

The Informal Rural Economy

A Research Proposal

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IE Operates at the margins of the FE

- Markets (failure, undeveloped, fragmented etc.)
- Finance (unsecured borrowing, microcredit)
- Technology (artisan, small scale)
- Plant and equipment (salvage and obsolescence)
- Skills (unskilled, inexperienced, disabled, outmoded)
- Territorial (urban outskirts, slums, remote)
- Governance (unlicensed, unzoned, illicit, delinquent on codes for taxation, labour, environment and civil/human rights)
- Entitlements (not entitled, unconnected politically)
- Property rights (few individual exclusive rights, depend on common property rights)

Boundaries of the IE are Obscure

- FE and IE blend together in their terms and conditions for transactions.
- All boundaries are arbitrary cuts across the IE/FE continuum.
- Incomplete pricing.
- Illicit activities lead to misrepresentation of transactions.
- Eligibility fraud with state income transfers.
- Decent work deficit relative to border pricing.
- Heterogeneity of economic activities; range from dynamic modern to survivalist.

The IE: Transactions not People

- **Invisible:** Agreement by participants not to reveal terms of transaction, or even that a transaction has taken place.
- **Thrives in weak markets:** FE market failure, thin trade, start-up trade, highly differentiated and segmented market, remote areas, low population densities, high transactions costs, few substitutes, monopoly avoidance tactics.

IE is a strategic opportunity for the FE

- The FE can offload balance sheet items by outsourcing to the IE. Eg the DWD.
- The FE can offload obsolete equipment.
- The FE can gain flexibility by moving labour in and out of the IE.
- The FE can access common property rights through the IE as substitutes for individual property rights.
- The IE acts as a substitute for pension plans for the FE.

Much of the IE serves IE demand

When IE shrinks, demand weakens, hurting entrepreneurs, and pushing people toward the FE.

- Repair services
- Transport
- Construction
- Safety net
- Home care
- Petty commerce

IE as Populist Capitalism

- Entry costs for survivalist activities are lower than for new FE activities facing mercantilist protection within the FE.
- IE features low productivity, but assets have low opportunity costs.
- IE on-ramp to the FE is a strategy to accumulate equity finance and build a credit rating for training, migration and/or business investment.

Hypothesis #One

- The IE is an integral part of the self organization of the global FE.
 - Generates assets provides entry-level experience for entrepreneurs, asset mobility and labour.
 - Recycles assets that become obsolete or redundant.
 - Contributes social stability during restructuring.
 - Processes waste; damaged assets, pollution, garbage.
 - Provides career reversibility and resiliency.
- Alternate: The IE is a residual of the self-organization of the FE.

Hypothesis #Two

- The IE takes up slack in the FE.
 - Bottom of the business cycle:
 - Larger
 - Weaker
 - Proportionally more survivalist
 - Top of the business cycle
 - Smaller
 - Vibrant
 - Proportionally less survivalist
- Alternate: The IE is self-reproducing.

Hypothesis #Three

- The IE is attracted by the nature of the margins/niches of the FE.
 - Employment
 - Capital formation
 - GDP
 - Enterprise creation
- Alternate: The IE is marginalized by the FE with its mercantile entitlements from the state.

Hypothesis #Four

- The IE is well organized to deliver the less tangible parts of the triple bottom line for the FE.
 - National standards for employment and services
 - Pollution processing
 - Ecologically sound resource use practices
- Alternate: The IE is a major source of the DWD and of environmental damage.

Hypothesis #Five

- Rural IE transactions models are suited to deliver and to develop amenity value.
 - Common property rights
 - Fragmented intangible markets
 - Joint product nature of amenities and commodities
- Alternate: The IE is insensitive to the demand for amenity value and often contributes amenity damage through incomplete pricing.

Strategic hunch #1

- Rural municipalities should replace regulations for IE enterprises with a business plan to nurture social capital and cohesion around amenities, habitat and environmental security as joint products with FE linked transactions.

Strategic hunch #2

- The IE is also significantly a remittance economy. Development for an IE is thus a feature of the spending, savings and investment patterns of the hshlds. Multipliers, due diligence and free ridership are major issues in an IE as in the FE.

Strategic hunch #3

- Education is the single most effective strategy to get youth onto the on-ramp of the FE.
- Training is the key tactic to improve the performance of adults and their assets in the IE and their mobility at the margins of the FE.

What is the Informal Economy?

- Purpose is strategic and tactical:
 - To face uncertainty
 - To position relative to on and off-ramps to the FE.
 - To build safety nets
- Activities pursue socially and legally legitimate ends, often with legally nonconforming means.
- Growth comes from transactions with the FE; It is NOT indigenous to the IE.

Understanding rural enterprise

- The informal-formal economic continuum
- `Disappearing middle' appears to be polarization of transactions toward the IE and FE ends of the continuum.
- FE has robust markets (volume and price efficiency)
- IE has market fragmentation, thin trade, incomplete pricing.

Incomplete pricing

- Visible monetary price, plus
- Invisible future considerations, discrimination, associational discounts, intangibles, tax avoidance.