

# **The Informal Rural Economy: An Asset Perspective**

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## Function # One: Self organization of the global FE.

- Agility: Market for obsolete or redundant assets.
- Formative: Entry-level experience for entrepreneurs, and labour.
- Stability: Social shock absorber during FE restructuring.
- Environmental: Reuses damaged materials discarded from the FE.
- Resiliency: Enables career reversibility, transfer pricing and recombination of common and individual rights.

Question? Is the rural IE itself a residual of the self-organization of the FE, a candidate for recycling or landfill?

## Function #2: The IE Takes up the Slack in the FE

- business cycle **weakens**,
  - the IE is proportionally larger,
  - Weaker,
  - more survivalist,
  - less dynamic, deadweight.
- business cycle **strengthens**,
  - IE shrinks in size,
  - Stronger
  - more productive
  - more dynamic, vibrant.

• **Size** = employment, value of sales, and income generation.

• **Strength** = volume of investment, FE relationships, pace of self-organization.

• **Survivalist** = orientation of transactions to meet basic needs.

• **Dynamic and vibrant** = transactions with high income elastic demands, innovation.

Question? Is the IE self-reproducing?

The value of this function lies in co-ordination of investments in the IE with the FE business cycle. The inter-cyclical reinforcement of the survivalist component of the IE may be weakened by timing the preparation of assets coming down the off-ramp on the downturn for re-entry into the FE on the upturn.

## Function # Three: Absorbs Uncertainty for the FE

- Outsourcing to reduce fixed costs and shift uncertainty. Eg. JIT
- Moderates wage levels in the FE to reduce variable costs.
- Gains access for the FE to zero-priced open access property rights for resources.
- Reduces social charges/payroll taxes.

Question? When does off-loading uncertainty to the rural IE risk crossing ethical boundaries? Eg. DWD.

What are the attributes of the IE?

## From the IE Literature

- The NRE is conceivably an IE with an FE enclave.
- The IE is growing steadily in RC I, II and III, ...driven by transaction costs [and competition avoidance?]
- Size of the IE is accelerated by globalization.
- The IE is not a growth point for the economy.
- The IE has low absorption capacity for investment, knowledge, and changes in governance.
- The household may be becoming obsolete as the basic unit of organization of IE production.
- The IE is insensitive to macroeconomic policy and development models designed for FEs. (ex. LDC)

## The IE: heterogeneous and contradictory

- Different but not separate from the FE
- Legal purpose with illicit means
- Survivalist yet dynamic and modernizing
- Unorganized yet mutualistic
- Rural and urban
- High-end (income elastic outputs) and low-end (inferior and subsistence goods and services)
- Low productivity yet competitive with the FE

## 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 and open access property rights)



## Attracted or Repelled by the FE? rival arguments

- The IE is attracted by the nature of the margins/niches of the FE.
  - Part-time and temporary employment
  - Opportunities around transaction costs; Eg. Gst/pst, safety codes, drug laws.
  - Capital formation (infrastructure and agglomeration)
  - GDP in the FE
  - FE waste
- The IE is repelled (marginalized) by the FE
  - mercantile entitlements are barriers to entry.
  - Size economies in technology and regulation.
  - Market conduct to increase transaction costs.

## A View from the Top: An off-balance sheet economy

- Pension liability
- Unpaid community and household services
- Capacity sump
- illegitimate,
- Illicit activities,
- Succeeding only because
  - of tax evasion,
  - a DWD (decent wage deficit) and
  - exploitation of women and child labour

# The Tollroad Model

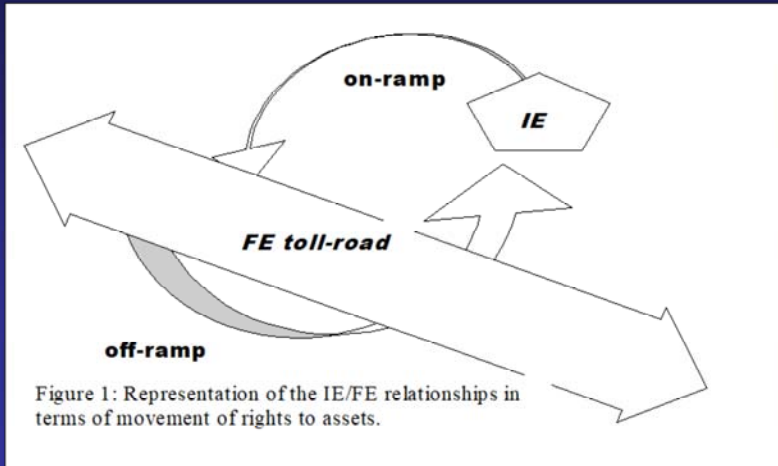


Figure 1: Representation of the IE/FE relationships in terms of movement of rights to assets.

## Perspective: The IE as Roadkill

- Irreversible ...no on-ramp
- Social exclusion ...Samaritan syndrome
- Economic marginalization ...
- Devalued assets, especially human  
...Darwinian outcomes from competition
- Subsistence ...basic needs economy
- Deadweight on the FE ...tax burden for  
services and humanitarian needs

## The Asset Perspective

- Individualized and exclusive real property rights: IE as source of equity and skill to enter formal property rights markets.
- Common real property rights: IE as service provider and protector of 'option value'.
- Intellectual property rights: IE as educational and experiential opportunity, especially for youth.
- Proprietary rights: IE as relationship building and organizational learning.

## A Second Asset Perspective: Ability to operate in imperfect markets.

### *The IE substitutes*

- social norms for legal contracts,
- social capital for economic capital
- social enterprise for economic entrepreneurship.
- open access rights for private property
- reciprocity and associative skills for market and bureaucratic skills

#### Market imperfections:

little and/or erroneous information,  
fragmented/concentrated structure  
low recognition of new products.

## Third Asset Perspective: Invents Popular Capitalism Connected to Mercantile Capitalism

- Individualization of open access property rights
- Competitive markets
- Individualist ethos
- Organizes and mobilizes assets
- Audacious entrepreneurship
- Risk-taking
- Problem solving
- Predatory (hustle and opportunism)

## On-ramp as Populist Capitalism

- 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.
- Entry costs for survivalist activities are lower than for new FE activities facing mercantilist protection within the FE.
- IE features low productivity, matching assets with low opportunity costs.
- IE as economic incubator.



## IE is an unexplored 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.

## The Household Conundrum

- Household enterprise is not a good vehicle for the on-ramp, and especially not for the tollroad.
- The IE is organized mainly as households.
  - Functional for consumption
  - Dysfunctional for production in the NRE
- Household gets beyond its capacity for learning in the NRE: It cannot learn fast enough in the knowledge economy (high K transaction costs)
- Household is the (parametric) uncertainty sump of the IE, which is the uncertainty sump of the NRE, which is the uncertainty sump of the GE.

## Why Household Organization of Production and Transactions in the IE?

- To gain enough confidence to take decisions (bounded rationality). ...a fallback position.
  - To simplify (linearize) informational complexity
  - To compensate for asymmetric information (data communication)
- Manage opportunism in market transactions (pursuit of self-interest with guile, spite).
- To reduce asset specificity (simplify organization costs (operations)).
- Avoid transaction costs (who to deal with, how to let them know, terms, negotiation for price discovery, monitoring, enforcement)
- Result is a `severely' closed IE production system.

## Why the IE is growing in the OECD

- Liberalization brings larger markets, greater complexity and therefore uncertainty (costs) to transactions.
- Globalization of learning increases volumes and complexity of information.
- Firm is redefined: Organization governing production and distribution in which an entrepreneur/co-ordinator directs without priced exchange transactions.
- Transaction costs define the co-evolution of the firm: Which transactions are in, which are out based on confidence NOT risk.

Strategic Option:  
***REDEFINE THE IE FIRM***

- Enable formal businesses to emerge without the limitations of household organization.
- Rebundle household productive assets in new rural institutions.
  - Ex. imbedding in not-for-profit crosscutting rural/urban NGO corporations or DEVCOs.
- Strategic alliances with and around powerful FE players to enjoy economies of size, mercantile entitlements, access to finance.
  - Ex. forest service co-ops; Publicly traded Amenity Trusts.

## Strategic Option: Municipal IE Business Plan

- Replace regulations for IE enterprises with a business plan for the IE.
- Nurture social capital and cohesion around amenities, habitat and environmental security as joint products with FE outputs.
- Reduce transaction costs for property rights of all types.
- Invest in learning culture.
- Draw the IE into governing institutions.



## Strategic Option: Remittance Multiplier Strategy

- The rural IE is significantly a remittance economy.
- Development for the IE is a function of household spending, savings and investment patterns.
- Bankable projects can attract IE equity investment and serve as another opportunity for organizing IE assets beyond household boundaries.

## Strategic Option: Education, Training and Learning Strategy

- Education is the single most effective strategy to get youth onto the on-ramp of the FE. (Curriculum, co-op learning, 4H, disaster services. Etc)
- Training and continuing ed are the key tactics to improve the performance of adults and their assets in the IE
- Learning culture fuels mobility and adaptability at the margins of the FE.



## Summary: Change the NRE to a Bankable Tradable FE Asset from a Destination IE

- Redefine the IE firm
- Restructure local transaction costs
- Regroup assets and property rights
- Reinvest equity
- Restock skills
- Refresh learning attitudes
- Revitalize governance capacity
- Reorganize relationships
- Re-insure risks
- Re-enter FE markets while remaining IE.

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