

Conceptualizing the Informal Economy: Evolution, Myths and Realities

What we thought (WWT)	Policy Implications of WWT	What we see (WWS)	Policy implication of WWS
The IE is a temporary phenomenon which will cease to exist as the economy grows and develops	Development policy should promote the formal economy and discourage the IE	The IE has grown substantially and is now the major source of employment in much of the developing world. The IE is disproportionately the site of employment creation	Development policy should support the IE which provides a livelihood for the vast majority of low-income earners

- Increase in female labour supply
- Fall in male employment in the industrial sector
- Advance in labour market data
- Links between the formal and informal economy

What we thought (WWT)	Policy Implications of WWT	What we see (WWS)	Policy implication of WWS
<p>The IE operates as a residual absorbing workers who are cannot be absorbed in the FE because they lack what employers in the FE are demanding (low levels of skills)</p>	<p>Labour market policy should focus on the FE and build ladders for IE workers to transition in the FE</p>	<p>The IE provides the bulk of employment and is made up of a range of occupations with some highly specialised skills and deep historical crafts</p>	<p>Labour market policy should be sufficiently nuanced to support the informal economy and create the conditions for increases in income levels</p>

What we thought (WWT)	Policy Implications of WWT	What we see (WWS)	Policy implication of WWS
<p>The IE exists because small and budding entrepreneurs are seeking to evade unnecessarily complex and burdensome regulations such as labour regulations, tax regulations and social protection regulation</p>	<p>Deregulate the labour market</p>	<p>Workers in the IE are not hiding from anything. Instead many are disadvantaged by being outside the regulatory environment</p>	<p>Appropriate regulation is needed to address high levels of vulnerability in the informal economy</p>

- Who is inside the regulation and who is not?
- Enforcement?
- Trading regulation in the city

What we thought (WWT)	Policy Implications of WWT	What we see (WWS)	Policy implication of WWS
The IE is characterised by low levels of productivity vis-à-vis the FE	The objective of economic policy should be to facilitate the transition of the labour force from low productivity to high productivity sectors	The IE is heterogenous with a diversity of enterprises of varying levels of productivity. Where productivity is low it may have a lot to do with adverse incorporation into global value chains	Sector specific support to improve positioning within global value chains

- global value chains : formal and informal linkages
- Forms of incorporation: facilitative and adverse

What we thought (WWT)	Policy Implications of WWT	What we see (WWS)	Policy implication of WWS
The IE serves as a cushion during economic downturns, absorbing labour shed in the FE	Growth in the IE is a temporary phenomenon and policy should focus on rebuilding the FE	Being more vulnerable the IE bears the brunt of economic recessions and adjustment	Stimulus packages to focus on the IE and the FE

Some concluding thoughts

- The IE reality that we see has impacted on the research and policy *advisor* community but not on the policy *maker* community. Why?
- Heterogeneity is accepted but not sufficiently understood
 - We know a lot about the IE from HH surveys, very little from enterprise surveys
- We don't know enough about transitions, adaptations and change
 - Panels