



Interdisciplinary Political Studies

<http://siba-ese.unisalento.it/index.php/idps>

ISSN: 2039-8573 (electronic version)

IdPS, Issue 4(2) 2018: 127-130

DOI: 10.1285/i20398573v4n2p127

Published on December 15, 2018

BOOK REVIEWS

The Informal Economy in Global Perspective. Varieties of Governance, edited by Abel Polese, Colin C. Williams, Ioana A. Horodnic and Predrag Bejakovic. Palgrave 2017, pp. 340.

Clara Capelli

Cooperation and Development Network – IUSS Pavia / Italian Agency for Development Cooperation

The book edited by Polese, Williams, Horodnic and Bejakovic has a twofold purpose. First, it represents an exhaustive attempt to show the heterogeneity of forms that informal economies can take. The considerable number of contributions, exploring different countries through different disciplines and methodologies, discusses how the informal sector is neither a transitional phenomenon nor a “backward” system, as claimed at the dawn of development studies (Lewis 1954). Second, the book analyses the relation between informality and governance, namely how the informal sector is not a separate and alternative system to the formal sector, but rather coexists and interacts with it.

The main focus is on the factors which determine informality and informal practices as well as the intertwining between the formal and informal sectors. Informality may be seen as a response to excessive state intervention or market imperfections (Harris and Todaro 1970), but also as a result of macroeconomic weaknesses and socio-economic factors that hinder the full absorption of the labour force into the formal economy (Ros 2010).

Most of the contributions applying the lens of economics are in line with what theorized by Hernando De Soto (1989), who sees informality as an efficiency-seeking response to oppressive state institutions. Abbas Khandan presents a quantitative model that shows how long-run informality in Iran is strictly linked to state

Work licensed under a Creative Commons Attribution-Non commercial-Share alike 3.0 Italian License

IdPS, ISSN: 2039-8573 - Copyright © 2018 - University of Salento, SIBA: <http://siba-ese.unisalento.it>

intervention, what he calls “the invisible hand in markets”. Sabina Hodzic estimates the size of the “shadow economy” in Croatia focusing on labour-related variables and identifying taxation and labour costs as the major causes of informal employment (“unofficial employment”). Michael Rochlitz discusses informality in Russia as a rational response to a combination of ill-functioning institutions and lack of rule of law. Firms are often exposed to predatory practices and corporate raiding attacks by both state officials and criminal groups; therefore, they may opt, based on a cost-benefit analysis, either for informality as a way to hide and not be “under the radar”, or for formality in order to be visible and receive protection.

On the contrary, Lela Rekhviashvili questions the institutionalist approach with reference to post-USSR Georgia, where market-oriented reforms did not succeed in absorbing the informal sector. In light of that, she considers that the relations and interaction between formal and informal economic practices are based on more complex factors than mere rational cost-benefit calculus and can be better understood on the basis of the concept of “embeddedness” as formulated by Polanyi (1968). Colin C. Williams and Ioana A. Horodnic illustrate their interview-based research and claim that informality does not originate as a response to regulation *per se*, but to forms of regulation violating the social contract and therefore citizens’ norms, value and beliefs (“social morality”).

Other contributions deem informality as the result of low productivity and socio-economic factors, not of market imperfections as claimed by mainstream economics. The econometric model built by Rogelio Varela Llamas, Ramón A. Castillo Ponce, and Juan Manuel Ocegueda Hernández shows that education attainments, gender and rurality are amongst the major drivers of labour informality in a low productive economy such as Mexico. Diana Traikova examines the main features of rural informality in Bulgaria and the variety of factors pushing people to (semi-)informal entrepreneurship in rural areas. Oksana Nezhyenko and Philippe Adair investigate how inequality in education is a major source of disparities in the remuneration of formal and informal workers in Ukraine.

The book does not only focus on how informality originates and persists as a stable component of a modern capitalist society. Different contributions also investigate how informality and formality interact, implicitly questioning the institutional view of informality as a separate and alternative system. Ahmadou Aly Mbaye, Nancy Claire Benjamin, and Fatou Gueye combine quantitative and qualita-

tive methods to show how the two sectors in Senegal and Benin are tightly intertwined, both competing and complementing each other based on the specific activity at stake. Kwama Adom discusses policies to formalize informal entrepreneurship in Ghana and claims that the concept of formalization itself is vague and not associated to clear objectives. Arihiro Mino describes his anthropological fieldwork on a coffee farmers' cooperative in Lao PDR, researching on the transition from self-sufficient farming to cash crop farming and monetary-based economy and on how the cooperative's representatives have built connections between governmental and market actors (external connections) and the farmers (internal connections).

The intertwining between formality and informality is also explored with a dedicated focus on corruption in the healthcare sector. Julia Schippergers, Milena Pavlova, Tetiana Stepurko, Paul Vincke and Wim Groot study corruption (e.g. bribery, kickbacks, collusion, favouritism) in public procurement in the healthcare sector across different countries and highlight the main differences in terms of perception and acceptability of corruptive practices. Adam V. Horodnic, Colin C. Williams, Abel Polese, Adriana Zait and Liviu Opera use survey data to show that socio-economic factors are not significantly correlated to informal payments in the Greek healthcare sector, which appear to be homogeneously spread across all the analysed groups. The introduction of market-based mechanisms also seems counterproductive, as discussed by Jingqing Yang; instead of reducing informal payments, these measures concentrated them in the hands of an élite of doctors taking advantage of their dominant position. Marius Wamsiedel describes his ethnographic fieldwork at the triage of an emergency department in Romania and discusses how informal payments belong to a grey area in which behaviours and relations do not necessarily respond to cost-benefit incentives.

The book provides a sound and thorough overview of the complexity of the concept of informal economy, accounting for a high degree of variety in the theories and methodologies adopted, as well as in the countries under consideration. It also shows how economic informality can be a core component of an economic system, often associated to low productivity and erratic revenues, but not necessarily to backwardness. On a similar note, corruption in the healthcare sector is presented as a widespread practice not uniquely determined by moral and rational cost-benefit considerations.

Yet, the heterogeneity of the chapters may prove confusing for the reader, posing a challenge to both theorization and policy making. Informality is treated both as a way to bypass state regulation and institutions as well as a sector interacting with formal institutions and markets, with rather blurry lines separating the two systems. In the former case, market-based reforms and law enforcement seem to be the necessary policy options to adopt, since informality is implicitly seen as a phenomenon to *counteract and absorb*; in the latter case, the same market-based mechanisms may prove inadequate face to the complexity of the informal sectors.

A few additional considerations to theoretically keep together such differences would have facilitated the reader's understanding and highlighted one of the key merits of this book, namely that of showing how the debate on informal economy is still open both within and among disciplines.

References

- De Soto, H 1989, *The other path. The invisible revolution in the third world*, Harper & Row, New York.
- Harris, J & Todaro, M 1970, 'Migration, Unemployment and Development. A Two-Sector Model', *The American Economic Review*, vol.60, no. 1, pp. 126-142.
https://www.jstor.org/stable/1807860?seq=1#page_scan_tab_contents
- Lewis, W A 1954, 'Economic Development with Unlimited Supplies of Labour', *The Manchester School*, vol. 22, no. 2, pp. 139-191.
<https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1467-9957.1954.tb00021.x>
- Polanyi, K 1968, *Primitive, archaic, and modern economies. Essays of Karl Polanyi*, Double day, Garden City.
- Ros, J 2010, 'Employment, Structural Adjustment and Sustainable Growth in Mexico', *The Journal Development Studies*, vol. 36, no. 4, pp. 95-116.
http://www.ilo.org/employment/Whatwedo/Publications/WCMS_120238/lang--en/index.htm

Clara Capelli