

A prize winning essay: Why it matters to understand the informal economy



Max Gallien, PhD candidate in The Department of International Development, is the joint runner-up of this year's **Economic and Social Research Council writing competition. Max's eloquently written piece makes a strong case for examining the informal economy through a fresh pair of eyes.**

As I talk to him, Ahmed pulls his chair into his store to escape the hot Tunisian sun. He is a retired teacher — the years of screaming children can be counted in the rings framing his eyes. Behind him is his merchandise. To make up for a small pension, Ahmed is selling kitchenware in a market near the Libyan border, over four hundred tiny concrete garages surround him, goods piled high — clothes, bags, microwaves. It looks like any other market, but note an invisible detail: everything sold here is illegal. Every good in this market has been smuggled into Tunisia. Ahmed, though he may not look the part, is a smuggler.

I research smuggling, or 'informal cross-border trade'. I talk to people like Ahmed about their lives, their business, the experience of being a smuggler in the 21st century. I talk to people who live on the margins — of their countries, of the law, of development. I think listening to Ahmed is crucial in order to understand our society. Not because the margins are so exotic, or a living relic, a modern day Wild West. But because today, the margins are everywhere.



We group people like Ahmed into the ‘informal economy’, the black markets that aren’t registered and hence don’t show up in many statistics – surely too small to make much of a difference. Except that in Tunisia, where Ahmed lives, half the workforce is in the informal economy. In Sub-Saharan Africa, it’s two thirds. In South-East Asia, it’s over eighty percent. Globally, informal is the new normal. This is not only an issue in the developing world: over two million people work in the informal economy in the UK, over 12 percent of its GDP is in the informal sector, and all these numbers are steadily rising. Think cleaners, nannies, construction workers, refugees. And while Tesco is a member of the formal economy, many of the goods we buy there have made their way through complex global value chains, which commonly cross the informal economy. Think sweatshops, migrant agricultural labour, unregistered miners. Researching the informal economy teaches us about the lives of many of the most vulnerable in our society – often uninsured, without contracts, sick days, unions, fair working conditions.

But there is a far more fundamental reason why researching the informal economy is essential to understanding society today. Looking at the economy in the margins reminds us that all economies are still structured by power. While the neoclassical school has reduced economics to an efficiency game, the economies we find around us look different. They reproduce the power structures that are embedded in our societies. Even if formal institutions may promote equality of opportunity and perfect competition, they are embedded in a variety of informal rules and networks, which may benefit some and hurt others. Social capital, old boys networks, extended families, ethnicity, political connections – these determine who makes it big in the world of Tunisia’s smugglers. They are the reason that Ahmed has a small booth selling kitchenware, while others, who have the right connections with the police, are making thousands every day, racing drugs across the desert. But to pretend that these institutions do not play a role in the UK formal economy would seem delusional even to a passing observer of economic life. Informal networks can help people get internships, jobs, they pass on information and influence legislation. Be it a certain Tunisian extended family and the market for smuggled gold, or the Bullingdon club and the market for male conservative politicians – Informal networks connect our society’s power structures and economic life. They can be tools of accumulation and domination, or of support and relief.

Thinking about informal economies therefore highlights features of our economies which are unregistered, and hence often ignored, but without which the price of clothes at Primark or the career of the current Foreign Secretary are difficult to explain. It turns our focus to a large world outside of official statistics and neoclassical economics. And it emphasises how closely our economies are structured by our societies, by their networks, attitudes, traditions, and stances on immigration. It forces us to take a fresh look at how economic dynamics are also changing our societies. Informal employment is on the rise, globally and in the UK. In the age of zero hour contracts, Uber and TaskRabbit, we are witnessing an informalisation of working conditions for many employees, as the formal economy also wants a slice of the informal pie. Ahmed’s market, formal-looking but entirely off the books, doesn’t seem so exotic now. How is this going to change our society? How do we formalise the informal? Should we? Can we?

So I talk to Ahmed, on the margins, to understand the margins that have opened up all around us.

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The views expressed in this post are those of the author and in no way reflect those of the International Development LSE blog or the London School of Economics and Political Science.

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