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Contextualising Informality in the South African Labour Market

Indicators of the limits to evidence-based research?

David Fryer

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1 INTRODUCTION

> It is the informal economy which is the dominant employment relations system in the contemporary global economy and the formal economy which is a minority practice.
> (Williams et al. 2012: 116)

> The distinctive feature of corporate globalisation is the active informalisation of labour cascading across the world.
> (McMichael 2012: 168)

Since it became a prominent topic in development economics in the 1970s, the 'informal sector' has become a fully fledged labour market category. However, despite 40 years of academic effort, remarkable uncertainty remains about the size and functionality of the informal sector. For example, in 2011 Adcorp estimated that there were over six million people in the informal sector in South Africa. This was approximately triple the 'official' Stats SA estimate. The head of Stats SA, Pali Lehohla, described Adcorp's figure as 'rubbish' (*Business News* 2011). Ironically, since 2008 Stats SA has itself been publishing an 'alternative' estimate which places informal sector employment at over seven million (see Yu 2010: 11–12).

Much (certainly not all) of this empirical uncertainty is due to different definitions being used. The 'main' Stats SA estimate is of people working in informal *enterprises*. This fits with the notion of the 'informal sector' as a distinct entity (a similar tendency in thought is produced by Thabo Mbeki's notion of the 'two economies'), whether 'separate' from the 'formal sector' or in some sort of relationship with it. The Adcorp estimate is based on currency in circulation and the 'alternative' Stats SA estimate includes workers in formal establishments who exhibit informal characteristics. These are very different conceptually,[1] but both suggest that informality *pervades* the supposedly formal sector. This manifests as simple non-compliance with labour market regulation (Bhorat et al. 2011) and the rise of labour broking and contract work even in 'core' jobs (like underground work in the mines).[2] Another important feature is the increase of informality at the 'base' of buyer-driven value chains (Joynt & Webster 2013; Greenberg et al. 2012).

As a consequence, the tendency has been to move away from definitions based on informal *enterprises* (and the informal *sector*) to thinking about the informal *economy* and informal *work* (including 'household production') or even just *informality.*[3] However, 'informal sector' has the advantage over 'informality' and 'informal economy' because of its resonance with conceptions of 'uneven and combined development' (i.e. the idea that 'informality' has a structural/systemic element). It also has the advantage over 'informal *work'* because there is far more at stake than the labour relation (including for example, 'informal' financial transactions at all levels, informal regulation and politics, informal settlement, etc.).

What this illustrates is that although purely statistical difficulties (i.e. those difficulties associated with operationalising a well-defined concept) are very far from trivial (Daniels 2012), the key problem is *conceptual.* These conceptual problems cannot be resolved by changing definitions or names. For example, informality has various dimensions, and each of these dimensions is a continuum (i.e. *degrees* of informality). Attempts to quantify 'dimensions' of informality (e.g. Yu 2010; Belchamber & Schetagne 2013; Bivens et al. 2005) are very important and offer different perspectives on the extent of informality. However, such attempts also increase the contestability of estimates of informality because there is no a priori basis for *which* dimensions to include or *where* to set boundaries on continua. The paper argues that these problems are acute, and not just for estimates of informality. An even deeper source of ambiguity is the question of whether informality is 'positive' or 'negative'. This particular 'identity crisis' has plagued the informal sector as a concept throughout its career. On the one hand, informality is attractive not only to the libertarian Right (as allowing 'entrepreneurship' to flourish, and generally fitting well with market fundamentalism) but also to an element of the Left (as an escape from both traditional and capitalist power relations).[4] On the other hand, postcolonial and neo-liberal celebrations of 'disorderly modernisation' have never fully displaced modernist concerns about disorder undermining progress in the 'formal sector'. A current example of this is the 'decent work' agenda (Cosatu 2011). There were also 'neo-Malthusian' and Marxist accounts that regarded the informal sector as, respectively, disguised unemployment (i.e. slums of surplus populations more or less eking out a living) and 'petty commodity' modes of production through which capitalist exploitation penetrated and restructures even to the poorest and most marginal communities and actively maintained class distinctions (see Moser 1978, and for South Africa, Arrighi et al. 2010).

A useful distinction suggested by Weeks (1975) and developed by Moser (1979) is between activities that are 'involutionary' (including the criminal, parasitic and exploitative as well as the survivalist) and 'evolutionary' (with the connotation of *individual* workers and businesses thriving, and the broader notion of contributing to 'economic development'). What became clear early on was that the informal sector was all of these things, in all times and places running the full spectrum from exploitation and criminality, to survivalist, to genuinely evolutionary. How these elements combined in any time and place depended on context. Attempting to define the informal sector in a transcendent way would be futile. As Lindell (2010: 5) put it, the informal sector is 'a commonsense notion generally referring to economic activities that lie beyond or circumvent state regulation … More precise definitions of informality need to be situated in specific contexts'.

In short, the 'informal sector' is one of those concepts (like unemployment, marginality, poverty and youth) that is easy enough to think about in a 'commonsense' way (it is 'obvious' what it means), but presents enormous difficulties when the more scientific tasks of definition and operationalisation are attempted. The underlying reason for this difficulty is that these concepts are socially constructed. What they mean, and how we define them, depends on context. Someone is 'poor' for example, if they lack the capabilities needed to function *in their particular society*. In the case of 'informality' and even 'unemployment', matters are complicated by the tension between contradictory elements contained in the concepts. With 'unemployment' there is tension between the negative connotation (failing to find work) and the positive connotation (using the market to search, matching of skills to demand). With informality not only is there tension between the negative connotation (informality as disguised unemployment and worse) and positive connotation (entrepreneurship, escape), there is also tension between the notion of the informal sector as a 'separate entity' versus informality as an element *running through* the system.

This is the task to which this paper addresses itself: how do we begin to understand informality (and related concepts like unemployment) *in context*? This is vitally important considering how significant informality (particularly informality at the base of buyer-driven commodity chains) is becoming. The paper starts (Section 2) by foregrounding the question of *why* we are interested in the informality. We are not only interested in the informality itself, but also in the 'role' of the informality. This reinforces that how we think about the informality depends on context. Although the 'informal sector' concept itself emerged because it was impossible to 'fit' Third World processes (and later, increasing 'contingency' in First and Second World processes) into the rigid categories of the 'traditional' labour market classification, it has itself, ironically, become part of a rigid classification, with researchers trying to fit 'observations' into pre-existing categories at all costs. Section 3 argues that although the 'empirical agenda' has made great progress in painting a portrait of the labour market, it faces diminishing returns precisely because of the difficulties posed by the conceptual framework. This illustrates the limitation of ‘evidence based’ research that does not continually refresh its conceptual basis. Section 4 very briefly turns to the question of conceptualisation. It suggests that ‘orthodox’ conceptions, which see the informal sector as primarily ‘evolutionary’, are characterised by the same basic problem as the ‘empirical agenda’: trying to impose a preconceived conceptual framework that neither fits the ‘facts’ nor exhibits internal consistency. Alternative conceptions (grouped together for convenience under the label ‘varieties of capitalism’) are more promising. Section 5 concludes.

2 THE ‘INFORMAL SECTOR’ IN CONTEXT

> [T]heories which, because of their high levels of abstraction, look perfectly ‘neutral’ as between one kind of economic system and another, often are primarily relevant to the conditions under which they were conceived … An attempt to apply them … may turn out to be a lengthy detour rather than a short cut. For, as we have become used to looking at reality through certain theoretical glasses, we may for a long time be unable to see it as it really is (Hirschman 1958: 29).

2.1 Why understanding the informal sector is important

Understanding the cluster of activities that has come to be known as the ‘informal sector’ is vital at two, potentially contradictory, levels. At one level, researchers and policy-makers are interested in ‘the informal sector’ *in and of itself* because it is essential to the livelihoods of a mass of people, many of whom may have little prospect of becoming part of the ‘formal economy’. Here the concern is with answering questions that divide into two agendas. Firstly, what are the barriers to expanding employment in the informal sector and to the viability and growth of informal enterprises? What interventions can be made in this regard? Secondly, to what extent are people dependent on the informal sector for livelihoods in a ‘poverty trap’ (not just income poverty, but a set of deprivations and insecurities that undermine human flourishing) and what measures can be taken to improve their well-being? For example, an important feature of informalisation is the distancing of workers from traditional forms of representation (particularly unions). Whether this is adequately replaced by *new* forms of representation (particularly social movements) and the critically important role of ‘agency’ is a crucial question that is somewhat beyond the scope of this paper (see Joynt & Webster 2012; Therborn 2012; Gibson 2011; Lindell 2010; Agarwala 2006).

At another level, there is the question of the role the informality plays in the economic system as a whole. This perspective undermines the clarity of the first agenda in complex ways. On the one hand, there is a powerful lobby that argues that trying to impose ‘decent work’ (which is what the second agenda in the last paragraph amounts to) onto the formal economy – let alone the informal economy – would undermine flexibility, entrepreneurship and wealth creation. Relaxing regulation, particularly on small businesses and for the employment of youth, would make more of the market de facto ‘informal’ and unleash its potential to create jobs and resolve poverty. This is the gist of openly ideological ‘free market’ advocates including Adcorp (cited above), and the Free Market Foundation (see the collection in Nolutshungu 2011). It is also the key claim of more nuanced ‘liberal’ analysis (for example, Nattrass and Seekings 2013; Nattrass 2011; Lipton 2007). Forslund (2013: 98) argues convincingly that this view (which he calls the ‘corporate view’) is dominant and this dominance ‘testifies to the ideological supremacy of the corporate elite in South African economic policy discussions’.

On the other hand, if economic development is not merely quantitative (increasing economic activity) but also qualitative (involving, for example, structural change), it is not obvious a priori that any particular informal activity (or an expansion of such activity, or informalisation of what was previously formal) is automatically ‘good’ *for development*. Obvious examples are *inherently* harmful activities (such as informal liquor or poison sellers). Less obviously, activities like the minibus taxi industry in South Africa, which provides essential services to poor individuals, stem from structural problems (in South Africa's case, the spatial engineering of apartheid), and to a large extent impede the resolution of these problems. The proliferation of 'microfinance' (lauded in orthodox circles as unleashing the evolutionary potential of microentrepreneurs) has been criticised as having essentially the same effect (Bateman 2012; Bédécarrats et al. 2012) – trapping poor people in debt and perpetuating economic activities with little 'evolutionary' potential. The proliferation of counterfeit and contraband goods in 'informal markets' is another example.

What this second level suggests is that debates about the 'informal sector' – the de facto flexible end (supposedly)[5] of the spectrum – are an important element of what is unarguably the defining ideological debate of the post-apartheid period in South Africa. This is the contestation between advocates of a broadly 'laissez-faire' approach and their opponents (such as advocates of Keynesian, social democratic and developmental state models and those further Left). These debates and how they pertain to the informal sector are discussed in Section 4. What is important to highlight here is that lack of empirical clarity (not least, but certainly not only, about the size and nature of the informal sector) is one of the factors that has allowed this contestation to remain at the level of polemic. Although the idea that better *understanding* (which relies on more than data) would lead to changes in mindsets at the commanding heights is somewhat naïve (ignoring as it does the more active components of ignorance and the essentially political nature of ideology), what is relevant at this point is that in South Africa it is very easy for powerful groups to legitimise almost any claim about the extent and nature of 'flexibility'. Ambiguities about 'informality' and 'flexibility' remain, arguably, as deep as they were in 1993. Consequently, debates about whether the labour market is too flexible or not flexible enough remain as polarised in 2013 as they were in 1993. There is as much distance between the 'flexible' Right and the 'decent work' Left as there was in 1993 (contrast MERG 1993 on the one hand and CEAS 1993 on the other).[6]

2.2 What impedes understanding?

In general, debates tend to remain unresolved for two broad classes of reason. Firstly, the problem may be ontological, stemming from the *fundamental* complexity of the object of study (and more generally, the *difficulty* and *costliness* of the task). In the latter case, the complexity is not strictly 'fundamental', but can be regarded as so given existing constraints. An example of this is the costliness of running major surveys and the difficulty of getting clean data from surveys. The limits of improving South African data *given* existing resources and *given* the conceptual framework are explored by Daniels (2012). To the extent that this is the case, all we can do is progressively make the best of a bad job. Evidently, at least part of the confusion about the informal sector is from this source: it is evidently highly complex and fluid, and therefore indeed fundamentally hard to observe.

Secondly, there are epistemological problems, where the confusion resides in the conceptual scheme employed by the subject observing the object. Objective reality is *rendered* difficult to understand because we are wearing the wrong 'theoretical glasses'. The importance of this element, and the gains that are potentially available from a different point of view, cannot be overestimated. Butterworth (1957: 1), for example, shows that 'the most sensational' steps in the scientific revolution were

> … brought about, not by new observations or additional evidence of the first instance, but by transpositions that were taking place inside the minds of the scientists themselves … Of all forms of mental activity, the most difficult to induce even in the minds of the young, who may be presumed not to have lost their flexibility, is the art of handling the same bundle of data as before, but placing them in a new system of relations with one another by giving them a different framework … [T]he supreme paradox of the scientific revolution is the fact that things which we find easy to instil into boys [*sic*] at school, because we see that they start off on the right foot – things that would strike us as the ordinary natural way of

> looking at the universe … defeated the greatest intellects for centuries.

Somewhat more mundanely, the history of the informal sector as a concept (its birth, its maturation, and potentially, its demise) is a good case study of this. The concept emerged (as part of a broader conceptual apparatus – development economics) because of the *experience of practitioners* in the Third World, who found that it was impossible to make sense of Third World processes (particularly burgeoning Third World cities and labour economies) within the existing conceptual framework.[7]

> [T]he informal sector idea originated not with the high level foreign 'development experts' brought in for the mission but from the work and the staff of the Institute of Development Studies of the University of Nairobi, a fact which has been generally forgotten since then.[8] In other words, it was not the ILO which invented the concept of the informal sector. It came out of the thinkers and analysts of the Third World. The ILO basically picked it up and gave it broader currency. This fact may help explain why the concept was rather slow to be accepted in the high levels of the Development Set but quickly embraced by the Third World itself. (Bangasser 2000: 10)

This history suggests two points. Firstly, the informal sector concept was a response to the problems of a pre-existing conceptual scheme (itself something that emerged in response to a very specific historical period). This framework, which was imported from the North, was characterised by the clear dualisms of what Fraser (2009: 104) calls the "political culture of state-organised capitalism": modern/traditional, work/home, employed/unemployed, state/market. Because it was an 'escape' from this, the informal sector concept was (as we have seen) something of a catch-all, and nothing like a 'clean' category. Secondly, the emergence of the informal sector *as a concept* can therefore be regarded as part of the dialectical development of the subject ('development economics'), not only internally (in response to contradictions in the conceptual scheme) but also as the object of study evolves. It is ironic, therefore, that the concept 'informal sector' has itself become part of a rigid categorical structure.

It is useful to go back (conceptually, if not strictly historically) and consider the 'standard' labour market classification (unemployed, employed, economically inactive, etc.) out of which the informal sector concept developed. What follows is necessarily a summary.

The classification is underlain by neoclassical consumer choice theory, of which the 'Chicago school' theory of the allocation of time is an extension (Becker 1965). The simplest conception that serves for present purposes is one in which individuals operate in a family setting, and the family acts so as to maximise the net present value of family 'full income'.[9] Maximisation involves:

- optimising the allocation of the time of each individual to the three classes of productive activity (the labour market, 'household production' and investment in human capital); and
- optimally allocating the returns to productive time and various accumulated capital stocks between different consumption and investment expenditures.

In this conception, the labour market phases are purely voluntary, the result of allocating each hour of each family member's time to the activity which provides the highest return. The return to time spent *working* is simply (net) earnings per hour. Searching for work (and hence being counted as unemployed) is conceptualised as an investment in knowledge (about opportunities) and the return to time spent in search can be conceptualised in net present value terms directly comparable to the wage rate. The framework can easily be extended to account for different forms of participation. For example, a decision to participate in the 'informal sector' (as an 'entrepreneurship' as opposed to a wage worker, for example) can be explained in terms of different workers' attitudes to risk. Finally, non-participation can be analysed in similar terms, and the 'return' to time spent in the various activities that make up non-participation (education and 'household production')[10] can be conceptualised as the reservation wage. For example, if the best alternative to participation is education, and the net present value of the future earnings generated by a year of education is R600 per month, the individual will not participate in the labour market if earnings are less than this amount.

Although this is increasingly contested, the framework this implies is regarded by the ILO as adequate for industrialised countries (Sylla 2013: 33), because they have reasonably formal labour markets and (at least) basic social safety nets. Firstly, because there remains a high degree of formality, choices tend to be discrete.[11] In other words, although there are 'hybrids' (the underemployed and the so-called marginally attached), most people do tend to be unambiguously fully employed, unemployed, or out of the labour market, which makes drawing boundaries between statistical categories and compiling statistics reasonably straightforward. For example, a person is defined as 'working' in the ILO standard definition if they engage in remunerative work for one hour or more in the reference week (and the definition is applied in South Africa – see Kingdon and Knight 2007: 830). As Sylla (2013: 30) notes:

> Adopting this one-hour criterion is probably justified in contexts where full-time wage employment is the norm. However, in contexts where employment is mostly non-wage, irregular or even unpaid, it results in persons whose situations basically amount to unemployment not being classified as unemployed.

Secondly, unemployment is clearly in some sense *involuntary*. People can be characterised as making rational choice *in the face* of 'rationing' (i.e. an inability to sell their labour at the 'market wage'). This is potentially highly problematic, because the 'choice theoretic' model predicts endogenous responses. For example, people rationally respond to a lower 'expected wage' (the going wage discounted by the probability of unemployment) by accepting a low-paying job (Robinson 1936) or participating in the informal sector, or dropping out of the labour force (Mincer 1962). In principle, these endogenous responses can make 'open' unemployment rather inert to changes in demand and supply conditions.[12] This is clearly very important as one of the primary purposes of the framework is to provide meaningful unemployment and employment (including 'informal') statistics. In practice these problems are highly significant in less-developed countries (for reasons discussed in the next paragraph) but can be expected to be quantitatively unimportant in industrialised countries. This is because changing labour market status is a major decision where choice is discrete and involves elements of path dependence,[13] and because well-developed social safety nets mean that people who cannot find work *can* remain unemployed.

In the Third World, where labour markets and welfare systems are weak, it cannot be assumed that the two sets of problems identified above (the problem with people who defy easy categorisation and the problem of endogeneity) will be quantitatively unimportant. Firstly, like many boundaries on the map, the boundaries used in 'operationalising' labour market concepts are arbitrary. They are conventions based on practice. They are not 'from theory'. In the case of the informal sector:

> Despite detailed efforts to agree an international standard definition, there remains tension between conception definitions of informality and what is empirically measurable … Researchers tend to fall back on the pragmatic and judicial use of data on employment status and sectoral affiliation, and may provide limited discussion of the sensitivity of any conclusions drawn to the issues of measurement and definition. (Henley et al. 2009: 993)

We can *change* the number of people in any category (sometimes significantly) by shifting the boundary slightly. Also, uncertainty caused by the imposition of a boundary where none seems to exist in practice causes confusion not just in how we interpret data but also in the minds of those involved in producing the data. If there is ambiguity in the mind of the economist (at the definitional level) about what exactly it is that unemployment *means*, for example, there will be ambiguity when the question is administered. Furthermore, even if questions are reasonably clear, there will be contestation about meaning. For example, a subject may think she is 'unemployed', but this may be regarded as 'too subjective' by the fieldworker. Personality and the 'sociology of enumeration' come into play (Anker et al. 1987). A general sense of confusion can lead to errors in administering even simple questions. Not only does it lead to uncertainty about the levels of unemployment, informality etc., it also creates uncertainty about how meaningful apparent *changes* are. This makes it hard to be confident about 'trends' and about how to interpret what appears to be labour market mobility and 'churning' (i.e. people changing labour market states). There are indicators that this is an important issue in South Africa.[14]

Secondly, endogeneity is likely to be significant. (As an important aside, note that endogeneity will tend to interact with and be hard to distinguish from 'boundary uncertainty'. Large fluctuations in marginal categories – such as 'subsistence farmers', hawkers, and discouraged workers – could be caused by even relatively minor changes in labour market conditions *or* they could be statistical artefacts). The two dimensions of endogeneity identified above are here labelled the 'lack of opportunities effect' and the 'added worker effect' simply to avoid using equivalent but pejorative or confusing labels.[15] We can *begin* to understand both effects in terms of neoclassical income and substitution effects (i.e. people responding to a lower *expected* wage as discussed above, or responding to a reduction in family income caused by unemployment). Both are associated with unemployment being rather inert to changes in labour market conditions, but the opposite is possible.[16] Finally, notice that it may appear that all decisions remain optimal, and the response by economists to such endogenous effects may accordingly be 'So what? – The market is adjusting': sweatshop jobs and survivalist self-employment are surely 'better than the alternative' (see Bernstein 2011); even the obvious retardant effects of high graduate unemployment on educational expenditures would not be 'inefficient'. In this view, the logic is that if society does not need people of a particular skill, it is wasteful for people to invest in acquiring that skill.

Even within the spirit of the Chicago School approach, it would be artificial to halt the analysis at this point. Job rationing (caused by oversupply in the labour market) may have important interactions with problems in other markets, and there may be important inter-temporal effects. For example, the assumption that people are able to *choose* the best strategy (even to choose strategies that are constrained by the existence of unemployment) is unlikely to hold because of credit market problems. For example, imagine that there are two young people in a family whose father loses his job. Imagine that even after the associated fall in family income, 'searching' for a good job remains the strategy with the highest net present value for the young man and attending university remains the 'optimal' strategy for the young woman. However, continuing this strategy may not be feasible because the family cannot finance the loss in income. The family may be forced to send one or both out to take whatever work they can find. What looks like a straightforward income effect is something different. The family has 'failed' to implement its 'first best' strategy and has been forced to resort to a 'second best' one.

It might be argued that the family is still 'maximising', albeit subject now to *two* non-price constraints (rationing in the labour market and the credit market). However, it should be clear that labour market failure (involuntary unemployment) has interacted with capital market failure to undermine decision-making *capability* within the household. This is a key point and suggests a more fundamental break from neoclassical 'choice theoretic' thinking (see, for example, Evans 2010). The matter becomes even more complicated when failures in skill provisioning systems are taken into account. Access to educational systems may be rationed, and vocational skills provisioning systems are particularly prone to market failures (Estevez-Abe et al. 2001, McGrath 2005; Lewis 2009; Allais 2012). This opens up the question about *other* factors that are complementary to rational decision-making (and other functionings) and which are suppressed by poverty and unemployment. In South Africa two other factors (amongst many) that stand out are residential immobility (with poor populations remaining trapped in peri-urban and semi-urban areas far from centres of employment), and health and public safety deficits. All of these issues raise the issue of 'agency' and whether people can meaningfully be described as *choosing.* This is particularly apparent when it is noted that current decisions, whether 'first best' or otherwise, have powerful inter-temporal effects. The most obvious here is the ability of people to invest in education. Moreover, as soon as education itself is characterised by significant positive externalities, *any* factor that reduces the incentive or ability of individuals to accumulate education would constitute a reduction in social welfare. Even if it were shown that people were simply *choosing* not to work because of some 'cultural factor' that made them less materialistic or because of low wages, this might have adverse effects on the growth path of human capital and hence the development trajectory of the economy.

3 THE EMPIRICAL LITERATURE: DESCRIBING AND QUANTIFYING

3.1 Introduction

Since 1993, the availability and reliability of labour market data has increased dramatically in South Africa. There have been a number of large-scale establishment-level surveys (for example, Riley 1993; Lewis 2001; Devey et al. 2003; McGrath 2005; Woodward et al. 2011; Herrington 2010) as well as attempts to contextualise South Africa's business environment (the World Competitiveness Report, the Ease of Doing Business index, etc.). Arguably the main area of progress, however, has been in the field of nationally representative household survey data. Most significant were the introduction by Stats SA of the annual countrywide October Household Survey (OHS) (1994–1999) and its successors the Labour Force Surveys and Quarterly Labour Force Surveys (see Daniels 2012; Yu 2010) and large-scale university-based projects, such as the major survey conducted by SALDRU in 2003 (SALDRU 1994) and the NIDS surveys (Cichello et al. 2012).

With this has emerged a rapidly growing empirical literature. By the mid-1990s this literature had settled certain debates (regarding the existence of involuntary unemployment, for example) and established a well-fleshed-out 'basic portrait' of the South African labour market. It has also become clear that South Africa is something of an international outlier in terms of its very high levels of unemployment and inequality and its weak informal sector.

The concern, however, is that although researchers have continued to refine this basic portrait (this is less true of comparative research), there are indications that the empirical research agenda faces rapidly diminishing returns and has made very little headway in answering certain key questions. A major reason for this is data problems.

As discussed, there is the 'usual' difficulty common to operationalising any particular conceptual framework. This is exacerbated by the tendency, natural in empirical agendas, to be insufficiently aware of the framework underlying the analysis. Bhorat et al.'s (2001: 110) claim (echoing that of Archer et al. 1990: 170) that much of the empirical literature lacks a theoretical framework, and tends to use ad hoc definitions in practice, remains apposite.

However, the conceptual problems (and hence the 'boundary' and 'endogeneity' problems) are more fundamental than this. Although the definitions that inform the standard ILO labour market classification are conceptually simple, operationalising them in conditions of high unemployment, poverty and of informality is, as we have seen, beset with fundamental difficulties. The next subsection considers the 'basic portrait' of the informal sector. Section 3.3 briefly considers indicators of the significance of these problems in South Africa and generally.

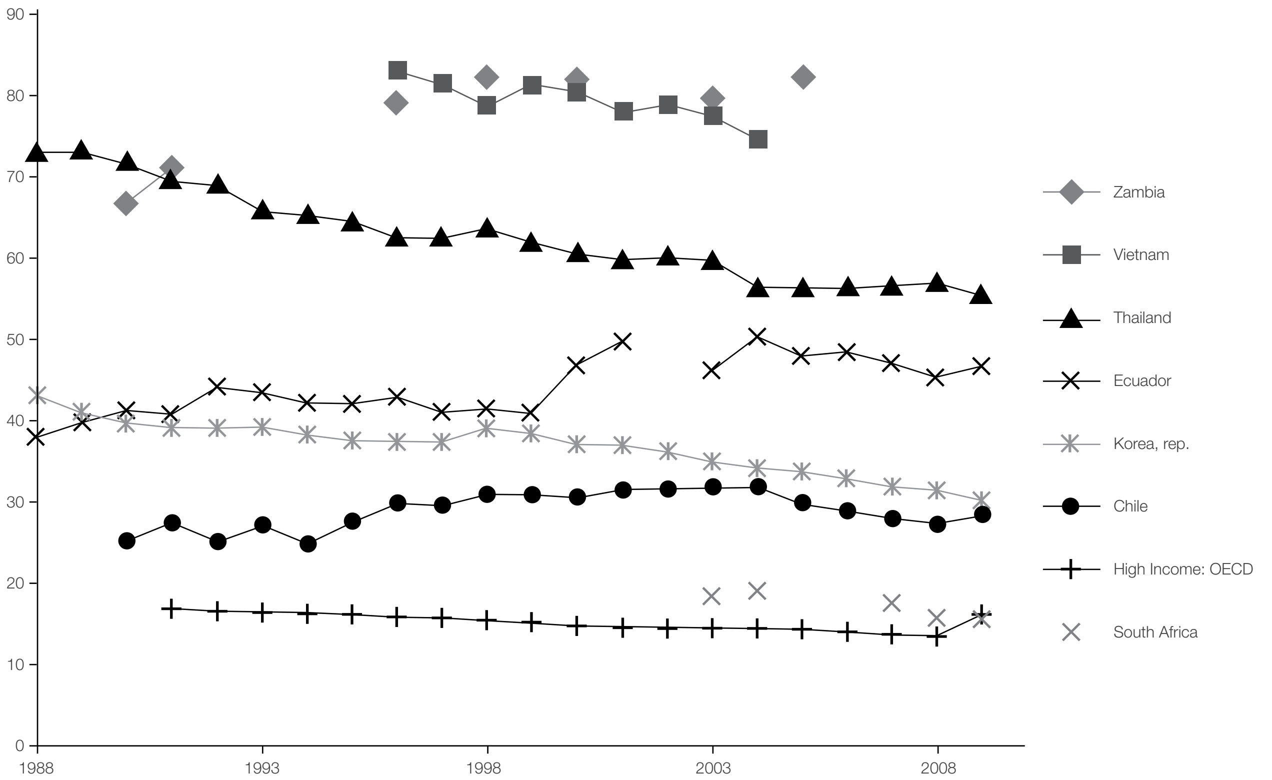
3.2 The basic portrait of informality

Figure 1 shows one indicator of the size of the informal sector across selected countries and regions. Firstly, it is necessary to justify using self-employment as a basis for international comparison. Not all self-employed are 'informal'. Furthermore, the overall extent of informality is arguably best measured by summing informal self-employment *and* informal wage employment (whether in informal or formal establishments).

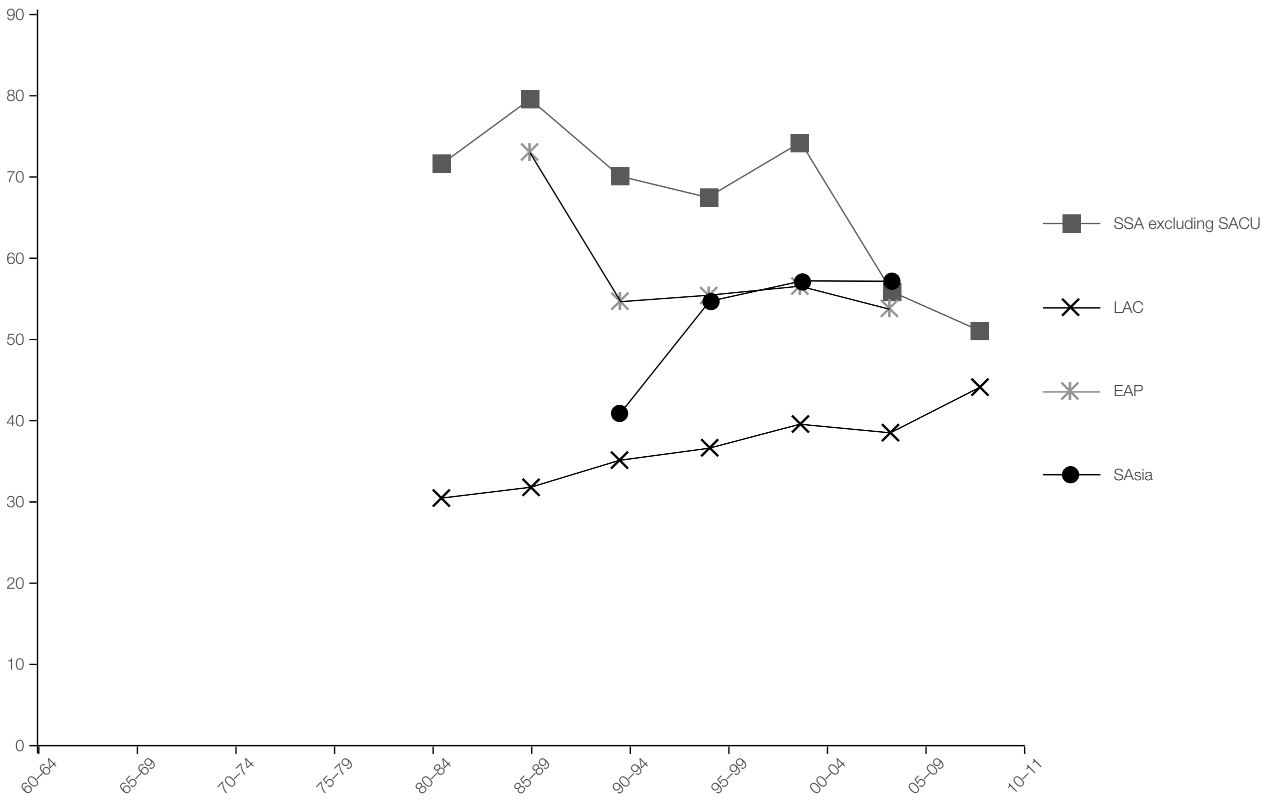
Nevertheless, the rate of self-employment is a useful indicator. In low- and middle-income countries, the majority of self-employed are informal. For example, approximately 70% of self-employed are 'informal' in South Africa (Yu 2010: Table 6). Furthermore it is

Figure 1: Percentage of workers enumerated as self-employed (%), international comparison

(a) Selected countries



(b) Regions



Source: WDI (2012)

amongst the self-employed that the ‘positive’ dimension of informality (especially entrepreneurship) is most likely to be concentrated.[17] Thus, the very high proportions of self-employment in low-income countries reflect not only high levels of employment in agriculture, but also ubiquitous urban informal sectors (Sylla 2013; Lindell 2010; Gurtoo & Williams 2009). How dynamic this sector is remains the subject of debate. Sylla (2013) refers to widespread underemployment in African informal sectors. Gurtoo and Williams (2009: 57), on the other hand, comment:

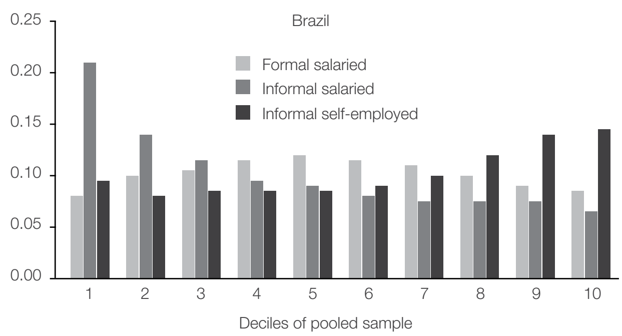
> Contrary to the structuralist depiction of informal work as waged employment … it has been revealed that a large proportion is conducted on a self-employed basis: 70% in Sub-Saharan Africa, 62% in North Africa, 60% in Latin America and 59% in Asia. Rather than viewing informal workers as low-paid waged employees working under ‘sweatshop’ conditions, therefore, such workers have been widely re-conceptualised as entrepreneurs displaying entrepreneurial attributes, traits and qualities.

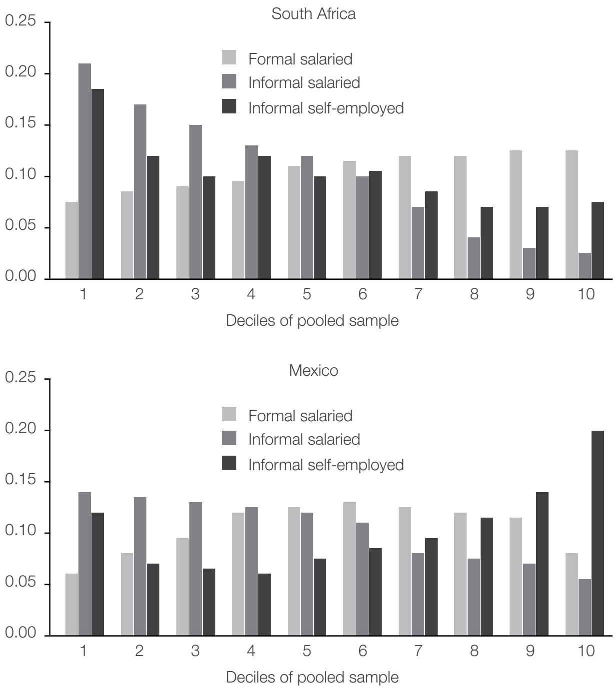
For India, Gurtoo and Williams report that 93% of the workforce is in the informal sector, of which almost half are self-employed. Gurtoo and Williams claim that the majority of the self-employed tended to be happy with their situation and are not looking for a formal sector job (in stark contrast to informal employees, for whom earnings tended to be low and employment precarious). Furthermore, a majority were ‘opportunity entrepreneurs’ (as opposed to responding to necessity). Moreover, a reported 107 million people in India were ‘actively seeking’ to start a business (Gurtoo & Williams 2009).

Secondly, the international pattern suggested by Figure 1, which is one of a rough pattern of decreasing informality with economic development, mediated by country- and region-specific factors, seems robust. For instance, there is strong corroborating evidence that informality grew in Latin America in the 1990s in response to declining formal sector employment and ‘de facto’ liberalisation of the labour market (IDB 2005; Schneider 2009; Cornia 2011; Henley et al. 2009; Egaña & Micco 2011) and the proliferation of microcredit (Bédécarrats et al. 2012). Cornia (2011: 25) argues that part of the improvement of income inequality in Latin America in the 2000s was due to policies that attempted to increase formality and collective bargaining and to address wage stagnation directly. Section 4 of this paper suggests that the ‘varieties of capitalism’ literature is beginning to explain such country and regional variations.

In any case, it does appear that other indicators support the notion that the South African informal sector (at least its *enterprise* dimension) is comparatively weak. For instance, South Africa demonstrates low rates of ‘early-stage business activities’ (only 5.3% of the population compared to 7.8% for upper-middle-income countries) and entrepreneurship is particularly weak amongst previously disadvantaged groups (Preisendörfer et al. 2012). This is supported by Bargain and Kwenda’s (2010) comparative analysis of Brazil, Mexico and South Africa. In South Africa, informal workers (employees and self-employed) tend to be crowded into the bottom earnings deciles (Figure 2). In Mexico and Brazil, there is crowding of informal *employees* into the bottom decile (less so in Mexico) but this is not so for the self-employed. Whereas Mexican and Brazilian self-employed earn (on average) a premium over formal employees, in South Africa the situation is reversed, with formal employees earning on average 30% more than the self-employed (Bargain & Kwenda 2010: 10). Part of this may be a statistical artefact. For example, there may be less incentive to register successful enterprises in Mexico and Brazil (see, for example, Henley et al. 2009). It may also be driven in part by better *formal* conditions in South Africa.

Figure 2: Earnings distributions of informal workers: Brazil, South Africa, Mexico





Source: Bargain and Kwenda (2010: Figure 1)

The picture that emerges from South African studies (as opposed to comparative studies) confirms the general picture of a weak informal (and more generally, small business) sector with a relatively small dynamic element, a large survivalist element, and significant 'informalisation', both through casualisation, outsourcing and non-compliance with labour standards by 'formal' employers, and through the restructuring of production as part of buyer-driven value chains (Joynt & Webster 2012; Barrientos 2011; Greenberg et al. 2012). Another very important feature of the South African informal sector (echoing the points raised in Section 2.2) is that credit constraints and lack of skill acquisition are ubiquitous. Most informal enterprises are unable to access credit, despite the existence of targeted credit and the proliferation of private microcredit (Herrington et al. 2010: 146; Woodward et al. 2011: 72). Although there is some evidence of training, for the most part the picture with respect to policy impact is bleak (Allais 2012; McGrath 2005: Mummenthey & Du Preez 2010). As McGrath (2005: 71) puts it:

> Very few entrepreneurs in these studies make mention of the panoply of small enterprise development structures that exist in South Africa. Very few mention the role of a public education and training provider in developing their skills (or those of their workforce) beyond the initial, pre-employment phase. Very few are living the NQF dream of progression and portability. Very few (even among those who did participate in an NSF Strategic Project) think they have been positively impacted upon by SETAs with policy evidently having little impact.

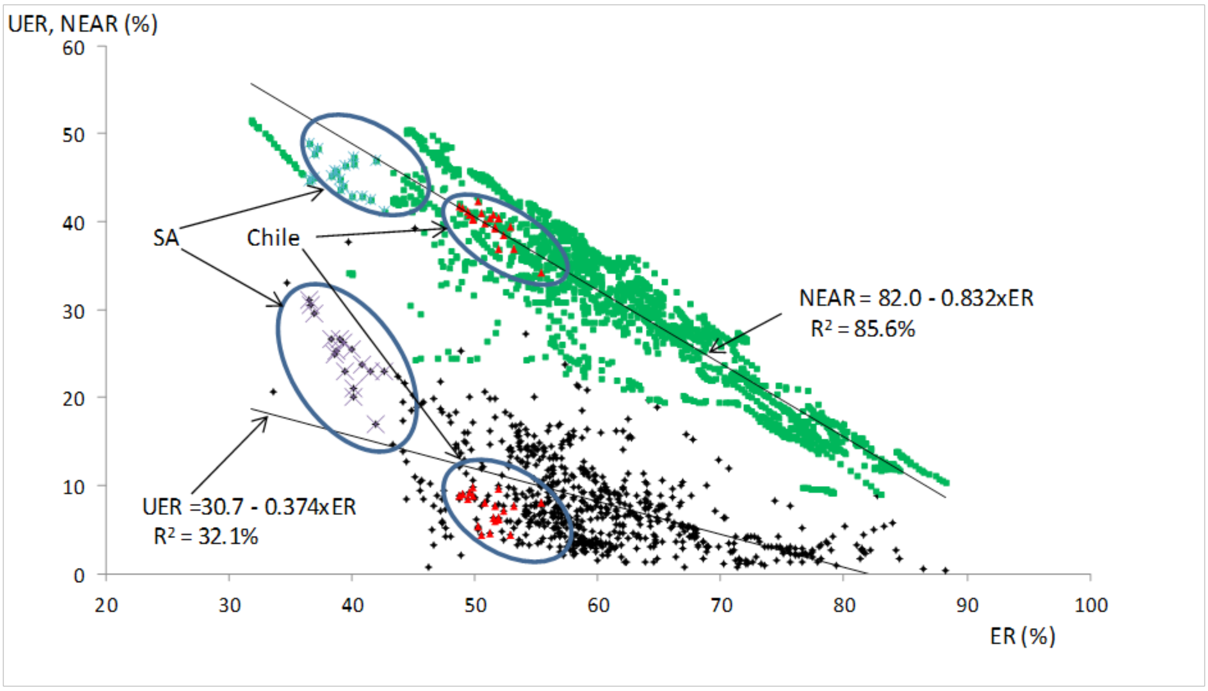
The discussion returns to the question of *why* the informal sector is weak in South Africa in Section 4.

3.3 Some indicators of endogeneity

Figure 3, particularly when taken in conjunction with Figure 1, hints at the broad pattern of 'endogeneity' suggested in Section 2. Firstly, the fact that low employment rates appear to correlate more strongly with low labour force participation rates (i.e. high NEAR) than with unemployment rates suggests that the 'lack of opportunities' effect may be empirically much more significant than the difference between the 'expanded' and 'strict' definitions allows. It is noteworthy that although only two fifths of adults (15+) in South Africa work, the unemployment rate is 'only' in the range of 20–30%.

The intention here is to *contrast* the standard unemployment rate with an alternative measure, and to remark on the apparent inertia of the unemployment rate. It is *not* to propose the 'employment rate' (or any other 'quick fix' like that offered by Sylla 2013: 32) as an alternative to the unemployment rate. The employment rate is a flawed statistic for two reasons. Firstly, the employment rate is a very crude measure. The statistic reported by WDI (2012) is for the population over 15, and therefore includes large numbers of scholars and aged people. A better measure would compare working age populations.[18] For example, in South Africa, the employment rate (share of *working age* people with remunerated employment) is typically around 50% (see Cichello et al. 2012). It would be even better to disaggregate along gender, age and other lines. Figure 4 suggests that, even amongst prime-age individuals (35 to 45), employment rates are extraordinarily low. However, this sort of comparison is merely suggestive. Even with a 'clean' measure, what might be regarded as a

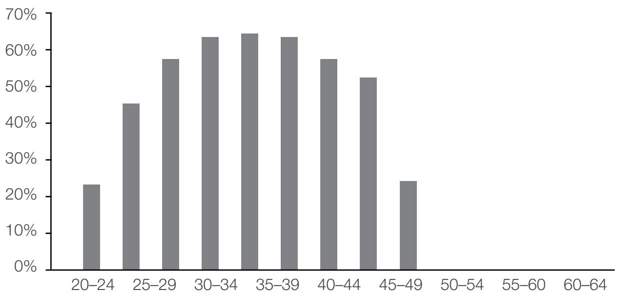
Figure 3: International comparison of unemployment rates (UER), not economically active rates (NEAR) and employment rates (ER).



Source: Data for 1990–2010 for all countries reported in WDI (2012)

'normal' employment rate (i.e. what would be expected in a country without major structural unemployment) is likely to vary enormously according to context.

Figure 4: Employment rates according to age group, South Africa 2012



Source: Extracted from DPRU (2012: Figure 1)

The second set of reasons for not using the 'employment rate' as a 'quick fix' alternative to the unemployment rate is that there is strong evidence that the employment rate is *also* endogenous – the 'added worker effect' – as discussed. Latin American economies (such as Chile), despite experiencing economic contractions in the 1990s (Teichman 2008), did not experience dramatically high unemployment *or* lower employment rates.

4 TWO NARRATIVES ABOUT INFORMALITY

The paper has been critical of the 'standard' conceptual framework. However, it has not offered anything in its place. Indeed, it has argued against 'quick fix' statistical solutions such as the 'employment rate' or the measures proposed by Sylla (2013). Firstly, such measures would not address the 'added worker' effect, the 'boundary' problem or the issue of informality. Secondly, the argument here is that better *measuring* of the labour market depends on conceptual, rather than statistical, improvement. Any attempt at statistical innovation that is not conceptually grounded will encounter its own complexity (different boundary issues and different forms of endogeneity). Furthermore, the argument is that conceptualisation needs to be dialectical. In the social sciences, where the object of study is itself developing and contradictory, attempts to find a 'transcendental' categorical framework are futile.

The way out of this apparent impasse (a dissatisfaction with an existing conceptual scheme but no sense about how to 'improve' it) is to shift the focus from *measuring* and the problems of *measurement* to asking *why* we want to measure. If we understand this, we will gain insight into *what* we want to measure and *how*. As argued in Section 2.1, this 'why' has two layers. It is necessary to understand 'informal lives', and it is necessary to contribute understanding rather than confusion (in particular, about 'flexibility' and 'informality') to the 'grand' debate. Evidently, debates about key issues *are* framed by and need to be informed by statistics (i.e. evidence-based research). However, information needs to flow in the other direction too. This paper has argued that the existing conceptual framework has to a certain extent blocked this flow.

In this section it is argued that there are two discrete narratives (conceptual frameworks) about the informal sector, one articulated to each side of the debate referred to in Section 2.1. These narratives are focused on the 'grand' debate and 'see' the informal sector in this context (i.e. as part of the debate). They therefore give a sense of what needs to be measured to resolve the debate.

4.1 The orthodox narrative: functionalist/distortionist, regulatory liberalism

In the 1970s and early 1980s the most influential theoretical construct used in the orthodox analysis of Third World labour market structures was the 'functionalist/distortionist' narrative.[19] This contained classical and neoclassical elements represented respectively by the Lewis (1954) and Todaro (Harris & Todaro 1970) models. What is relevant here is that this narrative envisaged:

- that developing countries 'inherently' pass through a robust market driven process of economic development. The modern sector eventually absorbs all surplus labour from the traditional sector. At this point, the economy shifts from an extensive to an intensive development path.
- that there is a strong tendency for markets to be affected by exogenous, politically-generated *distortions*.

Although the Todaro model was originally an explanation of urban unemployment (with 'artificially' high urban wages drawing people out of the rural areas to 'queue' for modern sector jobs), it was easily extended (by, inter alia, Fields (1975)) to explain the 'informal sector' (as 'disguised unemployment'). Moreover, there is no reason why the informal sector should not also contain a residual *traditional* element and a *functional* element. This last element refers to the labour-intensive, small-enterprise, end of the 'modern' continuum, and complements the large-scale production sector. An early review that argues that this element was dominant in many informal sectors is Kannappan (1985).

The functionalist/distortionist narrative was rapidly adapted to explain the late-apartheid labour market in South Africa. Both the unemployment/underemployment themes (Knight 1982: Gerson 1985; Hofmeyr 1994) and the argument that the informal sector *would* become an engine of growth *if only* it were not repressed[20] were prominent. The narrative remained influential in the post-apartheid period (see Kingdon & Knight 2004: Figure 1), particularly as strong unions and a significant effort to regulate the labour market seemed an obvious source of distortions. Moll (1996) argued that wage distortions, and the attempt to extend high wages and formality to small businesses, were powerfully reinforced by the common interest of big business and organised labour. This argument remains prominent (see Nattrass & Seekings 2013).

The key epistemological feature of this narrative is the *exogeneity* of distortions (i.e. distortions are caused not by market failures but by political factors). Another feature is the focus on distortions in *labour markets* (rather than distortions in other markets) to explain labour market outcomes. A very important exception to the latter feature is De Soto's (1990) argument that poor people were unable to use their assets (such as their houses) as collateral to access finance because excessive regulatory red tape made formality and recourse to the law too onerous.

What might be regarded as a 'second wave' of orthodox thinking (or 'economics imperialism', as Fine (2002) calls it) in development economics is characterised by a significant epistemological shift. Distortions increasingly came to be seen as 'endogenous', the result of market failures due ultimately to asymmetric information (Stiglitz 2002). Two of these market failures are worth mentioning, because of their significance in informal sector thinking and because they echo the points made in Section 2.2.

Firstly, and most significantly, economists identified credit market failures as a key impediment, particularly to small entrepreneurs. To unleash De Soto's 'invisible revolution' of capital accumulation by the poor, it would be necessary (in addition to cutting red tape, of course) to address this market failure by providing loans at lower-than-market interest rates to the poor. This thinking was a major contributor to the dramatic expansion of microcredit 'which by the late 1990s … had established itself as the most high-profile and generously funded of *all* international development policies' (Bateman 2011). Intriguingly, Massenot and Straub (2011) link this argument to another major orthodox argument about development finance, the notion that developing countries are 'savings constrained' and need to liberalise their capital accounts to access global savings (see Rodrik and Subramanian 2009 for a succinct review and critique). Massenot and Straub (2011) argue that the 'De Soto effect' is weakened because increased demand for credit (as poor people's access to credit is unlocked) in the presence of small local pools of savings drives up interest rates. The De Soto effect, therefore, is much more likely in countries that embrace financial globalisation.

Somewhat ironically, because of the pressures from donors for 'sustainability' in the 1990s, microcredit was soon commercialised, particularly in Latin America. This led to credit-bubble busts and half-hearted attempts to regulate the sector through credit bureaus and codes of conduct (Bédécarrats et al. 2012: 146–147). Furthermore, microcredit has been heavily criticised (Bateman 2012; Bateman & Chang 2011; Bédécarrats et al. 2012) as simply another dimension of 'financialisation' that does not seem to have had the predicted effects on economic growth.

The second important market failure that impacts directly on the informal sector is in the sphere of the provision of skills (and more broadly, social reproduction), particularly at the vocational and firm-specific end of the spectrum. Initially, the orthodox line was that in developing countries governments should not intervene in the provision of skills. The logic was that firms have sufficient incentive to invest in specific skills (because such skills cannot be poached by other firms) and that attempting to implement vocational education programmes would be beyond the capabilities of governments in developing countries (Lewis 2009).

The epistemological shift (to 'market failure' logic) led, as in the microcredit case, to a very specific set of measures to solve what were perceived to be 'market failures'. In particular, vocational skills are far from being firm-specific. Although there is a role for specialist vocational skills providers (such as vocational colleges), these face a credibility problem. The policy response to this was an attempt at *regulation* through quality assurance frameworks (there is also an element of state funding – a response to 'credit constraints'). Harvey and Williams (2010: 3), on the basis of an international review, argue that this is part of a 'growing pressure to accredit everything, even if it is a poor means of assuring quality and encouraging improvement'. The idea is that 'competences' (outcomes) desired by the market could be defined and registered as qualifications, which could then be 'accredited' by a dedicated state agency. The existence, and assured quality, of these qualifications would then supposedly allow supply (in the form of students going to vocational colleges) to respond to demand. Unfortunately, in South Africa:

> … the system has not met expectations, particularly in terms of employer participation. This is especially true for … construction … The level of participation in learnership training is … low, even though the industry faces severe skills constraints … There is furthermore strong consensus that the rising demand for construction is outpacing the supply of appropriately trained and qualified people at all levels … Indeed, according to the latest quarterly analysis of the Bureau of Economic Research … no fewer than 98% of building contractors struggle to obtain the required number of skilled people. (Mummenthey & Du Preez 2010: 1)

The problem, especially when state funding is limited, is that this system tends to impose a highly complex set of qualifications (and the associated bureaucracy) on weak institutions. It also rests on the questionable notion that 'work' can be broken down into a set of 'tasks' (Parfitt & Wysocki 2012). Allais (2012: 632–3) argues that 'vocational education and skills development in South Africa provide a clear example of how education policy can be trapped in a paradigm of "self-help", "employability", and labour market flexibility that *works against the possibility of achieving improved levels of education and skills*'.

In general, although the 'second wave' thinking represents a significant epistemological shift, it does not involve a major *ideological* shift. In particular, although market failures (in spheres such as skills provision and credit) are acknowledged, these are dealt with *separately* using regulatory interventions that correct market failures 'at source'. Watkins (2010: 13–14) calls this narrative 'regulatory liberalism':

> [E]stablishment convergence around what might be called regulatory liberalism seems all but complete. Proponents of other 'varieties of capitalism' have been muted – perhaps because they are now regulatory liberals, too … Ideologically, regulatory liberalism would seem to represent an inflection of the neo-liberal paradigm rather than any rupture with it. The term 'regulation' has the advantage of suggesting fairness and neutrality, but it is in fact a hard-line liberal economic concept … [R]egulation has always been counterposed to nationalisation and public ownership.

Arguably the key element in the first wave of the orthodox narrative is that it contains no critique of informality. 'Flexibility' and 'informality' are equivalent. As Breman (1996: 12–13) puts it:

> In the [World] Bank's presentation, flexibility is a winner's and not a loser's game. The myth helps to explain why the report [i.e. World Bank 1995] so fulsomely praises maximal adaptability as the principle talent required for successfully making one's way up the labour hierarchy. The self-employed, which is also the Bank's favoured category in its portrait of informal sector workers, have no real need for the security and protection which comfort the

life of the labour aristocracy in the formal sector economy.

The second wave is somewhat more pragmatic because it opens up the possibility that informality may be a 'loser's game' (in the information theoretic logic, market *failure* equates informality with *anarchy*, not with flexibility). However, interventions to impose 'formalities' (like property rights and rule of law, or qualifications frameworks) are strictly market conforming. Informality is contested, but flexibility is not. 'Interfering' with market flexibility (by imposing, for example, price or wage controls) or replacing the market entirely (public provision) is still regarded as a 'loser's game'. However, this commitment to flexibility and markets is ideological. It is not dictated by the epistemology of what Stiglitz (2002) calls the 'new paradigm'.

4.2 Varieties of capitalism?

Indeed, there is no *epistemological* break between the 'new paradigm' (or even 'regulatory liberalism') and doctrines to the Left. The key difference between the 'new paradigm' (so far) and these alternative doctrines is that the new paradigm is 'from theory' (i.e. it attempts to apply its theoretical framework to reality). Keynesianism and (particularly) Marxism also have grand theoretical elements that transcend context. What distinguishes Keynesian and Marxist approaches is that in addition to 'grand theory', they have also developed 'stages' theory or 'middle level' theory.[21] This is theory that is explicitly developed not just by deduction from first principles, or induction from data, but with respect to a particular historical or geographical context. Middle theory has 'institutional' and 'historical' elements that are not reducible *either* to grand theory or mere 'data' in one form or another.

Keynesian economics, for example, developed at a particular historical juncture, in particular the stagnation of the British economy from the late 19th century, and then the Great Depression. Keynes recognised that he was dealing with a stage of capitalism (see Crotty 1999). Nevertheless, the basic Keynesian insight – the dominance of the 'macro' environment in shaping the micro, and of the centrality of *investment* – transcends this origin and is applicable to the problem of *development*.

In this perspective, the *starting point* is that developing countries, or weak systems within countries (such as specific 'informal sectors'), are (to use Rodrik and Subramanian's (2009) term) 'investment constrained'. The problem is not a lack of savings (as in the financial globalisation argument). Making credit available in the banking system (for example, through financial globalisation) does not lead to lending to firms because of the lack of financial viability of projects. Financial institutions, especially foreign banks (Dos Santos 2011), find it much more profitable to finance consumption at usurious interest rates. At the micro-level, the problem is not *one* distortion (whether endogenous or exogenous), or a series of distortions that can be dealt with individually; it is generalised coordination failure, 'vicious interlocking cycles'. Specific interventions (such as targeted credit or skills programmes) tend to fail. Studies that look for evidence that a particular factor is holding back small- and micro-enterprises tend to find it.[22] Evidently, South Africa's weak informal sector can be fruitfully analysed in this way, with the generic problems facing business in weak economies (weak demand, poor skills, credit market problems) exacerbated by South Africa's spatial structure (which means that demand and hence viable sites tend to be concentrated around transport hubs) and the dominance of supermarket chains (see Dewar & Watson 1991; Fryer & Hepburn 2009; Woodward et al. 2011; Greenberg 2010).

Whereas Keynesian approaches emphasise 'coordination failure' (vicious cycles) at a fairly generic levels, the 'varieties of capitalism' approach (Hall & Soskice 2001) originally emphasised systems of coordination (virtuous cycles) in different varieties of existing successful 'market economies', drawing a distinction between two broad types: coordinated market economies (CMEs) and liberal market economies (LMEs). In particular, Estevez-Abe et al. (2001) showed how in CMEs (like Germany and Sweden) strong vocational educational performance depends not just on the vocational training system itself, but also, critically, on interaction between welfare regimes and wage determination systems.

Because vocational skills are often fairly industry-specific, young people require a degree of certainty about labour market prospect in order to pursue any specific vocational track. Wage 'rigidity' and employment and unemployment protection play a functional role in this system.

The varieties of capitalism approach has also been adapted to describe, with more specificity than the generic Keynesian approach, systems with elements of dysfunctionality. Various attempts have been made to adapt the approach to developing countries and South Africa (for the latter, see Nölke & Claar 2013 and other articles in the same issue of *Transformation* and Allais 2012). Schneider's (2009) analysis of Latin American countries as HMEs (hierarchical market economies) is particularly valuable. As the term suggests, it emphasises *power*, particularly of big business, far more than do the CME and LME variants (which tend to neglect politics and power). Schneider's approach therefore gels well with modern descendants of the other grand theoretic tradition, Marxism. Marxism emphasises not just *power* but also the critical importance of *agency.* For example, Selwyn (2010); Barrientos (2011); Greenberg et al. (2012); and Joynt & Webster (2012) emphasis the influence of buyer-driven commodity chains in restructuring production and in particular, producing informality (particularly outsourcing and violation of wage agreements and the Basic Condition of Employment Act) at the base of the chain, often despite 'codes of conduct'. However, they also emphasise the potential for collective action. For example, in stark contrast to the functionalist/distortionist narrative, which (implicitly or otherwise) assumes that firms make zero profit and therefore cannot afford to pay higher wages, value chain analysis demonstrates that most value is extracted at the apex of the chain.[23] This implies there is scope for collective action, not just to redistribute income and to ensure that labour standards are complied with, but also to modify the structure of production. Moreover, given the common interest at the base of the chain between employers and employees (who are both squeezed by powerful buyers), there is scope for cross-class cooperation (see Bizcommunity 2013).

5 CONCLUSIONS AND SUGGESTIONS FOR FURTHER RESEARCH

The 'empirical literature', led by institutes like SALDRU and DPRU, has been remarkably productive and has established and continued to refine a 'basic portrait' of the South African labour market. This includes an increasingly nuanced portrait of informality (see, for example, Yu 2010). It is important also to acknowledge international progress in defining and measuring informality (ILO, WIEGO and in countries such as India).

However, this paper has argued that there are signs of diminishing returns. This critique is not intended to be sweeping. The empirical literature continues to update the 'basic portrait' and to produce insights that are valuable to detailed policy implementation. Gray (2009: 13), arguing that current conceptualisation and funding of research in South Africa does not adequately recognise this effort, is worth quoting at length:

> South Africa is … rich in publications that address development needs. There are a large number of research groupings in the universities that address policy and development issues. Research institutes such as the School of Government and the Institute for Poverty, Land and Agrarian Studies at the University of the Western Cape, the Wits Institute for Social and Economic Research at Wits University, the South African Labour and Development Research Unit and the Child Health unit at UCT, to name but a few, produce a range of policy papers and research reports targeted at other academics, policy-makers and government ... Development-focused research units translate research findings into training materials and manuals. However, researchers in these units complain that they do not get recognition for the publications that they do produce, but are pressurised to produce journal articles.

Nevertheless, any analysis of South Africa's labour market needs to confront the possibility that the 'official' statistics are based on a conceptual framework that is ill-suited to conditions of mass unemployment, informalisation and deep poverty. Trying to operationalise and make adjustments *to* this framework has inherent limits. The paper has argued that 'boundary problems' and 'endogeneity' are severe. The 'informal sector' itself (together with other 'adjustments' like the 'expanded' definition of unemployment) is a response to the inadequacy of the conventional framework. In order to take *measurement* further, conceptual development from the 'other end' of the spectrum is necessary. We need to attempt to understand structure (using Keynesian, Marxist and 'varieties of capitalism' insights) in order to understand *why* we are measuring. An understanding of *why* we are measuring must inform *what* we need to measure and *how*.

It is easier to expose the problems that the 'official' conceptual framework produces than to find solutions, and this paper has offered only tentative suggestions about how to proceed at the *empirical* and *conceptual* levels. Evidently there is a need for 'mixed methods' research (Leech & Onwuegbuzie 2009: 266; Fryer & Hepburn 2010) in which 'qualitative' and small-scale quantitative research designed with specific questions in mind complements the broader picture provided by existing databases.

Such research is costly, if implemented at any scale. Nevertheless, this paper suggests that the problems are sufficiently severe as to make the effort necessary. In particular, limitations of our empirical understanding of informality and unemployment are critical impediments to resolving the 'grand' debates about appropriate labour market, social and macroeconomic policy.

ENDNOTES

1. The StatsSA estimate simply *reclassifies* formal workers as informal. Adcorp's *adds* informal workers to the 'official' estimate (Wittenberg & Kerr, 2012). Adcorp's estimate of overall employment is thus extremely high. Adcorp (a labour broking company) and its chief economist Loane Sharp has been criticised on logical, statistical, methodological and ethical grounds by inter alia Wittenberg and Kerr (2011) and Forslund (2013). This itself is an indicator of the *nature* of the debate in South Africa and is discussed further below.
2. See Kenny and Webster (1998), Webster (2005) and Pons-Vignon and Anseeuw (2009).
3. The 'informal economy' explicitly shifts the focus to 'all forms of "informal employment" – that is, employment without labour or social protection – both inside and outside informal enterprises' (Chen 2007: 2). For the South African context see Valodia and Devey (2010: 4).
4. See Ferguson (2007), Bayat (2009) and Lindell (2010). This attitude, and in particular the rejection of 'formal' means of representation (through the state and 'traditional' trade unions) is particularly developed in anarchist, post-structuralist and autonomist thought (for example, Hardt & Negri 2000; Holloway 2002; Graeber 2002; Gibson 2011). See Clark (2012) for a critical view of this Left.
5. We should not be comfortable even with the assumption that 'flexibility' equals 'informality'. This echoes debates about the adequacy and coherence of 'negative liberty'. Firstly, the notion that the state has a monopoly on violence and regulation is belied by the existence of civil society (operating largely within the legal domain) and what Bayat (2009) calls *uncivil society*. In informal systems, organisations ranging from democratic social movements and street committees, through traders' associations, to mafias, abound (Lindell 2010). These associations both *regulate* the sector (setting rules and determining access, for example) and exercise power. On the other hand, *positive* liberty (and positive flexibility) depends on the existence of an environment which facilitates mobility and choice, and on individuals in that environment having the necessary capabilities to make choices. Positive flexibility depends often on *formality* whereas informality favours the powerful. See Fryer and Newham (2000).
6. Another reason is that studies claiming that the labour market is beset by 'rigidity' (Lewis 2001; Fedderke & Marriotti 2002; Nattrass 2011; Klein 2012) use establishment data (i.e. the South African Reserve Bank data). This data shows a rising trend in real wages and a falling trend in employment. This means that, irrespective of the sophistication (or otherwise) of the quantitative technique chosen, such studies tend to conclude that the labour market is 'too rigid' and wages are 'too high'. A typical piece of analysis is provided by Klein (2012: 19): 'the "excess" real wage, which increased quite rapidly in some sectors, had an important role in suppressing employment creation. Interestingly, the results show that the impact of the excess real wage growth depends on the composition of employment within each sector. The analysis shows that the negative impact of the excess real wage growth is stronger when the share of formal employment is higher thus indicating that the net effect of the excess real wage growth on informal employment is positive. This result suggests that higher excess real wage growth generates a substitution between formal and informal employment given the relatively low cost of the latter.' The problem is that such studies present their findings and conclusions as 'fact'. They do not acknowledge that alternative explanations of 'labour market segmentation' (for example, Arrighi et al. 2010) can be made to fit the 'facts', or that the statistical basis is very shaky. There are good reasons to suspect that the establishment data may be biased because of sampling issues and because of the way 'skill' is categorised (Blundell et al. 2003: 1115; Wittenberg 2004; Casale et al. 2004; Simkins 2004). Although they are also subject to biases and therefore are not more reliable, other sources (such as the Stats SA household survey data, and surveys of wage settlements) do not corroborate the argument that real wages rose in the formal sector. Kingdon and Knight (2007: 815), for example, report a substantial drop in formal sector real wages (and an even larger drop in informal sector earnings) between 1995 and 2003.

7. See Galbraith (1979) and Hirschman (1958) for critiques of what existed before 'development economics' emerged.
8. The issue of who initially coined the *term itself* is not important here. There seems to be consensus that it was Keith Hart (see Agarwala 2006: 420 and Hart 2007).
9. This makes the case exactly like that of a profit-maximising firm, which is Becker's intention. Like a firm, a household will have non-pecuniary aims. Although these matters are largely beyond the concern of this paper, it is worth noting that the assumption that households attempt to maximise something that can be reduced to a monetary measure is very useful, especially in poor settings. It highlights how unlikely it is, for example, that non-affluent people will be 'voluntarily' employed (and more generally, forces implicit assumptions about differences in 'tastes' out into the open). As Becker (1965: 498) puts it: 'Of course, all the time would not usually be spent "at" a job: sleep, food, even leisure are required for efficiency, and some time (and other resources) would have to be spent on these activities … The amount spent would, however, be determined solely by the effect on income and not by any effect on utility. Slaves, for example, might be permitted time "off" from work only in so far as that maximised their output, or free persons in poor environments might have to maximise money income simply to survive. Households in richer countries do, however, forfeit money income in order to obtain additional utility, i.e., they exchange money income for a greater amount of psychic income. For example, they might increase their leisure time, take a pleasant job in preference to a better-paying unpleasant one, employ unproductive nephews or eat more than is warranted by considerations of productivity'.
10. The Chicago school's ability to explain seemingly 'non-economic' changes and differences in behaviour (including 'observed' difference in tastes, and even 'seemingly' irrational behaviour) in 'economic' terms largely arises from developing the implications of 'household production'. The extent to which this agenda, which Fine (2002) calls the first wave of 'economics imperialism', is epistemologically justified is beyond the scope of this paper. See also Emmet (2006).
11. Whether this is an accurate portrayal, and how the existence of 'discrete' choice (such as the eight-hour day) is theorised, is beyond the scope of this paper, which is more concerned with *informality.*
12. 'How can we account for the fact that, over the whole range of human history, unemployment in the modern sense is, comparatively speaking, a rare and local phenomenon? The answer is to be found in the existence of disguised unemployment. In a society in which there is no regular system of unemployment benefit, and in which poor relief is either non-existent or "less eligible" than almost any alternative short of suicide, a man who is thrown out of work must scratch up a living somehow or other by means of his own efforts … Thus, except under peculiar conditions, a decline in effective demand which reduces the amount of employment offered in the general run of industries will not lead to "unemployment" in the sense of complete idleness, but will rather drive workers into a number of occupations – selling match-boxes in the Strand, cutting brush-wood in the jungles, digging potatoes on allotments – which are still open to them' (Robinson 1936: 225–6).
13. The choice may be stark. Giving up searching for a 'career track' job in order to take a low-wage job or engage in 'household production' may have very detrimental effects on future income streams.
14. For example, both Cichello et al. (2012: 11–12) and Valodia and Devey (2010: 10) find that *only* approximately half of individuals stayed in the same labour market category between 2002 and 2004 (Valodia & Devey) and 2008 and 2010 (Cichello et al.). They interpret this as a high degree of 'churning' (people moving between categories) and do not acknowledge the possibility that there may be an element of reclassification occurring.
15. Because they are synonymous, the labels 'disguised' and 'hidden' unemployment can be confusing. The 'discouraged worker' effect is not used because it is associated in the literature with non-searching unemployed who are nevertheless 'openly' unemployed (i.e. have no other work or non-labour force occupation). Tenjo (1990) refers to the 'lack of opportunities' and the 'luxury unemployment' effects. The former refer to people responding to their own lack of opportunities in the labour market in a variety of ways. The term 'luxury unemployment' is intended to convey the idea that those who are *not* unemployed are so because they are unable to search, but evidently has a pejorative connotation (openly unemployed people indulging a 'taste' for not working). Therefore the term 'added worker effect' (Cain & Mincer 1969) is adopted here.
16. For inertia to emerge, it must be the case that a large number of the people affected by the additional worker effect are initially participating in the labour market (working or unemployed). Poverty will tend to drive such individuals out of unemployment and good jobs into bad jobs. However, if the people affected by the additional worker effect are initially out of the labour force, the result can be the opposite of inertia, with poverty causing a large increase in participation which may result in a large rise in the unemployment rate. It is interesting to consider the case of Argentina. The 'Tequila effect' resulted in 'a high increase in female labour force

participation coupled with a huge increase in unemployment for male heads of household, confirming that an added worker effect is in operation' (Pessino 1997: 175). '[I]t appears that either lower wealth or higher real wage rates [caused by the overvalued currency] drove more of the old, the young, and the female populations into the labour force' (Pessino 1997: 174). However, the longer-term effect of the secular decline in Latin American economies over the 1980s and 1990s seems to have been higher participation in 'bad' informal sector jobs causing a decline in measured joblessness. Lungo (quoted by DGAP 1995) argues that for Costa Rica '… the 1980s generated a high proportion of jobs of inferior quality, of great instability and low income, which could explain the fact that employment levels have risen again while incomes fell and poverty increased'. See also Egaña and Micco (2011) and IDB (2005).

17. Evidently, many self-employed are 'survivalist', and a proportion of informal employees are 'voluntarily' so. This is a feature of some Latin American labour markets in particular, where employers and employees collude to avoid social security payments (IDB 2004; Henley et al. 2009). However, most studies suggest that the entrepreneurial element is reasonably high amongst the self-employed (Herrington et al. 2010) and that the self-employed are significantly better educated and better off than informal sector employees.
18. Some remarks about the measure presented in Figure 1 are in order. In developed countries with low rates of structural unemployment (i.e. excluding countries like Spain and Italy), employment is around 55–60% of the 15+ population (WDI 2012). 'Not working' is explained by high enrolment in secondary and tertiary education, and large ageing populations. For example, in South Korea in 2009, the employment rate was 57.9% despite the unemployment rate being 3.6%. Life expectancy was over 80 years and gross enrolment in tertiary and secondary education were both over 100% (WDI 2012) (this means that the number of people in secondary and tertiary education – albeit some working – exceeds those in the designated age category for 'students'). Less-developed countries would have much higher employment and labour force participation rates, due to very low enrolment in higher education (on average less than 10% in sub-Saharan Africa) and to relatively small retired populations. Life expectancy is under 60 in all continental sub-Saharan countries except Namibia. Remarkably, it is above 60 years in all other nations listed in the WDI database, with the exception of Afghanistan.
19. See Berry and Sabot (1979) and Maro (2001) for reviews. These reviews call the model the *efficient labour market hypothesis* and the *functionalist* tradition respectively. However, neither of these terms captures the importance of the *distortionist* part of this synthesis. See also Williamson (1988).
20. The argument was not the preserve only of those with impeccable free market credentials (e.g. Louw and Kendall 1986). Arguments extolling the possibilities of the informal sector came to be associated with the late apartheid government's legitimation of its policies: '… [T]he informal sector plays an important role in transforming the disadvantaged communities of a traditionally rural subsistence economy into that of a market-oriented, urbanized consumer community in which the training of potential entrepreneurs is important. Being situated in the informal sector can therefore be regarded as temporary in nature, depending on the degree of growth and development in the formal sector of the economy'. (CEAS 1993: 213–4)
21. This is most explicit in the Japanese Uno school of Marxism (see Westra 2006). The first level is best described by the Unoist term 'the theory of a purely capitalist economy' (TPCE) and is characterised by the complete commodification of society and the subsumption of all pre-capitalist forms, including the state. The second, middle, level is 'stages theory', in which theory is developed with a specific context in mind (such as a historical phase of capitalism, or local variety of capital). The third stage is inductive: empirical literatures trying to make sense of history and data to provide the 'raw material' for the whole edifice. Middle-level theory is informed by both of the other levels.
22. This obviously allows scope for ideological bias. On the basis of a substantial survey of large and small firms, Lewis (2001: ii) singles out '"inflexibility" in the labour market' (as a factor claimed by firms to cause low employment growth) in the executive summary. Lewis (2001) does report that 40% of large firms claim this. What the executive summary does not report is that 30% of firms said that regulation had improved labour relations (Lewis 2001: 23). Furthermore, 94% of firms cited 'crime and theft', 61% high interest rates, etc. Labour issues came well down the list. This was also the case for small firms.
23. The Swedish state and liquor purchasing monopoly absorbs 69% of the value of wine imported from South Africa (Greenberg et al. 2012: Figure 1). In the global branded sweatshirts value chain, wages make up about 0.5% of the retail price (Joynt & Webster 2012: 5).

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