restricted local boundaries, would promote sustainable goods and hinder globalization’s cheap but environmentally damaging goods.

Some may argue that the move toward eco-localism and a local economy lie within small businesses that are regulated, taxed and monitored, not the informal sector. Though this is possible, the informal sector allows for a jumpstart to the process. Without various regulations, taxes, fees and monitoring, more people might be inclined to start a “booth”, small business or sell something at the street markets. Street markets, vendors and the overall informal economies are stronger in countries with less regulations or government who do not have the resources to manage these informal markets. This allows for diverse job creation and a boost in local economies, though it can also have detrimental impacts and the negative aspects of the informal economy can increase. Many parts of the United States lean towards a heavily regulated economy, such as the location of street vendors, inspections, taxes, regulations and monitoring. This deters many from entering the informal economy, as it is closer to that of a formal economy than informal. Though this may help to control the negative aspects of the informal sector, it also does not offer the various benefits associated with the non-market informal economy. Others claim that to help the poor informal workers, who typically lack health care, job security, safety standard to name a few, the informal economies must be regulated with laws and policies, though to do so can be an immense challenge [23]. This paper argues that complete laws, polices and control of the informal sector would destroy the sector entirely, negating the various positive impacts it can have. Only through a mixture of policies (formal economy) and economic freedom can the informal sector help promote localism, create jobs and benefit the community while controlling the possible growth of negative informal economies. Promoting local business should not be a side note in cities’ policies but a major directive in the future development of cities. Local businesses can drastically impact the sustainability of the city, promoting local goods, services and community development [28], not to mention the social aspects the informal sector can bring.

4. Informal Sector: Social Capital

“...social capital is central to a functioning, sustainable local economy” [28] (p. 87).

A fitting definition of social capital comes from Putnam [30], who defines social capital as, “...features of social organizations, such as networks, norms and trust, that facilitate coordination for mutual benefit. Social capital enhances the benefits of investment in physical and human capital.” Few people can claim that they have a personal relationship with the producers of their shirts or the farmers that made their food. In today’s world, almost all of the developed countries’ manufactured goods are made thousands of miles away, primarily in developing countries. This distance between the goods and the consumer causes no association with the workers or materials needed for the manufacturing process. The informal market can drastically narrow the distance between the consumer and the worker, sometimes allowing the goods to be made in front of the buyer while he/she waits. The informal sector also by its very nature requires constant social interaction. Unlike the formal sector where processes, goods and services are streamlined in a robotic like fashion, the informal sector is driven by social interactions, sometimes bartering with prices, and relies on direct communications between the seller and buyer. One stop to a local market, flea market or street market anywhere around the world will confirm this statement. These markets are the city centers for social interactions, rich
with social capital and sometimes the needed lifeline of the community that a formal economy cannot provide. By requiring consumers to interact while buying, instead of silent transactions at a box store, you increase verbal communication, something many claim is dying due to increased technology. An increase in social capital greatly improves the physical and human capital and provides another “outcome” or profit that can be acquired from the local economy. This allows for an increase in the overall capital that is available to the informal sector.

The increase in social interactions and overall social capital is not the only benefit the informal sector can provide at a social level. Many times the informal sector is the only place available and is sometimes affordable to lower economic classes. It can provide the world’s poor with good and services not accessible to them from the formal economy. Street markets allow for a variety of goods that can be available at reduced costs, though perhaps at reduced quality. If you add in the aspects of haggling that usually accompanies the informal sector, the prices can be adjusted to separate economic classes. This can allow a less affluent individual or local person to pay lower prices than that of an affluent businessperson or tourist. This flexible economy and pricing can allow for the equity of the “E” in sustainability as both socioeconomic classes now have the same opportunities. The informal markets also allow a reduction in class boundaries as they reduce everyone to the same level. Everyone is required to haggle or interact socially for his or her goods and services. The aspect of a large non-direct purchase without social interaction is not possible in the informal economy; this is in contrast to the current economic models, which seems to encourage remote buying or robotic silent transactions.

5. Informal Sector: Economic Shift

“[The]…critique of globalization centers on three major issues: consumption, long distance trade and international economic competition. Globalization increases the worldwide consumption of goods and services, and therefore, it increases resource depletion, pollution, eco-system destruction, etc. …Globalization spreads a consumer culture; it sells the affluent, commodity laden Western lifestyle as the goal of economic activity and development” [28] (p. 97).

The current economic system promotes an increasing consumer culture and increasing reliance and interdependence on a global scale. With an increase in global economic systems (such as the World Trade Organization, international Monetary Fund, and the North Atlantic Free Trade Agreement) the world is becoming more reliant on each nation trading resources, goods and services worldwide. Though some may claim this globalization can be a movement toward sustainability by becoming interconnected, policies can have a larger impact, and international societies or institutions can give priority to environmental issues [28]. Though, as seen in the various past environmental summits, such as the UN Climate Summit, international meetings and organizational policies seem to never be agreed upon. The increased globalization and interdependence has reduced the abilities of member states to enforce environmental regulation and policies. The global integration of countries reduces country’s individual power toward sustainability as markets can quickly shift to other areas of the world, negating or reducing the effectiveness of environmental regulations. The current profit driven market economy will always seek to find the cheapest areas of production, as they lack the interdependence of a local economy.
A dramatic shift or abandonment from the basic ideals of capitalism is not feasible or possible. The capitalist ideals of private ownership, profit, and market fluctuations are present even within the informal economy. However, the informal sector, and localism, can help steer countries and economies away from the globalization of the world reducing the impact of multinational conglomerates. The informal system allows for the same principles of capitalism but usually at a smaller local scale. Eco-localism never calls for a reduction or loss of possible capital gain, but the narrowing of the market and resources one can use to achieve such. Many street vendors have made more money than their formal economy counterparts, or utilize the informal sector as an extra income that they cannot make in the formal economy [21,28,31,32]. The rapid growth of the informal sector, as mentioned previously, indicates the failure of the current economy’s path and organization. The informal sector grows as the formal sector fails to accommodate workers, ideas, and opportunities. Trying to change the entire foundation of the current economy model, such as a shift away from basic capitalist ideas, is unrealistic and not needed. Though, different pluralistic economic forms are possible, as a dynamic shift away from capitalist ideas would also damage the informal sector. However, the informal sector can provide a shift in economic focus without sacrificing the basic capitalist ideals. Localism can merge the need for smaller markets and less resource use with the capitalist aspects of haggling and profit driven motives.

One of the largest critics of the informal economy is the apparent lack of economic development and progress; those poor will stay poor selling cheap goods at markets. The informal sector is seen as a major blocking point to economic development, hindering developing countries from “moving ahead”. It is seen as marginal for any growth and stopping any sustainable development [23]. Though, the informal sector provides products and services of which the formal sector cannot produce and are otherwise unobtainable to poor citizens [33]. The informal sector has a direct relationship to the “proper” efficient formal economy, therefore with a faulting or broken formal economy the informal economy will grow and vice versa. With the expected growth within the informal sector by 2020 perhaps the problem is not with the informal sector for economic progress but the failure of the formal sector. Another argument that can be made against the informal sector is the style of economic growth in general. Developing countries can achieve economic growth but the type of economic growth must be consistent with Western consumption patterns and views. Growth of this kind is unsustainable for the developed world, developing world, and for any global player. By encouraging and only approving of growth that increases consumption exponentially with constant demand of cheap goods, we are dismissing any chances of a sustainable world. Many of the negative aspects of the informal economy only occur when contrasted against a “perfect” Western lifestyle and standards. This is perpetuated by large multinational organizations such as the IMF and World Bank, who have only one “proper” development path [34]. If one were to take out the Western capitalist ideals from the development equation then perhaps more sustainable options would be available to us.

6. Future of the Informal

“The urban center of gravity—indeed, the global center of gravity—is shifting to the developing world, and these massive do-it-yourself street markets and self built neighborhoods are a vision of the urban future” [21] (p. 2).
The informal sector is growing and already makes up a large portion of some nations’ total economic activity [22]. The informal sector is a major part of the global economy and will continue to be a major part or even the majority of the economy. Though, as alluded to earlier, not all parts of the informal economy compose of farmers markets and street vendors. The black market, drug trafficking and prostitution also fall within the definition of the informal sector. These aspects can be extremely detrimental to the development and movement toward a sustainable future. The solutions to these aspects are two-fold—legalize and restrict. This paper is not calling for or discussing the complete dismissal of all government regulations and structure; these regulations are still needed to combat illegal activities, manage nations, people and corporations. This paper is calling for an increase in research of the informal market situated within sustainability. The informal market can provide the needed “ground up” approach to sustainability, by utilizing the local aspects, small market size and social capital generated by the informal economy; the bottom half of sustainability can be fulfilled. To finish the second half or “top down” approach to sustainability, stricter government regulations must be placed on corporations, energy producers and production. By creating a 50/50 split of the two spectrums, we can progress toward a more sustainable future. The informal economy is the needed push of the bottom half, which then can lead to the policies of the top half.

As mentioned throughout this paper, there is potential from utilizing the informal economy to achieve a sustainable future, an increase in social capital, job creation, and the movement toward local economies and localism. The informal sector is already making a resurgence throughout the developed world as farmers markets, art festivals and street vendors are reclaiming some of the streets. A shift away from the regulated markets toward ones with more social and individualism can be seen throughout the Western world. Though more is needed to promote informal economy and localism within the developed worlds. Reduction of regulations, taxes and zones can help street markets flourish. Emphasis on pedestrians over automobiles can increase the local markets and social interactions and the encouragement to sell goods and create local informal markets. Each of these can help shift the markets away from a globalized capitalism to that of local economies, informal sectors and sustainability. In developing countries, where the informal economy is the predominate form, tighter regulations of foreign “box stores” and urban planning can help to reduce the impacts of globalization.

A shift in research needs to take place, focusing on an alternative economic development. Encouraging developing countries to take the same path as the “West” is only asking for an increase in environmental stress, overconsumption and no path toward sustainability. Scientists, researchers and policies need to address the informal market, not destroy it, by capturing and using the vibrant communal markets, social capital, and resilience to help in achieving sustainability on a global scale. By combining the lessons learned from the informal sector with the formal economy, a more desirable and sustainable economic process can be developed [25]. Why focus on transforming small markets into multinational corporations when this will only make it impossible for continued sustainability? The informal markets hold the key to sustainability. The informal sector will continue to grow and society needs to decide whether to fight and destroy it or embrace it and learn from it.
7. Conclusions

The informal economy can provide key elements in the struggle toward sustainability. By encouraging a local economy, the informal sector can help keep markets small and flexible which can then rapidly adjust to changing demands and reflect the true costs of goods. By requiring communication or haggling for purchases, the informal sector can provide needed social capital, social interaction and increase pedestrian space. The informal sector can also help shift the focus from a globalized capitalist society to eco-localism, and provide an alternative path of development that is needed for a sustainable future.

The informal sector is far from perfect and it encompasses many more aspects than that mentioned in this paper. More research is needed to compare the costs and benefits of regulating small businesses versus informal ones, distinguishing sustainable informal sectors from those that are unsustainable, and achieving the proper amount of regulation without creating a stifling effect. Other future research can include the comparison of various, simultaneous forms of economy within a single location. This pluralistic approach could include taking on the benefits of the informal sector while merging various formal and alternative economies as well. Further study is needed to address the positives and impacts of the inclusion of the informal sector. What negatives impacts would the informal sector bring to a sustainable future? How can a pluralistic approach be implemented? This paper does not address all the various questions, aspects, concerns and issues that arise from the informal economy, but place the informal economy in the context of sustainability. With more research, studies and raw data, perhaps the informal sector can light the way toward sustainability allowing a plausible path to sustainability for both the developed and developing countries.

Conflicts of Interest

The author declares no conflict of interest.

References


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