THE URBAN INFORMAL SECTOR: AN ALTERNATIVE ANALYSIS

by

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Abstract

The Urban Informal Sector: An Alternative Analysis

The concept of dualism was applied to the urban economies in the Third World in the mid-sixties. Two sectors were identified, the informal sector and the formal sector. The informal sector was recognised to be primarily the refuge of the poor, the unemployed, and surplus labour from rural areas. Consequently, theories were advanced to explain how the informal sector was created, and why it persisted in the Third World development process. In the last ten years, however, research findings have shown that the informal sector may not necessarily be the sector of the poor or be confined to the Third World. These studies indicate that the informal sector is sometimes quite thriving, and present in centrally planned socialist economies as well as Western capitalist nations. It is time therefore for a comparative analysis of the various types of informal activities in the different economies to ascertain how and why the phenomenon exists in the different contexts.

This research examines the course of the debate on the informal sector from 1965-1985 and presents an alternative analysis on the informal sector. The alternative analysis redefines the 'informal sector' as the 'petty capitalist sector' and proposes that this sector is created in response to the market forces in the formal sector, irrespective of the type of economy. The 'petty capitalist sector' caters to the demands for goods and services that are unfulfilled by the formal sector, and these are not necessarily confined to cheap goods. The labour for petty capitalist sector is similarly not confined to the poor and the unemployed. There are a variety of demands from the petty capitalist sector and different sources of labour for it. It is the potential for different combinations of labour sources and types of demand that create the wide variety of petty capitalist activities in the different economies.

This research also presents the potential contribution of the alternative analysis to Third World planning. Planning for the informal sector has been important in the Third World because it has been tied to poverty and unemployment. But, according to the alternative analysis, because the 'petty capitalist sector' includes a range of activities with different problems, it would be inaccurate to say that it can be planned for per se. At best, a nation can deal with some specific problems of the petty capitalist sector, and this would depend on the development priorities of each nation.
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CHAPTER 1: A CASE FOR RESEARCH ON THE URBAN INFORMAL SECTOR

1. INTRODUCTION

The informal sector is mostly recognised as one part of a dualistic urban economy. Dualism, at any spatial scale, conceptualises an economic system in terms of a dichotomous model, in which the two parts of the model are "essentially separate and autonomous entities" (Rogerson 1985:10). Urban dualism, therefore, refers to a dichotomous urban economy, in which one part, the formal sector, is state regulated, nurtured, and protected. The second part, of importance in this research, is the informal sector, and this is commonly known as the unregulated economy of the poor and the unemployed (Richardson, 1984; Sabot, 1977; Bose, 1977; Mazumdar and Mazumdar, 1975).

Many scholars agree that the current state of knowledge about the informal sector is quite confused (Moser, 1984; Richardson, 1984). Although the definition of the informal sector has been a problem since the beginning of the debate, the application of a multitude of definitions to empirical work over the years has made analysis more difficult.

"The informal sector is still too broad to be meaningful; at one end is a pool of surplus labour, at the other a skilled high income earning entrepreneur; at one end a proliferation of residual enterprises

1 Involution describes activities or enterprises that are unable to generate growth, but only reproduce the existing conditions of scale of operations often at the expense of the cost of labour and standard of living.
involutionary¹ in nature, at the other end of the spectrum dynamic evolutionary enterprises." Moser 1984, p 160.

Until recently, the phenomenon of the informal sector was debated predominantly in the context of the Third World.² While, not all Third World nations are alike in their development patterns, they can be distinctly separated from the prosperous First World and the socialist Second World. Since the late nineteen seventies, however, studies of the informal sector in the socialist and Western capitalist economies have become more common in the literature and this has increased the complexity of the debate on the informal sector (Mattera, 1985; Aslund, 1985; Simon and Witte, 1982). But then why do we proceed in this study at all? Perhaps we persist, as Peattie (1984:180) has put it, for two reasons:

1. The topic is important or we would not keep on.
2. We have mis-specified it or we would not be so muddled.

The importance of this topic is evident for it involves a sizable part of the labour force in Third World economies (Sethuraman, 1981). Furthermore, the correlation of the informal sector with poverty and unemployment highlights other socio-economic, and physical problems of developing nations, all of which warrant scholarly attention. Interest in the topic grew partly for academic reasons, but mostly because it was

² The Third World is a very general term applied in this research to nations that are characterised by a slow pace of development; high growth of the labour force, poverty, large income and regional growth disparities etc.
perceived as a developmental and an urban problem that had to be tackled by Third World governments (Rogerson, 1985; Bromley, 1978). The informal sector was estimated to include from 20-60% of the urban population of major cities of the Third World (Mazumdar 1975), was viewed as an economic malfunction in the nation, and as an unwelcome burden on urban services and infrastructure. While a positive view of the informal sector's contribution to the urban economy was being increasingly proposed in some studies, (Pendakur, 1975; Sethuraman, 1974; I.L.O., 1972) the haphazard distribution of informal activities in the streets of Third World cities, the congested and unhygienic conditions of the squatter settlements, and the strain on the urban infrastructure and amenities, had a greater impact on policies (McGee and Yeung, 1977; McGee, 1972; Poethig, 1971).

It is for these reasons that this research is undertaken, to sieve through the information in order to provide some synthesis and direction. It is hoped that the endeavour will be more than a purely scholarly exercise and that it will contribute to the debate on public policy and planning for the informal sector.
2. PROBLEM STATEMENT

1. 1965-1975, The Period Of Convergence In Thoughts On The Informal Sector

In the early years of the debate (1965-75), the concept of dualism, which has a long history (Boeke, orig. 1910, in Brookfield, 1975), was applied to the urban areas of the Third World in an attempt to understand the presence of certain types of economic activities and enterprises. This period of study of the informal sector will be referred to as the 'old wisdom'. The study of these activities per se, that fell outside the realm of the government regulated economy, dominated over the study of the dualism concept itself. In fact, applying the dualism concept efforts were made to delineate two sectors of the urban economy. In this decade, some scholarly attention also led to the formulation of dualism models, which were later applied to empirical work. The models identified the phenomenon as it appeared in the Third World; on the basis of the characteristics of informal and formal activity, modes of production, income classification and so on, and were essentially descriptive. The models described the informal sector as one that was mostly the refuge of the poor.

Even at this early stage in the debate, there were some problems in the definition of the phenomenon (Moser, 1984). Nonetheless, the ability to identify the informal sector using the models, led to a great surge in empirical research. The findings not only provided additional information on the
informal sector, but it also seemed to support the description provided by the models. For example, it was found that the informal sector was composed mostly of the poor, the unemployed and migrants from rural areas (Sabot, 1977; Bose, 1977; Mazumdar and Mazumdar, 1975). A few contradictions appeared between the empirical findings and the models but these did not assume any significance because the majority of the findings were supportive of the models.

Thus, in the early years, the debate on the informal sector saw a convergence of ideas. Although the definition of the informal sector was contested, few disagreed that the sector was intricately tied to poverty and unemployment, that resulted from the process of Third World development.

2. 1975-1985, The Period Of Departures In Mainstream Thought

While it is difficult to deny that the early wisdom was sound and logical in the context of the evidence of its time, it is also difficult to continue to accept the position of the early research in the face an overwhelming amount of contradictory evidence since the mid-seventies:

1. Studies of the informal sector in Western capitalist and socialist economies have increased in the last decade (1975-85) and have entered the debate significantly (Mingione, 1985; De Grazia, 1984; Tanzi, 1982). It is also in this last decade that studies of the informal sector in smaller towns of the Third World gained momentum although Santos (1973; 1979) had introduced the idea much earlier (Kull, 1984; Hilhorst, 1984).
Both these research developments make it difficult to accept the earlier implied view that the informal sector is exclusively a feature common to the largest towns of the underdeveloped Third World economies (Richardson, 1984; Mathur and Moser, 1984; Das, 1982).

2. As studies have progressed from an exclusively Third World setting to other types of economies, the nature of informal activity was observed to include greater variations than identified earlier, even in the context of the Third World. There is evidence that the informal sector may be profit making (Page and Steel, 1984; Demol and Nihan, 1982) as well as employment generating, and that it is not necessarily based on unskilled labour, using a low level of technology (Richardson, 1984). In the case of barter activities in Western nations, for example, skilled labour and the use of a high level of technology is not unusual in the barter of professional services (Mattera, 1985; Tanzi, 1982; Simon and Witte, 1982).

3. Greater variation in the characteristics of the population engaged in the informal sector was observed. There is evidence that participants in the informal sector can sometimes be neither poor nor unemployed (Fowler, 1978; Nihan and Jourdain, 1978; Aryee, 1977; Webb, 1974). It has also been found that the migration of rural population has no significant correlation with the informal sector because the informal sector does not always include recent migrants (Richardson, 1984; Moser, 1984). Furthermore, recent studies show that the informal sector can sometimes even be a sector of choice

Because of these recent developments in the research it is difficult to accept the 'old wisdom' on the role of the informal sector in the urban economy, the relationship of the informal sector to the urban, the national, and the international economy, and the relationship of the informal sector to Third World development processes.

Obviously, there is a case for further investigation of the evolution and features of the informal sector in the Third World and other economies, and why or how it forms. But, the significance of these recent findings depends on the nature of the inquiry and the objective of the research. Two approaches can be taken.

1. A Non-Comparative approach:

Studies on the informal sector in economies that are in a different process of development, not comparable to the Third World, may or may not be construed as a contradiction. It may be argued that these are separate phenomena, perhaps similar but not necessarily the same. As such there would be no need to explain the differences. Certainly on the basis of this argument there is every likelihood that the phenomenon in different economies should not be considered related. Similarly, other differences can be dismissed if studied in isolation.

However, it is evident at this time that there are too many contradictions in the study of the informal sector. The range
of differences discovered within the Third World is as great as the differences between the Third World and other economies. One response to the differences within the Third World has been to disaggregate the phenomenon. This has been done by the addition of subcategories within the dualistic framework e.g. the "intermediate" sector (Steel, 1977), the "modern" informal sector (Nihan et al. 1979, Nihan and Jourdain, 1978) and so on. But, how many sectors will it be necessary to create to accommodate the variations that are being discovered just because they do not fit the parameters of Third World underdevelopment, poverty, unemployment, and migration?

Peattie (1984) states that the lack of a comparative approach to the issue is due to analytic prejudice. She states that the current approach is generally one in which the phenomenon is separated on the basis of dissimilarities, between different types of economies and within the Third World.

2. A Comparative approach:

The other approach would be a comparative one, based on commonalities within the phenomenon found in different contexts. There has been some attempt to include the wide variety of activities, that lie outside the boundaries of earlier definitions of the informal sector, by redefining it (Sethuraman, 1981). However, these redefinitions have been made within the context of the urban economies of the Third World, and do not consider the informal sector in other economies. Thus, it appears that the redefinitions attempt to retain the older views on the informal sector as an aspect of Third World
This research also undertakes a comparative approach to the study of the informal sector but is one which includes a comparison of the informal sector in the three types of economies. This research is based on a study of the informal sector debate of the last 18-20 years. It attempts to re-analyse the converging and the conflicting issues in the debate for two reasons:

1. The recent developments in the study of the informal sector need a synthesis of knowledge, so that the similarities and differences are better understood as a basis for further research.
2. To provide a more complete understanding of the urban informal sector so that it can better assist the formulation of planning policies.

The study of the informal sector in this research leads to the conclusion that a different approach to the analysis of the informal sector is needed. This results in the presentation of an alternative analysis, in an effort to provide synthesis and direction to the study of the informal sector. It is hoped that this effort will have a positive impact upon planning endeavours. The structure of the research is represented in figure 1.
3. **OBJECTIVE**

In the context of the problem statement, the objective of the thesis is to identify the processes that create the informal sector.

To do this, it is necessary to evaluate the available information on this subject and assess its strengths and the weaknesses. This, in itself, is not an overwhelming task because many evaluative studies have already been done on the informal sector (Rogerson, 1985; Moser, 1984; McGee, 1976). What is more difficult, however, is a comparative study of the more recent research on the informal sector and the 'old wisdom'. Although many case studies of the informal sector in socialist and Western capitalist nations exist, few generalisations have been made. This research will provide some general conclusions about the informal sector in these types of economies, to facilitate the comparative analysis of the informal sector.

4. **STRUCTURE OF THE RESEARCH**

The research has proceeded as follows:

1. Review of the studies on the informal sector in the Third World, and those on the relationship of this sector to the Third World development process. This review is divided into two parts. The first part covers the period of the mid-sixties to mid-seventies when there was a clearly established direction to the research on the informal sector. At this time, the
Figure 1 - The structure of the research

THEORY ON URBAN DUALISM, AND ITS RELATIONSHIP TO DEVELOPMENT (1960-1975 approx.)

RECENT DEVELOPMENTS IN THE DEBATE ON URBAN DUALISM (POST 1975--)

IMPACT OF THEORY ON URBAN AND REGIONAL PLANNING IN THE THIRD WORLD

EFFECTIVENESS OF PLANNING STRATEGIES IN THE THIRD WORLD

AN ALTERNATIVE ANALYSIS

IMPLICATIONS FOR EXISTING THEORY

IMPLICATIONS FOR PLANNING

The phenomenon was identified as a feature of Third World underdevelopment. This can be referred to as the 'old wisdom' on the subject. The review of this "old wisdom" is important not only because it was pioneering work, but also because it has persisted in planning policy in spite of changes in the debate in the following years. This review of the "old wisdom" forms chapter two.

2. Review of the second phase in the debate on the
informal sector, the period from 1975-1985. This is referred to as the 'contemporary wisdom' on the informal sector. It includes a comparison of the contemporary thinking to the "old wisdom", identification of areas of conflict in the debate, and presentation of a case for an alternative approach to the study of the informal sector. This is the substance of chapter three.

3. Proposal of an alternative analysis that will address and explain the areas of conflict in the study of the urban informal sector. This chapter will be the crux of the thesis as it identifies the factors leading to the creation of the informal sector. Using the alternative analysis, an explanation is provided for the differences in the informal sector not only within the Third World but also in other economies. This is covered in chapter four.

4. Application of the alternative analysis to planning purposes. This section discusses whether planning is necessary for the informal sector, and how to proceed. This forms chapter five.

5. MATERIALS AND METHODS

Documentary material has been the primary source of information for this research. Studies on the informal sector have been prolific particularly since the early seventies. Although a comparison of the studies is sometimes problematic due to differences in definition, strong trends in the debate can be identified.

It was not feasible to undertake extensive field work on
the informal sector, particularly to test the findings of the alternative analysis. However, some fieldwork was undertaken by the author for this research as well as previously to augment the information on the informal sector. For this research, a participant-observation survey of 57 persons employed in the informal sector was undertaken in Raikot, a small town in Punjab, India, during October 1981-February 1982. The municipal office of Raikot provided municipal documents to support the research. This field study compensates for the scant information on the informal sector in small towns of the Third World and was necessary for comparison with the informal sector in large towns. Raikot was also included in a study of the impact of development policy on small towns in Punjab, also undertaken in 1982. Information for this study was collected from the Punjab University, Chandigarh; the Agricultural University of Punjab, Ludhiana; Town and Country Planning office, Chandigarh; the Census office, Chandigarh; and other government agencies. Previously, in 1977, questionnaire surveys were carried out by the author in Rourkela and Sambalpur, two large towns in Orissa, India. The sample sizes of the studies were 250 and 187 persons in squatter colonies, respectively. Only selected information from the surveys has been used here.

The author has also had experience of the informal sector in India, not only as an academic interest, but also because the informal sector activities provide a middle class Indian with goods and services on almost a daily basis. Knowledge of other nations however is mostly through study of the literature.
6. SCOPE AND LIMITATIONS

1. This research has been confined to the use of literature in the comparative analysis of the informal sector in the three dominant types of economies and the subsequent proposal of the alternative analysis. The alternative analysis would have benefitted by support from empirical data, but field work was not possible due to financial constraints.

2. Studies of the informal sector in socialist and Western capitalist nations are not as extensive as that of the Third World, and this affects comparative analysis of the three contexts. Although studies of the informal sector in socialist and Western capitalist economies are not new, they have only entered the urban dualism debate in a significant way since the mid-seventies.

3. Information on the informal sector in small towns of the Third World is not substantial but this was partially compensated by the author's survey of Raikot, mentioned earlier.

The literature on the informal sector is extensive, and although every major point of view has been considered in the review of the debate on the informal sector, it has not been possible to read every document on the subject. The review is none the less comprehensive for the purposes of this research.
7. POTENTIAL FOR FUTURE RESEARCH

There are many different avenues for future research as a result of this thesis. The presentation of an alternative analysis on the urban informal sector, that is new and different, will no doubt generate discussion and perhaps lead to refinements and modifications of the analysis. Furthermore, the analysis is as yet untested and because it proposes universal applicability, the scope for empirical testing is enormous. This, again, can provide feedback that can be used to improve the analysis. Finally, the use of the alternative analysis for planning purposes can be the subject for considerable research, this aspect is only broached in this thesis.

1. INTRODUCTION TO THE INFORMAL SECTOR/FORMAL SECTOR DEBATE

The literature on urban dualism is extensive. However, in spite of twenty five years of study there is considerable disagreement on certain aspects of the subject. For example:

a. What is the informal sector?

b. How is the informal sector formed?

c. What is the role of the informal sector in an urban economy?

d. What is the relationship of the informal sector to the formal sector in an urban economy?

Breman's (1976:1871) view, that the discussion of the informal sector has "given rise to more questions than it has solved" appears to be substantiated. Moser (1984) has reviewed some of these questions in her article entitled "The informal sector reworked". In the early years of the debate, however, there was greater clarity, or consensus, on what the informal sector was and how it formed, primarily because the analysis was restricted to the Third World (Mathur and Moser, 1984). But, that is not to say there was no confusion in the early years. Indeed, problems of definition and differing views on the relationship of the underdevelopment process to the creation of the informal sector were present (Kahn, 1980; Moser, 1978; Gerry, 1979). Nevertheless, these different positions were within the Third World context, and this set boundaries to the debate. Since the mid-seventies, however, this "context" for
the debate is no longer sufficient. Studies on the informal sector in other economies, although not new, have entered the debate in a significant way (Mattera, 1985; Aslund, 1985; Tanzi, 1982).

It is the purpose of this chapter to review the knowledge
of the informal sector that was dominant in the early years, the "old wisdom". The chapter will identify the major streams of thought that converged to understand the phenomenon in the Third World. There will be three major sections to this discussion. The first part will include a review of some of the definitions and models that contributed to the understanding of what the informal sector was. The second part will review the ideas on how the informal sector forms. Finally, the third part will discuss the major theories that have directly or indirectly tried to understand the peculiarities of the Third World development process leading to the creation of the informal sector. It is necessary to discuss the "old wisdom" separately because it is distinguishable from the recent studies and also because it was influential in guiding planning policy for the informal sector in the Third World. This influence continues to the present even though the knowledge about the informal sector has changed in recent years.

Much of the argument in the "old wisdom" stems from the origins of the dualism concept itself and empirical observations of the informal sector in Third World cities. The "whys" and "hows" of the issue were based, in a logical manner, on "where" the sector was found and "what" it was. Figure 2 represents these aspects, as the structure for following discussion of the "old wisdom" on the informal sector.
2. DEFINITION AND DESCRIPTION OF THE INFORMAL SECTOR

2.1 Origins Of The Dualism Concept

The study of urban dualism did not arise in a vacuum. The concept of economic dualism has a long history. Economic dualism is a dichotomous economic formation that has been observed and then described and explained in different spatial contexts over time. Boeke is credited with the notion of a dual economy (orig. 1910, in Brookfield, 1975). The concept was introduced in English by Furnival (1939) and along with translations of Boeke's works, set the stage for a debate on economic dualism that continues today.

Boeke observed that in a colonial economy, the contact between two socio-economic systems leads to two distinguishable elements in the colonial economy ie. the westernised and the easternised elements. His observations were based on the colonial economy of Indonesia. The westernised element according to Brookfield is "materialist, rational, and individualist......the epitome of exploitative and unyielding capitalism. The eastern element, in contrast, is precapitalist, characterised by a prevalence of self-employment" (Brookfield 1975:54). Not much later, Chayanov's discussion (1966, in Brookfield 1975) on the relations between labour effort and production, echoed Boeke's beliefs that the concept of a single capitalist economy is insufficient to explain different economic forms. Chayanov had noted that labour input into production is a drudgery if it is used to produce beyond the needs of the
people. This concept is similar to Boeke's "eastern element". Almost three decades after Boeke, Marx (orig. 1935, in Brookfield, 1975) distinguished between production for use and production for gain which are comparable to Boeke's eastern and western elements respectively.

There is, however, a major difference in the writings of Boeke, Chayanov and Marx. Marx argues that a dual economy within a country is the result of a common evolution of each form. By comparison, Boeke and Chayanov portray the dual economy to be non-evolutionary in character. That is, the dual economy has a timeless quality, without reference to any changes that may result from the course of development.

Later, normative models were devised to understand the dual economy, primarily to find one economic theory that could explain dualism and yet be "value-free". Brookfield (1975) states that this led to the identification of different sets of dichotomies, that used different nomenclature, but were essentially similar to Boeke's eastern and western elements in the classic dualism theory. For example, Higgins (1968) used the terms 'industrial' and 'rural' while Brookfield uses the terms 'industrial' and 'agricultural'. The use of different terminology has led to some confusion in finding an exact definition of the two sectors and this permeates the analysis of urban economies, that came later.
2.2 The Spatial Context Of Urban Dualism

In the sixties, some scholars identified a sector in Third World cities that did not fit the classic distinction of an economy into rural and urban-industrial sectors. Richardson (1984) states that Reynolds provided the first model which added this sector to the classic dualism theory. However, credit is usually given to Geertz's (1963) analysis for furthering the early research. Geertz distinguished a "bazaar" sector from the "firm centered sector" (urban-industrial sector). The western element of Boeke can be compared to the urban-industrial/firm-centred sector, while the eastern element that had previously been visualised only in a rural-agricultural context was now compared to the "bazaar" sector in cities. Since then, the study of dualism moved to the cities.

2.3 Urban Dualism: The Development Of Theoretical Models

Economic dualism, in the classic context of a rural/agricultural and urban/industrial dichotomy as well as within the urban context has been a feature of the Third World. It is not surprising, therefore, that many descriptive and explanatory models of urban dualism were proposed in the same context. But, even within this spatial context it was still difficult for scholars to agree on the definition of the two sectors. The urban dualism models provide many different approaches to the definition of the two sectors, use different terminology (see Table 1), and therefore present an unclear picture of this phenomenon.
Table I - Dichotomous models of urban economy in underdeveloped nations

1. Geertz 1963 Bazaar economy - Firm-centered economy  
3. Hart 1973 Informal - Formal  
4. Emmerji 1974 Unstructured - Structured  
5. Mazumdar 1976 Unprotected - Protected  

Source: Adapted from Gerry 1979, cited in Rogerson, 1984, p.14

To add to this, Moser (1978) states that the application of the models to empirical research has resulted in complete confusion.

"For instance it has, at different times, been regarded as synonymous with the urban poor or with people living in slums and squatter settlements, or with immigrant populations of cities. In addition, certain kinds of occupations have been treated as belonging to the informal sector." (Moser 1978:1051)

The "Pisces" study, by the Georgia Institute of Technology, for the Agency of International Development (1981) states:

"A compilation of more than fifty definitions of this elusive concept show wide discrepancies in their assumptions of maximum number of employees, capital required, productivity, modernity and integration into the economy."

This compilation of definitions was made by the Georgia Institute of Technology in 1975. In order to understand what the two sectors are, in the urban context, this chapter will present some of the major views or models and the general concept of urban dualism that can be derived from them.
Based partly on McGee's (1978) classification, five categories of dualism models are presented here. These include; models based on a description of the sector, models based on modes of production, models based on the relationship of the sectors to the government, models based on income opportunity and models that cannot be placed into these categories.

1. Dualism models based on a description of the sectors:

With the exception of Santos, the models in this category seek to delineate one sector from the other without the consideration of any interrelationships. Geertz (1963) was the pioneer in this category. He drew attention to the dualism observed in the economic structure of Modjokuto, a Javanese town, and distinguished between a "bazaar" sector and a "firm centred sector". Reynolds (1966) described a sector that is similar to the "bazaar" sector identified as:

"the petty traders, street vendors, coolies and porters, small artisans messengers, barbers, shoe shine boys and personal servants...most of them require little or no skill and also little or no capital" (Reynolds, 1966).

Richardson (1984) is critical of Reynolds work for his neglect of the full spectrum of activities that can be classified in the "bazaar" sector and in retrospect he appears to be correct. Both Reynolds and Geertz did not elaborate on the characteristics of the participants in the two sectors except by skill, capital input, and poverty. But, in all fairness, it has to be said that they laid the foundation for the work of other scholars.
Studies of the informal sector by the International Labour Organisation (1972) and Santos (1973, 1979) expanded on these earlier works, and although both are theoretically significant, the I.L.O. had a greater impact upon policy decisions in the Third World. The I.L.O., along with the World Bank, was instrumental in "securing the rapid world wide acceptance of this new concept in the development literature" (Rogerson, 1985, p.8). The I.L.O. provided a list of characteristics to distinguish between the informal and formal sectors, which were widely used in empirical studies and policy making. It is for these reasons that the I.L.O. list of characteristics is presented here:

Table II - The I.L.O distinction between the informal and formal Sectors

The Informal Sector:
1. Ease of entry into the labour force
2. Reliance on indigenous resources
3. Family ownership of the enterprise
4. Small scale operation
5. Labour intensive and use of adapted technology
6. Skills acquired outside the formal school system
7. Unregulated and competitive markets

The Formal Sector
1. Difficult entry into labour force
2. Frequent reliance on overseas resources
3. Corporate ownership
4. Large scale of operation
5. Capital intensive, often using imported technology
6. Formally acquired skills, often expatriate
7. Protected markets, through tariffs quotas and trade licences


The I.L.O. study influenced policy makers not merely because of this comprehensive list. They also proposed a
different approach. They argued that the informal sector complemented the formal sector, and was necessary for economic development. They proposed, therefore, that the informal sector should be retained. This was a reformist idea at a time when the informal sector was construed as a negative aspect of the growth and development of an underdeveloped economy.

"the informal sector is a sector of thriving economic activity and a source of Kenya's future wealth" (I. L. O., Kenya report, 1971)

Santos' (1973) list of characteristics is even more detailed than the I. L. O's but it is not as widely used. The more important contribution of Santos' work is a model that shows the two sectors to be interacting and interlocking circuits of economic activity. The upper and lower circuits are equivalent to the formal and informal sectors respectively. (see appendix A for the Santos' model). His model even attempted to integrate the concept of the two circuits into the hierarchy of urban settlements by size of population. Santos' studies were not as useful when published as they have become in the eighties since interest in the relationship of the informal sector and the urban hierarchy has grown (El-Shakhs, 1984; Kundu and Mathur, 1984; Kull, 1984; Hilhorst, 1984; Mathur, 1983; Das, 1982). The work of Souza and Tokman (1976) can also be placed in this category of dualism models based on a description of the two sectors. They describe the informal sector as unorganised activities that use simple technology.

Although the descriptions used by the scholars in this
category differed, it can be deduced that the informal sector was small scale, generally the economy of the poor and all other characteristics such as the level of technology used, the source of resources for production could be placed in the context of poverty.

2. Dualism models based on Modes of Production

According to McGee (1973) the approach of the models in this category can be traced to Franklin's (1965) distinction between three systems of production: the capitalist, the socialist and the peasant. In the first two systems, labour is a commodity to be hired and dismissed by the enterprise according to market conditions, technology etc.. In the peasant type, the entrepreneur is committed to the utilisation of his total labour supply, that of his family. McGee (1973) states that the informal sector conforms to the peasant system of production. In this sense, therefore, the informal sector is similar to the eastern element of Boeke's classic dualism. That is, the informal sector like the rural sector, is a traditional/precapitalist sector (Brookfield 1975). Chayanov (1925, in Brookfield, 1975), it may be recalled, like Franklin (1965), based his distinction of a dual economy on a study of relationship between labour and production.

The Friedmann and Sullivan (1972) model also distinguishes between modes of production, with a slight variation. Friedmann and Sullivan introduced a third mode of production and therefore the urban economy was not seen as a strictly dualistic structure. Their tri-sectoral model combines labour force
characteristics with an institutional model of Third World cities and identifies: individual entrepreneurs (including the open unemployed), family enterprises, and the corporate sector. The informal sector according to this model includes both the individual and the family enterprises. In a sense, the Friedmann and Sullivan model indicates a dissatisfaction with the dualistic framework that is further expressed in later years by Sethuraman (1981), Steel (1977), and Nihan and Jourdain (1978) and others, because it fails to cover the gamut of urban activities.

3. Dualism models based on the relationship of the sectors to the state; i.e. factors external to the enterprise

Mazumdar (1976) distinguished the two sectors on the basis of a dichotomy in the labour market, in which only a part of the labour force had their wage levels and working conditions protected by the government or trade unions. The remaining labour force was not only unprotected but found it difficult to gain entry into the protected labour force.

Weeks (1975) makes a similar distinction but he refers to the protection of the activity, not labour, by the state. The formal sector, according to Weeks consists of government and private enterprises, and is officially recognised, regulated, protected, and nurtured by the state. The informal sector receives no such recognition or support.

This category of models also had a considerable impact on policy makers for it was easy to identify the informal sector by a process of elimination of the enterprises receiving government
recognition or support through registration, and licences (Popola, 1979; Poethig, 1971). While this is highly debatable, it was common to view unregistered activities in the Third World as the equivalent to the informal sector. For instance, Sethuraman (1976, p.126) in an early article on Jakarta, defines the informal sector as "all unregistered commercial enterprises".

4. Dualism Models based on Income Opportunity:

Hart's (1973) work on Ghana is often said to be one of the more significant contributions to the debate as it offers quite a different perspective on urban dualism. He is also credited with introducing the terms informal and formal that are the most widely used terms in the debate. His study of Accra's economy showed that almost 55% of the labour force was classified as lacking wage employment. He, therefore, focussed his attention on this non-wage sector. He defines the informal sector as self-employment as opposed to wage employment. Although he retains the dualistic framework, his model based on income opportunities makes the framework far more flexible than other models. The model includes a wide range of activities (see appendix B for the Hart classification of activities in the two sectors).

Hart's work showed that there was a wide range in the size and scale of activities that could not be encompassed by the models that based their distinctions on modes of production, or recognition by the government. His classification of the informal sector based on income opportunities showed that the
informal sector is composed of both illegal and legitimate activities. Illegality, then, is not usually a consequence of the nature of the activity but a consequence of the lack of any official recognition. Hart's position therefore conflicts with that of Mazumdar, Weeks and Sethuraman cited in the previous category.

Both the Hart and the Friedmann and Sullivan models are indications of concern about the rigidity of the dualistic framework, as being unrepresentative of the range of activities in an urban economy.

5. Other definitions

There have been numerous other definitions of the informal sector that do not fit into the above categories. The informal sector has been defined as: comprising casual workers (Sethuraman, 1976), on the basis of scale of activity (Joshi and Joshi, 1976), as a sector where wages are lower than the minimum wage rate (Schaefer, 1976), and enterprises where labour is employed at a "relatively low wage" (Sethuraman, 1974) and so on. There can be no doubt that during this early decade of the study on the informal sector, i.e. 1965-75, there was no lack of effort to define the two sectors of the urban economy.

2.3.1 The Contributions And Limitations Of Dualism Models

The contributions

The most important contribution of the urban dualism models was that they provided some explanation of urban dualism that was without precedent. The implications of these early models were threefold:
1. The conceptual framework could be used to identify target groups in the urban population for research as well as for policy making. While the findings from research on the target groups served to improve our understanding of the phenomenon, the use of the target groups in policy making had a more direct impact. The target groups could potentially be planned for. However, although the models facilitated research and planning, lack of agreement on the definition of the two sectors meant that the composition of the target groups was highly variable. The target group could mean the urban poor, the poor rural migrants, the participants in illegal activities, the inhabitants of squatter colonies and so on (Moser, 1984). In this aspect, therefore, the contribution of the models was a mixed blessing. While the definition of the two sectors promoted empirical study, the use of multiple definitions restricted comparative research.

2. Some models incorporate concepts on the role of the informal sector in urban and national development and thereby strongly influenced national policy making (Rogerson, 1985; Moser, 1984; Bromley, 1978). The contribution of the International Labour Organisation is a case in point. As a result of the I.L.O. study (1972), policies regarding the informal sector became more positive towards the needs and contributions of its participants (Sethuraman, 1976; Popola, 1978; Konigsberger, 1976).

3. The concept of urban dualism could be used to understand some other issues in development for which there was
inadequate prior explanation. For instance, the issue of labour utility. Migration of rural population into large cities in the Third World, was known to be excessive but the urban areas did not seem to face gross unemployment (Beinefield and Martin, 1974). The identification of an informal sector was used to explain the fate of the rural migrants. Empirical work born out of the use of dualism models seemed to support this logic (McGee, 1977; Sethuraman, 1976; Mookerjee, 1975). This will be elaborated in the following sub-section of this chapter.

The limitations

There are many limitations to the dualism models, but perhaps the most critical one is the lack of agreement on a definition of the informal sector (Rogerson, 1985; Moser, 1984; Richardson, 1984). It is difficult to generalise, or compare and contrast the activities in the two sectors, for academic and practical purposes, without a precise definition.

1. Problems of definition

It can be seen from the discussion thus far that the informal sector has been defined: as a mode of production similar to the peasant mode of production; a sector of illegal/unregistered activities; a labour force that lacks capital, skill, formal training and technical knowhow; a sector of small scale activities without government protection, and self-employment. None of these definitions are completely acceptable for they exclude activities recognised under other definitions as informal activities. Nor does it suffice to
amalgamate the definitions because their contradiction cannot be resolved. For instance, according to Hart, the informal sector contains illegal and legal activities but Sethuraman believed that it was composed only of illegal activities.

Another problem in the definitions is that the description of those who participate in informal activities is often based on ambiguous and simplified assumptions without sufficient empirical evidence (McGee, 1978). This ascribes a homogeniety to the activities and enterprises in the informal sector that fails to approximate reality (Breman, 1976; Hart, 1976). For example, McGee, 1978; McGee and Yeung, 1977; Mazumdar, 1975; Papanek, 1975 in Rogerson, 1985; indicate that the 'ease of entry' attributed to the informal sector by the I.L.O. (1972) and Reynolds (1966) is false. Gerry (1974) found that the informal sector sometimes used imported materials in the production of goods and therefore the assumption that the informal sector relies only on indigenous resources is also invalid. Thus, it can be seen that not only are there too many definitions but that some of the definitions are also contradictory.

For both, analytical studies and application to policy, comparative studies are difficult to achieve (Breman, 1976; Mazumdar, 1976; Tokman and Souza, 1976). This creates other problems in developing the concept of urban dualism, and its role in the urban economy. Thus, the definitional problem has repercussions in every other aspect of the debate.

2. Problems with conceptualisation of the models:
All of the urban dualism models cited in the various categories are essentially descriptive, although the terms of the descriptions differ. These models are static in time and have, consequently, low predictive or explanatory powers that can be used in decision making on the future. Santos (1973) is perhaps the exception for his model does attempt to interrelate the functions of the two sectors. But, the unity and totality of the production system is lost in most of the dualism models by their focus on the mutually exclusive characteristics of the two sectors (Gerry, 1979; McGee, 1976, 1979). Furthermore, the dualism models do not relate to any other circuits of production, national or international (McGee, 1978; Bose, 1974; Ley, 1974).

The concept of dualism itself is also under attack. Breman (1976) and others find it difficult to accept that the urban labour market can be divided into tight compartments. They argue that the division of the economy into two sectors often excludes some activities that cannot be strictly classified under either one. Friedmann and Sullivan (1972) and Hart (1973) try to overcome this problem, to a degree, by making their models more flexible. Since the mid-seventies, other solutions have been proposed, such as the introduction of a 'third' sector such as the intermediate sector (Steel, 1977), or the modern sector (Nihan and Jourdain, 1978), but these will be covered in the review of post-1975 literature in the following chapter. Clearly then the hesitancy of some early studies to accept the dualistic framework contributes further to the problems of
3. Problems with the focus on the economics of a dual economy.

The focus on the economic aspect of the issue neglects many sociological dimensions that may be as critical to the understanding of the informal sector as economics (Skinner' 1980; Das, 1978; Breman, 1976; Lubell, 1974). For instance, there may or may not be a relationship between economic classes and social classes in the informal sector but this has not been adequately researched. In the study of one squatter colony in Sambalpur, India (Das, 1978), the evidence suggested that there was a close relationship between the untouchable caste and poverty of the participants in the informal sector. In a survey of 187 households in that squatter colony, 118 belonged to the 'untouchable' caste, and were long time residents of the city. Considering the religious history of the city, it was apparent that social ostracisation of this caste group, made it difficult for them to work in any capacity other than the most menial level. This suggests that the social history of a community may be as important as its economic history in understanding its informal sector. Andrew Paul et al (1974) and Payne (1974) have found that there is a strong social pattern in terms of kinship patterns and rural urban links, in squatter colonies in Zambia and New Delhi, respectively. This implies that social networks play an important role in the size of the informal sector and its location within an urban area, because they sometimes function as a mechanism for recruitment into the labour force. For instance, the rickshaw pullers in Calcutta tend to be from
the state of Bihar (Lubell, 1974) and based on personal experience, it is found that the cooks tend to be from the state of Orissa. Such trends are also found in Delhi (N.C.A.E.R., 1973) and Bombay (Zachariah, 1968). Granted that further studies are necessary before firm conclusions can be drawn concerning the role of social factors, dualism models have nevertheless had a bias towards economic variables.

In summary, it can be said that although many questions remain unanswered by the dualism models, such as the relationship of the two sectors to each other and to the national and international economy etc., some generalisations can, nevertheless, be drawn from the models regarding what the informal sector is. The following description of the informal sector is the author's summary of the ideas that were part of the early years of the debate:

The informal sector can be described as a precapitalist mode of production consisting of individual operators or small enterprises, operating on low capital, skill and technology, relying largely on local resources, existing primarily for employment of the poor. It includes a large range of activities most of which are unregulated by the government.

3. FORMATION OF THE INFORMAL SECTOR: CONTRIBUTIONS FROM LABOUR UTILITY THEORY AND EMPIRICAL STUDIES

3.1 The Question Of Labour Utility

Economists in the fifties, tried to find ways to increase production in the underdeveloped economies by the effective use of available labour. Since underdeveloped economies were agrarian in nature much of the population, and labour force, was found in rural areas. It was a common belief, at that time,
that industrial production led to quicker and greater returns from investment, and thus it would be better for underdeveloped economies to industrialise. Industrial production was concentrated in urban areas and the economists sought ways to measure the labour in rural areas that could be transferred for use in productive activities in urban areas (Nurkse, 1955; Lewis, 1954).

However it was soon realised that labour need not be pried away from the rural areas. In fact, labour was leaving the rural areas at an alarming pace (Zelinsky, 1971), and there was concern that the Third World would suffer "under the weight of a population that could not be put to productive use" (Hart, 1976, p.5). Estimates of urban unemployment escalated (Weeks, 1974; Singer, in Beinefeld and Martin, 1974). Rogerson (1985, p.5) states that the activities of the modern sector had not expanded fast enough to absorb the enormous stream of people who migrated to the cities of Latin America, Asia, and Africa.

Economists, therefore, shifted their attention to labour use in the urban areas, and found that there were few accounts of the use of migrant labour in productive activities. More importantly, there was not much visible unemployment either. What, then, was happening to the migrants from the rural areas? Some explained this lack of conformity between employment and labour force by proposing the concept of underemployment, which has been described as all forms of non-wage economic activity (Gerry, 1979; Hart, 1976); or disguised unemployment which is some form of unrecognised job sharing. For instance, Kritz and
Ramos (1976) proposed under-employment as a reason for the low unemployment figures in Managua, Santo Domingo, and Asuncion, cities in Latin America. Consequently, measurements of labour under-employment were attempted but this form of study did not lead anywhere and was based on little evidence (Beinefield and Martin, 1974).

The observation of urban dualism and consequently the creation of dualism models came as a welcome relief to the sterile discussions on labour utility. These models provided a descriptive analysis of how labour was being used in the urban areas of the Third World. It was hypothesised that the migrants from rural areas find their way into the informal sector and therefore records of unemployment remained low. When this was tested empirically, evidence supported the hypothesis (Richardson, 1984; Das, 1978; Sethuraman, 1976). (See appendix C for a chart, based on the author's view of the flow of ideas on dualism and development).

3.2 Empirical Studies On The Informal Sector

Dualism models contributed greatly to the feasibility of empirical research on the informal sector. The findings from empirical work had a three-fold effect:

1. They tested the hypothesis provided by labour utility theoreticians.
2. They corroborated or invalidated some of the assumptions made by the dualism models.
3. They provided additional information on urban dualism that
helped to refine the theories of the informal sector such as the role of the informal sector in the urban economy.

Studies conducted in various parts of the Third World supported many of the assumptions made by the dualism models. It was found that the informal sector was largely composed of the poor and the unskilled (Sabot, 1977; Bose, 1977; Schaefer, 1976; I.L.O., 1972). It was also found that the sector was dominated by small enterprises operated individually or by the use of family labour (Sethuraman, 1976; Joshi and Joshi, 1976).

Irrespective of whether the informal sector was studied on the basis of its activities at a given location, (Street occupations of Cali: Bromley and Birbeck 1984) or by type (Hawkers and Vendors in South East Asian cities: McGee 1977, Lucknow Rickshawallas: Gould 1965, Manila Jeepneys: Pendakur 1976) or by the residential areas of the participants i.e. squatter colonies (Das, 1978; Andrew Paul, 1974; Payne, 1974), it was clear that the informal sector was a symptom of the Third World's slow pace of development, in the face of a rapidly growing labour force. These conditions created an economy that is characterised by poverty and unemployment, both of which contribute to the formation of the informal sector. But some empirical studies also provided some evidence to the contrary, such as the lack of correlation of rural migration to the informal sector (Breman, 1976), but such findings did not weaken the general opinion of what the informal sector was and how it formed. It was largely accepted in the early years that the informal sector was a "sector of last resort" for the poor and
the unemployed (Mathur and Moser, 1984).

The empirical research also provided overwhelming evidence that the informal sector was composed of recent migrants, supporting the hypothesis that was proposed by the labour utility studies. For example, 82% of recent migrants to Asuncion, Paraguay, worked in the informal sector; 70% did the same in Santo Domingo (Richardson, 1984). The rates were high in Jakarta (Sethuraman, 1976), and in Rourkela (Das, 1978). See also Singh, 1978; McGee, 1977; Mookerjee, 1975; Mazumdar and Mazumdar, 1975. According to Bose (1977), the primary reason for migration is to search for employment for economic survival, and not to better economic opportunities. This does not necessarily mean that the informal sector is predominantly composed of migrants, but it does suggest that the informal sector is a source of employment and sustenance for rural migrants who cannot enter the formal sector labour force. It was believed that the informal sector may be a "stepping stone" to the formal sector, a concept that grew with Harris-Todaro in the sixties (Richardson, 1984; Harris and Todaro, 1970). In later years, neo-marxists, proposed that the informal sector was in fact the "marginalised" economy of rural migrants (Perlman, 1976; Quijano, 1974; Sunkel, 1974). The marginalisation concept states that the rural migrants are marginalised in the process of Third World development, which is dependent upon the Western capitalist nations. In one way or another, most scholars have tied the informal sector to the dominant model of migration and development.
In these concepts of 'marginalisation' and 'stepping stone', the underlying message is that the informal sector is created when the labour force is either in excess of employment opportunities in the formal sector or unable to meet the entry requirements of the formal sector, i.e. in terms of skill, literacy, capital etc.

As a result of the labour utility studies and empirical research based on the dualism models, some key factors leading to the creation of the informal sector, were identified. But, dualism models, empirical research and labour utility studies do not study the informal sector in a historical context. They help us to understand the phenomenon at a given time, but do not provide any insight into why the factors that create the informal sector exist and persist. However, the development processes of the Third World can provide some understanding of how the climate was created for the formation of the informal sector.

4. THE ROLE OF DEVELOPMENT PROCESSES IN THE THIRD WORLD IN THE CREATION OF THE INFORMAL SECTOR

Empirical evidence suggests that migration, poverty and lack of employment in the formal sector contribute to the formation of the informal sector (Rogerson, 1985; Mathur and Moser, 1984; McGee, 1977; Sethuraman, 1976). To put this more clearly, it can be said that the informal sector is created as a result of:

1. A high rate of growth of the labour force through natural
increase and migration, although the migration rate of the rural poor into urban areas is often higher than the rate of natural increase (Richardson, 1984).

2. A slow pace of development, that leads to: slow growth of the formal sector and therefore low employment opportunities in it.

Even though the levels of development within the Third World vary, it can be assumed that some combination of these two factors must exist to create the informal sector. Therefore, some generalisation can be made regarding the presence of the two factors in the Third World. In order two understand how these features were created it is necessary to look at the development processes of the Third World in a generalised way.

The informal sector was a phenomenon observed in the sixties and although it may have existed in the Third World in the pre-independence phase, before 1950, this is a debated point in the literature. Santos (1979), for example, believes that an informal sector could not have formed in the colonial phase. On the other hand, it is difficult to accept that there was no poverty and unemployment in the urban areas in the colonial phase. However, the pros-and-cons of the argument are not relevant here. The informal sector was noticed in the post-independence phase and this phase of development should suffice for the purposes of this evaluation, keeping in mind that the preceding development did provide the base upon which Third World development planning was implemented. What is to be examined here is not the historical courses of development.
externally imposed on a Third World nation, but the internally controlled development in the last thirty-five years. There are three general aspects that developing nations have considered in policy making:

1. The specific needs of the country.
2. The financial resources available for development and the setting of goals.
3. The theory used to guide development in order to achieve goals.

Of these three aspects that have affected the development patterns leading to the creation of the informal sector, the use of theory had a long lasting effect. Specific needs and financial resources of nations help to identify the immediate development goals but theory is necessary to guide the implementation and can stretch over years. It is for this reason that development approaches will be discussed in greater detail.

Specific needs In general it can be said that the newly independent developing nations were in severe economic crisis. Their traditional economic base had been disrupted by years of colonial rule and the superimposed economy left by the colonisers was no longer entirely functional to their needs (Mookerjee, 1981). In most instances there was a need to create a pattern of economic development with internal control of resources. There were three options these nations could follow (Santos, 1979):

1. Revert to the pre-colonial, traditional path of development.
2. Evolve a new but indigenous response to the problems of
development.

3. Adopt a non-indigenous course of development that had been tried in other nations.

This proved to be a source of conflict for there were pros-and-cons to each of these options. In India, for example, there was a major struggle between Mahatma Gandhi's "traditional approach" and Nehru's desire to use a non-indigenous, pro-industrialisation approach (Dhar, 1976; Vepa, 1975). In India as well as many other developing countries the non-indigenous approaches, primarily the western model, that is modernisation through industrialisation and technological advance, seemed to have more appeal. The main reason for this was that Western nations stood as a testament to the success of that model.

Financial resources: Financial resources for development were limited, because national wealth had been drained by independence wars and the earlier extractions by colonial powers. Thus, the only recourse was to concentrate the limited investment funds available. The net result was that development was to be achieved quickly with high returns from minimum investment by following the western model of industrialisation and by accepting priorities for development that were entirely economic.

Having decided in the sixties, to emulate the western experience of development, most Third World nations have persisted with this option since then. They adopted what was known as the unilinear or the similar-Path development theory. Its basic premise is that underdevelopment and development are
on a continuum, that is a one-way process, so that nations could move from underdevelopment to development following the capitalist model of industrialisation. It is necessary to examine this theory of Third World development in order to understand how the conditions for the creation of the informal sector evolved.

4.1 Unilinear Development Theory And The Informal Sector

The unilinear development theory stemmed from an historical analysis of development trends in the developed world and from contemporary concepts of economic growth. The industrialisation of Europe and consequent modernisation and development of the Western nations led to the belief that industry and technology should be the basis for Third World development. The historical analysis of economic development in Western nations also led to the identification of five stages of economic growth (Rostow, 1961) which were assumed to be imitable. According to this theory Third World nations lacked the pre-conditions for "take-off" towards development, and had to create these conditions by allocating limited financial resources towards this objective. But how?

Contemporary economic concepts were helpful here particularly those dealing with the dynamics of regional development. The growth centre concept evolved during this time and provided the means for applying the unilinear development theory, i.e. creating the conditions for "take-off". The growth centre concept was basically a concept to induce growth
in lagging regions by the use of a pole (usually an urban area). Although the concept was new to regional development, the idea dates to Perroux (1949). The concept went through considerable evolution until it was applied to regional space.

Here the work by Hirschman (1958) and Myrdal (1957) are important. Both believed that growth could be induced in lagging regions by creating the factors that stimulate it, primarily by investment in industry. According to Myrdal and Hirschman, this would create the conditions for "take-off" and development would ultimately be achieved because benefits of the concentrated investment will trickle-down to the surrounding regions. It was accepted that initially, a period of increasing spatial disparity will be created before trickle-down occurs. Darwent (1969), Hansen (1975), Lasuen (1973), and others made the growth pole idea applicable to regional space using Christaller's (1966) work on the hierarchy of settlements.

While regional planners concentrated on the application of the growth pole concept in lagging regions, development geographers studied the spatial patterns of modernisation in some Third World nations (Gould, 1970; Soja, 1968). This led to a general agreement amongst scholars that modernisation was a desirable path for Third World development.

These theories assured that the Third World nations had the

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3 See Weaver C.1979, Development theory and the regional question, for origins of economic growth theories in the Western world.

4 Terms used by Hirschman and Myrdal for the centrifugal and centripetal forces of growth are trickle-down/backwash and spread/polarisation respectively.
means to emulate the Western development experience and could obtain maximum benefits from their limited financial resources by concentrated investment in growth poles (Appalaraju and Safier, in Gilbert 1976). It can be assumed that these nations were prepared to face the initial inequalities in development that were expected to occur anticipating future trickle-down of benefits and equalisation of development in regions and amongst people. In this phase of initial inequalities, a displacement of labour from rural areas was expected because the path to unilinear development meant that the rural economy would be neglected. It was therefore logical to assume that this displaced labour would consist of poor peasants, and landless labourers who would be least able to survive in a sagging agricultural economy (Moser, 1984). Migration to urban areas would be the only alternative to their plight.

Migration trends did indeed bear this out, and it will be recalled from the previous discussion that in the early sixties economists had noticed that labour was leaving the rural areas at a faster pace than anticipated. Since this labour influx was in excess of the requirements of the productive urban activities there was speculation on what would happened to it until urban dualism models were proposed.

The informal sector thus came to be identified with the poor and the unemployed, the holding ground for the displaced rural population, in the process of unilinear development. It was also recognised that the influx of rural population into cities created a society in which some had permanent access to
the goods and services available and others who had similar needs but were unable to support them. This society had a qualitative and quantitative difference in consumption (Santos, 1979) and this necessarily created the informal sector. Empirical evidence, as indicated earlier, corroborated the links between migration and the informal sector.

However, it was assumed that labour displacement and the consequent migration of the unemployed rural population into urban areas was to be a temporary phase.

"in the process of modernisation the migrant workers would become absorbed into the city....they would shift from their 'marginal' position towards 'integration'......such problems as squatter settlements and unemployment were seen as temporary pressures which would pass with time" (Moser 1978, p.1042).

In the early years of development planning the desire to modernise was so desperate that even though squatter settlements, and the informal sector, were assumed to be temporary, they were also reminders of non-modern growth. Their presence was, therefore, considered as an intolerable blockage to economic growth (McGee, 1976). As a result of this negative view, instead of waiting for the achievement of modernised development, attempts were made to remove or prevent the informal sector from forming. However, by the early seventies, as knowledge of the informal sector grew, attitudes changed (eg. the I.L.O. study, 1972) and the informal sector was viewed positively, complementing the modern sector, perhaps with the expectation that labour would soon be gainfully employed.
As time went by, the Third World nations did not appear to be moving any closer towards modernisation. One reason for this, was the high rate of population growth in many Third World countries since the fifties (Moser, 1984). Thus, increases in employment, generated by industrial growth, was outstripped by the growth in labour. Other reasons cited were; faulty application of the growth poles strategy, problems with the unilinear/growth pole concept, and a bias in favour of urban development (Corragio, 1975; Friedmann and Weaver, 1979; Kongstad, 1974). By the mid seventies the use of growth poles and indeed the entire unilinear approach was highly questionable, particularly in the light of the oil crisis of the seventies.

Several scholars had warned of the impending failure of this approach? Myrdal (1957) cautioned that the initial inequalities may not lead to trickle-down due to the tendency of capitalism to perpetuate further inequalities. A view that was supported by Friedmann’s (1969) study of Chilean development. Myrdal had advocated government interference in the development process to counteract the forces of capitalism. These criticisms of the growth pole strategy and the unilinear development approach, in the view of this author, probably went unheeded because:

1. The approach seemed credible. Western nations stood as testament to development through industrialisation.

2. The approach was prescriptive. By the use of growth centres the Unilinear development approach was easy to apply.
3. No alternative approach was proposed at that time, in such clearly defined terms to compete with it.

4. The expatriate education of many politicians and decision makers in the Third World biased their decisions in favour of westernised rather than indigenous approaches.

On this basis, the growth centre approach was widely used in the Third World from the nineteen sixties onwards. But, when criticisms of the growth centre approach began, some rethinking of the strategy was necessary. The most important criticism was that the trickle-down of benefits that was expected to occur would not happen, if left to the forces of capitalism alone. Although, the growth centres were increasing inequality in the nations that adopted the strategy, the proponents rushed to its defense. It was said that the criticisms came too soon, that insufficient time had been allowed for trickle-down to occur, that the growth centres were improperly placed and the strategy was applied in a piecemeal and fragmented manner (Boiser, 1980; Richardson, 1978). Was the ineffectiveness of the strategy merely a matter of time? Unfortunately, although the idea of inducing growth in lagging regions is meritorious, its transfer to the Third World failed to take into account the differences between the Third World and Western nations (Kuznets, 1968, 1979):

a) The economic level at which the Third World introduced this strategy was generally much lower.

b) The relationship between population and resources was usually much more unfavourable and the population growth trends more
dynamic and dangerous in the Third World.
c) The Third World did not have at its disposal an international
capital market nor outlets for large scale emigration.
d) The Third World did not have the opportunity to advance as
industrial islands in a surrounding world of backward nations
which could be exploited as markets for manufactured goods and
as sources of raw materials, and for this purpose even keep a
colony in bondage.

As scepticism of the growth centre strategy as a means for
achieving development grew, other views on development ascended
in importance. Ideas such as "small is beautiful", "intermediate technology" (Schumacher, 1973), and "minimum basic
needs" (Ghai et al., 1979; Singer, 1977) entered the literature.
The Club of Rome presented its report on the "Limits to Growth"
(Meadows et al, 1972). Environmental concerns about the
destruction of the ecosystem by industrial development brought
out the conflicts between economic growth and "quality of life".
The Third World was not untouched by these ideas. Two major
streams of thought regarding its development process gained
attention. One was the dependency theory/ bottom-up strategy or
radical philosophy, and the other was the modification of the
unilinear approach. Both of these altered the existing wisdom
about the informal sector. Chronologically, the evolution of
the radical approach preceded changes in the liberal economic
philosophy.
4.2 Dependency Theory And The Informal Sector

Exploitation of the Third World by capitalist pursuits is not a new discovery. It dates to the "ethical period" in the development of liberal economic philosophy (Hobson 1902, cited in Brookfield 1975). Later, marxist interpretations reinforced the idea. However, liberal economic philosophy dominated the field of development thought in the Western world and it was not until the 1950's that a critique of contemporary notions of development evolved from the marxist approaches (See appendix C for a chart, based on the author's view of the flow of ideas on dualism and development). This critique rose in importance in the late sixties coinciding with, and perhaps benefitting from, the decline in faith in the growth centre strategy. Neo-marxists in Latin America are credited with the origins of the critique now generally known as the dependency/underdevelopment theory (Emmanuel and Amin, 1974; Sunkel, 1973; Frank, 1967; Cardozo, 1965). In essence, the theory analyses the socio-political relations of underdevelopment:

"A situation in which the economy of certain countries is conditioned by the development and expansion of another economy to which the former is subjected. The relation of interdependence between the two or more economies and between these and World trade assumes the form of dependence when some countries (the dominant ones) can expand and be self-sustaining while other countries (the dependent ones) can only do this as a reflection of that expansion which can have a positive or a negative effect on their immediate development" (Dos Santos, 1968, P.6 in Chilcote, 1977).

This neo-marxist view did not just arise in a vacuum.
There was increasing evidence of a world economy, suggesting that the analysis of development of one country could not be done in isolation (Wallerstein, 1975). There was also, as a result of interlinkages in the economy, an international division of labour (Froebel et al, 1981) and therefore the monetary exchange value of labour was not necessarily retained in the producing country and was easily exploited. The Third World was the dependent world and it was argued that it was kept dependent on the Western world by the spread of international capitalism, partly through the medium of multinational corporations (Kassalow, 1979; Snow, 1979).

Thus it was argued that, development and underdevelopment are manifestations of the process of capitalist expansion (Quijano 1974; Sunkel, 1973; Frank, 1967). It should be mentioned that the concept of dependency includes many different forms of dependency, from externally controlled dependency to internally manipulated ones. The variations are summarised succinctly in Chilcote's article (1977). It is not necessary to go into such details in this study, as the dependency theory is presented only as an ascending and opposing view of Third World development.

While the dependency approach is an important critique of development, it merely explains why the underdevelopment has persisted in the post-independance phase of the Third World, and does not propose, in precise terms, an alternative approach to development. In the same vein, and of more relevance to this research, it merely explains why the informal sector persists in
the Third World, not what it is or why and how it forms. It can be assumed then that the previous definitions of the informal sector and the conditions for its creation i.e. a high growth of the labour force and slow pace of development is to be accepted. Therefore, the point of departure in the arguments of the unilinear development approach and the dependency theory is; 'why does the informal sector persist' not 'how is it created'.

The main focus in the disagreement on why the informal sector persists, is the role of urban areas in the development process of the Third World. It was expected under the unilinear development theory that urban areas would act as "growth centres" from which development impulses would radiate outwards into the region. This process would initially create regional inequalities, surplus labour in rural areas, and consequent migration into urban areas, but this was to be temporary, as was the informal sector (Moser, 1984). However, the informal sector has persisted, and it may be argued according to this theory because modernisation has not been achieved.

In contrast, according to the dependency theory the urban areas, have become enclaves or satellites in international capitalist expansion, as a result of the concentrated investment in modernisation (Friedmann and Weaver, 1979). Corragio (1972) was convinced that the "growth centres" had actually thwarted the development of the Third World by implanting places for the appropriation of capital in the dependent economy. Friedmann (1966) also recognised this when he stated in his core-periphery theory that development in the Third World needed to be made
more 'residential'. However, the realisation that Third World cities are grafted onto western development, and therefore alienated from their hinterland is not new. Although not under the marxist banner, Mahatma Gandhi, speaking of India, had said in 1921:

"The cities are not India. The city people are brokers and commission agents for the big houses of Europe, America and Japan. The cities have cooperated with the latter in the bleeding process that has gone on for the last two hundred years" (Gandhi, 1921 in Gangulí, 1978:184).

Thus, it is argued that the Third World moved from one form of exploitation to another, from one related to political control to one in spite of political independence, that left no room for economic recovery. Development is, in a sense, suspended, for as long as the capitalist pursuits of the nation continue to contribute to western development, the nation must put much of its resources to prevent retrogression in development. According to the dependency theory, progress in development is virtually impossible under these constraints, and this explains the persistence of underdevelopment.

In light of this argument, McGee (1978) analysed the economic structure of the Third World cities and described a distinct form of production; peripheral capitalism. He argued that, in the urban economy, there is a capitalist sector deeply integrated into the international economy and a non-capitalist mode (the informal sector) in which the articulation of relationship between the two sectors is primarily a response to the pace of expansion in the dominant capitalist sector. The
non-capitalist mode does not dissolve because of its advantages to the dominant capitalist sector and its strong self preservation tendencies. This "conservation-dissolution" concept was introduced by Bettelheim (1972) and elaborated by McGee (1978).

In a nutshell, the dependency argument regarding the informal sector is: the state of dependency in a Third World nation creates and perpetuates underdevelopment such that the informal sector that has formed as a result of this underdevelopment is unable to dissolve as long as underdevelopment persists. And because development is dependent, the pace of development will remain perpetually slow.

4.3 Comparison Of Unilinear And Dependency Approach With Regards To The Informal Sector

It is necessary to summarise the main ideas of the two development theories regarding the informal sector, to highlight their agreements and disagreements.

1. Both theories are concerned with the development process of the Third World. The unilinear development theory is a prescriptive theory for economic development and as such the explanation of the relationship between the informal sector and the development process is not contained directly within the theory. However, the theory does explain the presence of surplus labour and poverty, both of which have been cited as factors creating the informal sector. In contrast to this, the dependency theory is a critique on the state of Third World
underdevelopment. According to its arguments, features in the economy of developing nations are not temporary but quite permanent as long as the development process continues to be dependent on the Western capitalist world. The informal sector is amongst the features of the economy that will persist in dependent development.

2. In both theories, migrant rural labour is indicated as a major cause for the presence of the informal sector in large urban areas. To be more exact, migrant labour adds to the labour force in the city far beyond the capacity of labour absorption by the formal sector. Since the migrant labour is poor and unskilled, for formal sector employment requirements, it is forced into the informal sector. The theories differ only on how these migrants are forced into the informal sector, i.e. "the stepping stone" versus "marginalisation" concepts; and on why the informal sector persists.

3. Both theories are concerned with the slow pace of Third World development, and view the informal sector to be a symptom of Third World underdevelopment or dependency.

4.4 New Directions In Third World Development

Dependency theory did not itself provide a prescription for the development of underdeveloped nations but it is easy to surmise from the arguments that autonomous development was promoted. It was a combination of ideas that include the dependency approach, 'small is beautiful', intermediate technology, eco-developement, agropolitan development, territorial
approach etc. that affected Third World development decisions (Friedmann and Weaver, 1979; Weaver, 1979; Schumacher, 1973; Sunkel, 1973). A bottom-up approach was proposed to reverse the top-down development process of the Third World. That is, "build most of our theory from the ground" (Brookfield, 1973, p.16). There were two major ways of achieving this, either a drastic break from dependent relationships or a gradual weaning away from them (Friedmann and Weaver, 1979). Not all nations changed their course of development, and most of the nations did so in a gradual, testing manner. Some Third World nations introduced rural and regional development into their planning endeavours to reverse the pro-urban approach, and started planning at the grass roots level including socio-economic programmes to assist the poor and the unemployed, the population that did not benefit from the top-down strategies (Mabogunje, 1980; Singer, 1977; Funnel, 1976; Johnson, 1970). In India, for instance, not only was rural development started but the poor were particularly targeted for compensation by programmes such as 'food for work', and 'minimum basic needs' (Srivastava and George, 1977).

But, these efforts were undertaken without relinquishing the older strategies. That is top-down and bottom-up approaches were either being combined or merely co-existed. For instance, it became popular to conceptualise the entire system of human settlements as growth centres of varying intensity, performing varying services according to settlement size. Furthermore at the lower end of the settlement heirarchy the small towns were
to be functionally integrated with the rural region so that the urban areas and their hinterland were viewed in a harmonious relationship (Mabogunje, 1980; Pioro, 1975; Taylor, 1975; Misra, 1972; Roy, 1972; Johnson, 1970).

This is a cautious route to change. The dependency theory, if accepted, should have led to a reversal of development processes in which bottom-up approaches replaced the former top-down ones. But, in the view of the author, this probably did not happen for several reasons. Firstly, it was evident that bottom-up approaches would not increase national wealth as quickly as industrialisation. It was a risk the poor nations did not want to take at this time in their development efforts. Secondly, the bottom-up approach did not define in clear-cut terms, such as the growth pole strategy, the precise methods to be used and the expected returns. Thirdly, the criticisms of the bottom-up approach came too soon, leaving insufficient time for trials (Gore, 1984; Friedmann, 1983; Kitching, 1982; Weaver, 1981; Godfrey, 1980; Palma, 1978)). It was said that there were political dangers to regional autonomy; that the dynamics of rural and urban relations in industrialised society were ignored; and that local society and rulers were falsely absolved from responsibilities of underdevelopment (Weaver, 1981). While the bottom-up strategies were being criticised, the proponents of the growth pole strategy continued to sell its merits (Boiser, 1980).

The effect of the dependency theory on development policy in the Third World has been one of reversing the inequalities
created by the growth pole strategy but not one to create a distinct alternative course of development. It is too soon to judge, whether the intermediate measures currently in use, will change the pace of development or the size of the informal sector. Statistically there does not appear to be much change in the size of the informal sector in the last decade (see chapter 5).

5. CONCLUSIONS

This chapter has articulated the general ideas on urban dualism and development that prevailed in the sixties and early seventies. Although confusion on some aspects has been noted, the concensus on most issues has been highlighted to indicate the conventional wisdom on:

1. The geographical context of urban dualism
2. The definition and description of urban dualism
3. The specific factors that contribute to the formation of urban dualism in the Third World
4. The theoretical explanation for the existence of these factors in the Third World nations.

To recapitulate the discussion very briefly: the informal sector was observed and later studied and explained in the context of the Third World. Although there is a lack of agreement on the definition of the informal sector, there is a general belief that it is a peasant-type economy, small scale, operating under single or family ownership, based on little capital, low technology, and skill. There is an unresolved
debate, on whether this sector survives independent of the formal sector, i.e. is self contained, or whether it is dependent on the formal sector for employment opportunities. Empirical and theoretical studies show the informal sector to be composed of poor, illiterate and generally unskilled people, mostly rural migrants. Logically, it can be derived from theory and empirical data that the factors leading to the formation of the informal sector are: a rapid growth of the labour force by migration and natural increase in the large cities and; a corresponding slow pace of development of employment opportunities in the formal sector. These two factors can be explained by a theoretical evaluation of the process of Third World development. Two theories are critical here; the unilinear approach that has greatly influenced the course of Third World development, and dependency theory which is a critique of development under the former. The theories differ on the potential of and possibilities for an increased pace of development of the formal sector. Both theories agree, however, that the informal sector is a symptom of the Third World development process.

The "old wisdom" on the informal sector has an important place in the entire debate on the phenomenon. It sets the stage for all further progress in the debate, it has brought to light an issue that had not been studied in a comprehensive manner, prior to the sixties and it has affected the attitudes of Third World planners in the formulation of development strategies.

In the next chapter, the progress in the debate in the last
decade (1975-85) will be reviewed, and although the recent developments have their importance, they have added the problems that were already present in the study of the informal sector.
CHAPTER 3: CONTEMPORARY WISDOM ON THE INFORMAL SECTOR:  
1975-1985

The debate on the informal sector has always been complex, but advances during the last decade have contributed to this situation. There are four areas to be covered in this discussion of the contemporary wisdom.

1. Advances in the debate on the informal sector in the context of the Third World.
2. The study of the informal sector in small towns of the Third World.
3. The study of the informal sector in Western capitalist economies.
4. The study of the informal sector in centrally planned socialist economies.

The first area for discussion has a voluminous amount of research. There are many reviews of the debate in recent years (Rogerson, 1985; Moser, 1984; Richardson, 1984). Thus the review that will be presented here is a briefer version.

The second, third, and fourth sections are of a more recent origin in the debate. The study of the informal sector in centrally planned socialist or Western capitalist economies is not new, but "rediscovered" in the context of the dualism debate (Redclift and Mingione 1985 p.3).

It is interesting to note that no comparative studies have been done between the Third World and the other economies. Scholars elude to this as the task of the future. Mathur and Moser (1984) have presented an agenda for future research which
includes the comparative study of the informal sector in different types of economies. Rogerson (1985 p.65) states that "the comparative situation of the informal economy in post-industrial society appears set as a further 'growth pole' in the academic literature of the second decade." 5

Perhaps comparative studies will come with time, because many of the studies of the informal sector in socialist or Western capitalist countries have only recently entered the debate. Information on the working class population, for instance in England and Europe, has existed (Benson, 1985; Braudel, orig. 1967, trans. 1977) but these were not utilised in the context of urban dualism. This is an added dimension in the debate and, therefore, critical to the understanding of the informal sector.

It is difficult to compare the informal sector in the Third World to that of Western capitalist economies, or socialist economies. Comparative studies of the informal sector within the socialist or Western capitalist economies has only just begun (Mattera, 1985; Aslund, 1985; De Grazia, 1985). Most studies are descriptive or analytical and generalisations have not been made about the phenomenon in these economies as has been done for the Third World. Generalisations will, however, have to be drawn in the review presented in this chapter to facilitate the comparisons made in the conclusion.

This chapter will review the evolution of the debate about

5 According to Rogerson the second decade of the debate on urban dualism is 1983-1993.
the informal sector in the Third World as well as other economies. The conclusion will attempt to identify the converging and diverging ideas on the informal sector in the three dominant types of economies.

1. THE EVOLUTION OF THE DEBATE ON THE INFORMAL SECTOR IN THE THIRD WORLD

The recent developments in the debate on the informal sector in the Third World can be divided into four areas.

1. The definition of the informal sector.
2. The concept of dualism.
3. The relationship of the informal sector to Third World development processes i.e. the factors that create the informal sector.
4. The relationship of the informal sector to the formal sector in an urban economy.

1.1 Changes In Definition Of The Informal Sector

Much of the debate of the last decade appears to be influenced by one major area of inquiry: what is the informal sector? Although the dualism concept has been applied to Third World economies since the mid-sixties, some scholars have from the beginning been uncomfortable with its rigidity (Breman, 1976; Hart, 1972; Friedmann and Sullivan, 1972). Over the last decade, this concern has grown. It has been realised that many activities do not fall neatly into the classification of the informal and formal sectors.
One can recall from the previous chapter that the informal sector, in general, presented

"a gloomy vision of the urban economy dominated by two related paradigms: a prosperous, modern component of urban employment characterised by new technology and capital, existing alongside traditional subsistence activity and a chronic excess of labour supply (rural) relative to limited urban demand" (Bracket in original) (Kannappan, 1984, p.55)

Although the comment here is general, there is no doubt that the definition of the informal sector, in the early years, led to the belief that it was a 'sector of last resort' for the poor, and the unemployed, usually migrants from rural areas. Of course there were differences in opinion on how the informal sector should be identified i.e. self employment, illegal activities, low wage activities and so on. But, it was implicit in the early definitions, that the informal sector was the refuge of the poor. In the light of this older view, let us compare some of the findings of the last decade that contradict it.6

1. It has been found in recent studies that the informal sector is not necessarily a "sector of last resort". Sinclair (1978) and Sabot (1979) have found that the informal sector can be a sector of choice. Sabot (1979, p.67-68) states that the informal sector can be a stable economy "providing stable

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6 The reviews presented in this chapter will emphasise the contradictions in the debate on the informal sector of the last decade. However, it must be stated that there were also studies that strengthened the old wisdom.
employment and 'adequate' incomes for workers in their prime and retired wage employees, rather than a halfway house for new labour force entrants in which all participants are negligibly productive, incomes are low."

In a sample study of the informal sector in Jakarta, Moir (1978) found that 86 percent of the informal sector workers preferred to be self-employed. Similarly, 75 percent of the workers in the informal sector preferred self-employment in a sample study of Freetown (Fowler, 1978). Rogerson and Beavon (1982; in Rogerson, 1985) also find this to be true in Soweto, South Africa, where the informal sector was a preferred alternative to the low wages in the formal sector offered to the blacks.

In fact, it appears that preferences can lead to a shift from the formal sector to the informal sector. A notable work in this regard has been done in Malaysia, by Mazumdar (1981). He shows that family owned business is an attraction to workers late in their career. That is, wage earners often prefer to shift into the self-employed category late in life.

A preference for work in the informal sector can be based on several reasons. King (1975) states that in the case of Kenyan road side manufacturers, there was a fierce determination not to be employed again. Cohen (1980) states that for the African workers the informal sector is a form of a labour protest or resistance to low wages. This view is supported by Kahn (1980) and van Onlesen (1976; in Rogerson, 1985).

2. Understandably then, if the informal sector can be a
sector of choice, it must imply that the informal sector is not necessarily as low paying as previously conceived. Recent studies show that while the formal sector as a whole may be higher paying in wages, there is a considerable range in incomes in the informal sector. Furthermore, although the unskilled workers in the informal sector may have low incomes, they are not necessarily lower than the unskilled wages in the formal sector. In Peru, small proprietors and the self-employed earned more than factory workers (Webb, 1974). In Tanzania, Beinefield (1975) reports that more than 60 percent of the survey respondents earned above the minimum wage rate in the formal sector, and 25 percent even earned twice the minimum wage. A similar experience is reported for Noukachott, Mauritania where 93 percent of the informal sector entrepreneurs earned higher than or equivalent to the skilled formal sector wages (Nihan and Jourdain, 1978). Such observations have also been made in Yaounde (Demol and Nihan, 1983), Sierra Leone (Fowler, 1978), Kumasi, Ghana (Aryee, 1977), Kenya (King, 1974), Calcutta (Bose, 1974), and Jakarta (Sethuraman, 1976).

3. The correlation of the informal sector with rural-urban migration is also not without contradiction. It was perceived, in the early years of the decade that the informal sector was a temporary haven for recent migrants (i.e. the Harris-Todaro 'stepping stone' concept or the Sunkel, Quijano marginalisation concept).

Recent studies show that the informal sector is not necessarily a typical source of employment for the newly arrived
migrants in a city. In Tanzania, only 6 percent of the new migrants were in the informal sector. This excludes migration for education. In fact, the participants in the informal sector had been in the sector and in the same activity for the last three years or more at the time of the study (Sabot, 1979). Mazumdar (1981) discovered that new migrants in Malaysia, tended to be in the formal sector and he hypothesised that many migrants have entered the large cities via the smaller ones i.e. step-migration. Therefore, the informal sector was not used as a stepping stone and migrants were able to find employment directly into the formal sector. Thus,

"the balance of the evidence suggests that migrants are as likely to work in the formal sector as long time residents...the informal sector can be as attractive as the formal sector, both for migrants and non-migrants. Although there are some low level informal sector activities to which, in certain countries and in certain circumstances, new migrants may gravitate, this is atypical rather than typical" (Richardson, 1984, p.18).

Moser (1984, p.xi) affirms this point:

"The ILO sponsored studies have also generated sufficient material to show that it is not necessarily a residual occupation for newly arrived migrants but can, in part, be a dynamic sector contributing income and output and capable of attracting and sustaining labour in its own right.

4. The informal sector is not necessarily a precapitalist sector. There is much evidence in the literature to suggest that the informal sector is not only an economy for employment generation, but a dynamic thriving sector as well. According to
Sethuraman (1981) the characteristics of the Kenya mission (1972) "do not add up to a definition of the sector". His redefinition of the informal sector is a continuum of enterprises engaged in the production of goods and services, based on one or more of the following: mode of production; organisation; and scale of operation.

"The informal sector enterprises can be interpreted as belonging to the lower end of the urban continuum of enterprises...the term 'small enterprises' as commonly used can be interpreted as belonging to the middle of the continuum. It uses a mode of production and organisation similar to the formal sector enterprise but on a relatively small scale... the distinguishing feature between the informal sector unit and the small enterprise is their orientation; whereas the former is motivated primarily by employment creation, the latter is concerned primarily with profit maximisation" (Sethuraman, 1981, p.17).

Sethuraman's sub-categorisation is one response to the range of activities present in the informal sector. Others have identified the dynamic areas in the informal sector in different ways (Page and Steel, 1984; Demol and Nihan, 1982; Jourdain, 1982; House, 1978). Nihan and Jourdain (1978) identify a 'modern' informal sector in Noukachott, Mauritania. A 'modern' informal sector was also identified for Lome (Nihan et al, 1977). Steel (1977) based on a study of Kumasi, Ghana, introduces an 'intermediate' sector to include the manufacturing units that are small but modern. Forty percent of the manufacturing units fell into this category. A petty commodity sector has also been defined by scholars to account for the activities that appear to small but modern and thriving (Forbes,
1981; Gerry, 1979; McGee, 1979). These ideas will be discussed in the section on the 'concept of dualism'.

5. Finally, the informal sector can no longer be viewed as a homogeneous entity. The term is used to describe a heterogeneous group of individuals and occupations.

"There is no evidence either of this sector being dominated by specific characteristics of sex, age, or social status" (Mathur and Moser, 1984, p.xi).

Richardson (1984) states in his literature survey that the informal sector is not always composed of the illiterate and certainly includes skilled workers, even though the skills may be informally acquired.

Thus, it would appear that the range of activities that can be classified as informal is far greater than earlier perceived. This discovery is not merely a problem of definition. It highlights other problems in the debate. For instance, the concept of dualism.

1.2 The Concept Of Urban Dualism

In the early years of the debate, Breman (1976) had stated that the urban economy was fragmented rather than dualistic. However, the use of a dualistic framework in the analysis of the informal sector did not change at that time. Friedmann and Sullivan (1972) and Hart (1972) introduced some measure of flexibility into their dualism models to include a wider range of activities. But the concept of dualism was, by and large, retained.
In recent years, the recognition of 'modern' activities and the range of low to well paying activities within the informal sector, makes it difficult to continue using the concept of dualism. There is considerable degree of internal differentiation "among petty enterprises in the manufacturing, services, and transportation sectors" (Moser 1978 p.1061)

In spite of this, some scholars continue to use the dualistic framework in the analysis of the informal sector, although they do incorporate a broader range of activities in the informal sector. Sethuraman's (1981) redefinition, quoted earlier, is an example. Similarly, Bromley and Gerry (1979) provide a continuum of work situations i.e. stable wage work, short term wage work, disguised wage work, dependent work and true self-employment. In this continuum, the stable wage work constitutes the formal sector activities and all other forms of work are parts of the informal sector.

Other studies, however, reject the dualistic framework in favour of a different approach. Steel (1977) for instance, introduces an 'intermediate' sector to include the small scale, modern, manufacturing units. Essentially this is a trisectoral model not unlike the Friedmann and Sullivan's (1972) in concept. A 'modern' informal sector, identified in Noukachott (Nihan and Jourdain, 1978) and Lome (Nihan et al, 1977) is yet another form of sub-categorisation.

The 'petty commodity production' approach, is perhaps the most discussed in literature (Forbes, 1981; Gerry, 1979; Bromley and Gerry, 1979; McGee, 1979; LeBrun and Gerry, 1975). The
'petty commodity production sector' is said to lie at the margins of the capitalist mode of production, subordinated by it (LeBrun and Gerry, 1975). The 'petty commodity production' approach analyses the small scale production units on the basis of their relationship to external linkages of production and distribution. Most other approaches have studied the small scale enterprises in isolation from external linkages. This differentiates the petty commodity production approach from the other approaches. Most scholars prefer to conceptualise the 'petty commodity production sector' as a form of production instead of a mode of production, because the latter refers to a "totality", a complete economic system (LeBrun and Gerry, 1975) with the exception of Davies (1979). Although the 'petty commodity sector' approach has dominated the debate on the informal sector in recent years, it has not been free from criticisms, for example, "the level of assertion and counter assertion with little if any empirical backing" (Rogerson, 1985, p.32; Forbes, 1981; Moser, 1980).  

1.3 The Informal Sector And Third World Development Process

The observed diversity of informal sector activities, including what has been referred to as 'modern' dynamic activities (Demol and Nihan, 1982; Steel, 1977), necessitates a rethinking on the relationship of the informal sector to Third World development processes. Not much work has been done in

7 See Rogerson 1985, for a detailed review of the petty commodity production approach.
this regard because most studies of the informal sector have been ahistorical. Without a historical approach to the study of the informal sector, it is difficult to state if the informal sector is affected by Third World development process. However, development theory combined with the studies of the informal sector have given rise to four trends of thought (Kahn, 1980).

In the early years of the informal sector debate, it was perceived that the informal sector would evolve as a transitional form in the development of Third World capitalist economies. This is known as the evolutionist approach. But, the informal sector persisted and it was necessary to explain why this was so. In response, the 'functionalist' approach entered the debate, in the mid-seventies, particularly through the writings on dependency and the marginalised economy in Latin America (Perlman, 1976; Quijano, 1974; Sunkel, 1973). This approach, proposed that the informal sector evolves in response to the needs of capitalism. Lister (1980, in Rogerson, 1985) for example, states that the informal sector represents a substitute discovered by the capitalist class to replace the rural sector that bore the costs of labour and production in the formal sector. The concept of 'conservation-dissolution' was presented by Bettleheim (1972) and elaborated by McGee (1979) to explain why the informal sector is unable to dissolve, as a result of this functional need of capitalism. Basically, this concept states that the non-capitalist mode, i.e. the informal sector

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8 This approach was described in detail in chapter two.
sector, is prevented from complete dissolution because it serves the functional needs of the dominant capitalist mode and is, therefore, conserved.

Neither the 'evolutionist' nor the 'functionalist' approaches are free from criticisms. The 'evolutionist' approach is criticised on many grounds, but perhaps the most important one is the assumption of a universal transitional process in Third World development. Kahn (1980) states that the informal sector does not emerge as a predominant form in capitalist development of the Third World, but has "remained so for considerable periods of time. It is therefore incorrect to assume that the petty capitalist production is a transitional form" (Kahn, 1980, p.8).

The functionalist approach was widely accepted in the seventies because it was closely tied to the reasons for the persistence of underdevelopment in the Third World. But it also has shortcomings. The 'functionalist' approach fails to specify how the informal sector is functional to capital. Gerry (1979), for instance, shows that low wages can be assured by means other than simply creating and subordinating the informal sector. In earlier sections of this chapter it was indicated that the informal sector was in fact thriving in some instances (Demol and Nihan, 1982; Steel, 1977; Nihan et al, 1977). According to Rogerson (1985, p.36), "even though the informal sector may perform functions for capitalism this does not mean that it was a pure creation of capitalism". The concepts of dependency and marginalisation that gave rise to the 'functionalist' approach
are criticised for their "obsession with issues of dependence, exploitation, and projecting a total helplessness of the people in the face of (external) forces operating in the world economy" (Rogerson, 1985, p.26; Schmitz, 1982). Gerry (1979) feels that this approach is over generalised.

In the last few years two other ideas have come to light. The first is the 'by default' approach. This approach has not had as much attention as others. In this approach, the informal sector is perceived to emerge within the capitalist dominated economy in those branches of production that the dominant capitalist sector finds unprofitable (Kahn, 1980). Roberts (1978) and Beinefield (1975) suggest that the informal sector takes over 'high risk' areas of the economy viewed to be unprofitable. Although there are no specific criticism of the 'by default' approach in the literature some authors have stated that it is an incomplete explanation (Rogerson, 1985; Kahn, 1980).

The fourth approach in the debate is of recent origin, but it is easy to see how it evolved from the studies of underdevelopment, exploitation and dependency. Kahn (1980) states that the informal sector is created in the process of proletarianization\(^9\) associated with capitalist penetration of the Third World, and in the appearance of surplus labour which is a consequence of world forms of capital accumulation. The

\(^9\) Proletarianization refers to the process by which rural labour is freed from its means of production i.e. land, creating the proletariat which is a labour force free for wage employment.
idea of surplus labour is not new. Amin (1973) for example, indicated the broad variation in patterns of proletarianization in Africa (see also Riddel, 1981; for West Africa). Stuckey and Fay (1981, p.11) are similarly of the opinion that "what is called the growth of the urban informal sector is in fact the movement—the relocation—the migration of the rural subsistence sectors into towns."

1.4 The Relationship Between The Informal And Formal Sectors

Closely tied to how the informal sector is created in the Third World, is the relationship between the formal and informal sectors in an urban economy. The I.L.O. study (1972) portrayed the informal sector as an independent mode of production and hypothesised a benign relationship between the two sectors. This view corresponds to the 'evolutionist' approach to the existence of the informal sector. That is, the informal sector is a transitional form in the development process. Although the I.L.O. study promoted reformist public policy for the informal sector, the assumption of a benign relationship between the two sectors was criticised by those with more radical views on urban dualism and development. By the mid-seventies, radical ideas on dependent development and the marginalised economy entered the debate and with it the view of an exploitative relationship between the formal and informal sectors. The 'functionalist' approach to the emergence of the informal sector promotes this view of exploitation where the informal sector "is to service the formal sector through its impact on wage structures and
labour supplies (Davies, 1979, p.90).

The proponents of the 'petty commodity production sector', although also radical, do not believe that the relationship between the two sector is exploitative. Rather, it is stated that the two sectors co-exist in a manner of dominance and subordination, the 'petty commodity sector' being dominated by the capitalist mode.

More recently, Portes (1978) has proposed that even the view of dominance and subordination may not be correct. He proposes that the two sectors may enjoy a "symbiotic" relationship. He even presents a case for a reverse situation of dependency. "The concept of the informal economy is fundamental to the understanding of the operations of capitalism as a world phenomenon and constitutes a missing element in contemporary world formulations of relationships between core and periphery" (Portes, 1978, p.35).

1.5 Concluding Remarks

In the 1975-85 decade, there was considerable progress in the debate on the informal sector in the Third World. While only those ideas that conflict with earlier views were highlighted in this review, there were many studies in this decade that also supported the earlier positions on the definition, role, and formation of the informal sector.

In spite of this progress, the informal sector debate has not achieved greater clarity. There are still many divergent views on what the informal sector is, how it is created, why it
persists and so on. It also appears that the issue was complicated by the discovery of thriving, modern small enterprises within the informal sector. This raises many questions on the role of the informal sector in the urban economy, its relationship to the formal sector, and the validity of the dualism concept in understanding the urban economy. However, these approaches to the analysis of the informal sector are still limited to the Third World context, particularly its large cities, as if the phenomenon were exclusive to it.

In this light, the complexities of the issue are compounded by the review to be presented in the next three sections of this chapter which include the study of the informal sector in small towns of the Third World, in centrally planned socialist economies, and in Western capitalist economies.

2. THE INFORMAL SECTOR IN SMALL TOWNS OF THE THIRD WORLD

Richardson has stated:

"Almost all the informal sector surveys are for primate cities or occasionally, other large cities and have never been undertaken for a large sample of urban areas in all size classes within a specific country" (Richardson, 1984, p.23).

There may be several reasons for this:
1. The informal sector has been tied to the dominant model of rural migration and urban development. Large towns encountered a greater influx of migrants and their inability to find employment was a serious problem in these towns.
2. The contrast between the formal and informal sectors is accentuated in large towns because more of the formal sector
production units are found in these towns.

3. Large towns were more important in the development strategies in the Third World, for instance, in the top-down, growth pole approach.

4. The sources of funding the research and/or planning for the informal sector (i.e. government, private agencies, universities) are mainly located in the large towns. The informal sector in large towns was more accessible to these funding sources, for study or planning purposes.

"Small and intermediate cities were in general excluded from their (I.L.O.) coverage presumably on the ground that: first they did not encounter the scale of influx of rural migrants as large cities did, thereby avoiding the serious problem of finding employment opportunities for the migrants and second these cities were not as important in the development strategies in third World countries" (bracket author's) (Mathur and Moser, 1984, p.xii).

Paul Bairoch (1976; in Mathur and Moser, 1984) presented one of the earliest studies on city size and economic development in the Third World. But it was "limited in scope". Since then there have been few studies on city size and the informal sector in the more recent literature. It is quite likely that the study of the informal sector in small towns was a corollary to the study of small towns for development purposes, which has been promoted since the mid-seventies. According to El Shakhs (1984, p.81):

"The articulation of the spatial development of large cities into interdependent settlement systems of small- and medium-sized cities could enhance the productive contribution of the informal sector". 
Santos' (1979) work is probably one of the earliest studies on urban dualism to introduce urban size. His model clearly indicates a declining proportion of the informal sector with increasing city size. However, the Santos model was not backed by empirical data (Figure 3).

Figure 3 - Distribution of the informal sector by city size: Santos 1979

Because this is a new area of enquiry, much of the evidence on the informal sector in the small towns tends to be impressionistic (El Shakhs, 1984; Berlinck et al., 1981; Mabogunje and Filani, 1981). However, Richardson (1984) does say that these views are supported partially by surveys.

"Field trips to intermediate cities in a variety of developing countries reveal a large number of informal sector enterprises and activities and a scarcity, in some cases a virtual absence, of formal sector
enterprises" (Richardson, 1984, p.23).

While the information may be scant, the dominant hypothesis is that the "share of the informal sector in total urban employment declines with increasing city size" (Mathur and Moser, 1984, p.xiii).

Proponents of a negative correlation between city size and the informal sector include Kull, 1984; El Shakhs, 1984; Richardson, 1983; Das, 1982; Aryee, 1981; Berlinck et al, 1981; Mabogunje and Filani, 1981; Saget, 1976 in Kull, 1984. See Figure 4. With the exception of Kull (1984) and Das (1982) Mabogunje and Filani (1981), the studies of the informal sector in small towns suffer from a lack of empirical support. In fact, studies are often hypothetical calculations (Hilhorst, 1984; Richardson, 1983).

"to illustrate, consider the following hypothetical example. The primate city accounts for 50 percent of the national urban population and the FS data reveal that it provides 60 percent of FS jobs. A national estimate of the IFS, perhaps using versions of the self employed, plus unpaid family labour and the small establishment employment method, suggests that the IFS accounts for 40 percent of total urban employment. If employment is proportional to population, then it is easy to calculate that the IFS accounts for 28 percent of total employment in the primate city and for 52 percent of total employment in the rest of the national urban system. Also the same data reveals that the primate city accounts for only 35 percent of national IFS employment" (Richardson, 1983, p.40).

Richardson uses the abbreviations FS and IFS to stand for the formal sector and informal sector respectively.
Empirical studies have been carried out in Kano (Mabogunje and Filani, 1981), Ivory coast (Kull, 1984), Campinas, Brazil (Berlinck et al, 1981), and Raikot (Das, 1982). Kull (1984) suggests that the share of the informal sector employment declines with increasing city size.

Figure 4 - Distribution of the informal sector by city size: El Shakhs 1984

To augment the lack of empirical data in this regard, a participant observation survey was undertaken by the author in Raikot, a small town in Punjab, India. Details of this survey are attached in Appendix F. The survey revealed that the informal sector was proportionately higher than the formal sector, leaning in support of Kull's findings. For instance, the municipal corporation office of Raikot states that there are approximately 600 informal sector commercial activities
(registered and unregistered) as opposed to 123 formal sector commercial activities. Similar findings occur for the transport and service sectors of Raikot.

Advocates of a negative correlation, between the size of the informal sector and city size present three main arguments (Mathur and Moser, 1984).

1. Functional complexity: Large cities are functionally complex and have a larger share of the labour force in manufacturing, managerial, and professional occupations. These are a part of the formal sector. Logically then the informal sector must dominate in small towns.

2. Substitution effect: Larger cities, assumed to be at a higher level of development, can substitute the informal sector activities by formal sector activities. Small towns are less able to make these substitutions.

3. If the formal sector employment is concentrated in large towns, the share of informal sector employment must be higher in other towns. This view was introduced by Santos (1979).

There is an opposing point of view in the study of the informal sector in small towns, that advocates a positive correlation between informal sector and city size. i.e. the informal sector increases proportionate to city size (Kundu and Mathur, 1984). Their view is also based on three arguments:

1. Large cities have a sizable "autonomous" demand which creates better conditions for the informal sector to subsist and expand. Small cities are unlikely to create such conditions due to the lack of autonomous demand.
2. Large cities create more opportunity for the informal sector to effectively utilize technologies that are made redundant in the formal sector. Such opportunities are likely to arise in large cities and not in small ones on account of the pace of technological transformation.

3. The average incomes as well as the level of public amenities in large cities are generally higher than in small towns. This suggests that the possibilities for the emergence and growth of informal activities would be higher in these towns.

It can be seen that the study of the informal sector in small towns is highly speculative. According to Rogerson (1985, p.64) "it remains that empirical and theoretical studies concerning the informal sectors role in small and intermediate size centres of the developing world are an undeveloped research field".

Although one can concede that the area is relatively unexplored and needs further research, there are, at the same time, certain critical questions that arise in the context of the informal sector debate.

1. Is the informal sector in the small towns similar, in type or range of activity, to its counterpart in the large towns? El Shakhs (1984), Kundu and Mathur (1984), Kull (1984), Das (1982) address this issue to a certain extent as indicated earlier in this section.

2. What is the relationship of the informal sector to the formal sector in the small town economy? Only Kundu and Mathur (1984) have dealt with this aspect. Their study implies a
benign relationship, but this is a position that may be vulnerable to criticism in contemporary thinking.

3. What is the relationship of the informal sector in the small towns to the Third World development process? Which of the major approaches i.e. evolutionist, functionalist, by-default, and proletarianization can explain the existence of informal sector in small towns? This is an unexplored area.

The study of the informal sector in small towns adds to the many aspects of the informal sector that must be considered in the analysis of the formation, persistence, and distribution of the informal sector in urban areas. The debate gets more complex.

3. THE INFORMAL SECTOR IN WESTERN CAPITALIST COUNTRIES

This section, and the following one are critical to understanding the informal sector. The presence of the informal sector in economies distinctly different from the Third World implies that the Third World context of the debate on the informal sector may no longer be tenable. This section describes the informal sector in Western capitalist nations.

Although the analysis of the informal sector in Western countries has not been as extensive as that of the Third World, there is nonetheless a substantial amount of study.

The term 'informal sector' has been used in a limited way in discussing the phenomenon in the Western capitalist countries. According to Simon and Witte (1982, p.xi):

"In England it is called the 'fiddling'; in France,
Simon and Witte use the term 'underground economy' which is one of the more common terms applied. This term is also used by Mattera (1985), Tanzi (1982), Molefsky (1982), Tucker (1982) and others in the study of various parts of the Western world. Other terms used include: the second economy (Contini 1982); irregular economy (Reuter, 1982; Mirus and Smith, 1982; Fermal et al, 1978); subterranean economy (Bawly, 1982; Guttman, 1977); the black economy (Mattera, 1985; Dilnot and Morris, 1982); and clandestine employment (De Grazia 1984). Only Nicholls and and Dyson (1983), Mingione (1985), and Connolly (1985) use the terms informal and formal sectors.

Thus it can be seen that, similar to the Third World, there is no lack of definitive terms to describe the phenomenon in Western nations. But do these definitions describe the same part of the economy in the case of Western nations?

"The street vendors of Manhattan, the improvised boardwalk market stalls of Venice, California and fruit stalls outside the federal buildings in Washington D.C. (just as they are in Brazilia and in Bangkok) are evidence enough that there are market niches for the IFS enterprises even in the most affluent of countries" (bracket in original) (Richardson, 1984 p.4).

In general, it appears that the informal sector activities are

1 The term hidden economy has also been used in studies of the U.K. (Macafee 1982), Norway (Isachsen et al 1982), selected European nations (Frey et al 1982).
similar, but the emphasis is laid on the activities that are illegal, tax evasive, and are means for acquiring undeclared income. Consider some of the definitions given.

"The underground economy is a term used to describe transactions that involve payment in money or in similar goods but are not recorded in official economic statistics (such as taxable income or the unemployment rate). These transactions may not be recorded for a number of reasons. For example, the goods or services sold may be illegal, as are narcotics and prostitution. On the other hand, the provider of these goods may want to avoid paying income, sales or social security taxes or avoid obeying some frustrating government regulations. Children who sell lemonade in front of their homes, teenagers who babysit for their neighbours, and adults who use garage sales to clean out their attics all participate in the underground economy if they do not report their income" (Simon and Witte, 1982, p.xi).

According to De Grazia (1984, p.8), the informal sector can cover two areas.

"The first covers all forms of tax avoidance and are to some extent illicit and illegal, barter (exchange of goods and services in order to evade taxes), and black marketing and other activities that generate undeclared income. The second covers activities that are of a felonious or criminal order such as prostitution, drug-peddling and illegal gambling."

Phillip Mattera (1985, p.4-14) uses a list of forms of informality in Western economies, all of which are unregulated, untaxed and unmeasured. The participants are either moonlighting from a regular job, the officially unemployed, or those officially not in the labour force (students, disabled persons). The forms of informality using the above profile include: the hidden economy (unofficial forms of income); the
criminal economy (prostitution, gambling); the social economy (barter); and the household economy (work done by housewives). Richardson (1984 p.4) also states that there is "substantial moonlighting and multiple jobholding by skilled tradesmen".

Essentially, the descriptions provided by these scholars are similar. It appears that estimating the amount of tax evasion is a major focus of these studies even though tax evasion is not the primary intent of some informal activities eg. babysitting, children's lemonade stands and so on. Guttman's (1977, in Simon and Witte 1982; Bawly, 1982) was instrumental in drawing attention to tax evasion in the underground economy.

The problem of tax evasion by the underground economy is not small. It was estimated in 1979 that one third of Italy's labour force participated in the 'lavoro nero', the underground economy (Simon and Witte, 1982, p.xi)

With reference to the United States of America, the main focus of their book, Simon and Witte (1982, p.xv) state;

"The $19 to $26 billion of lost federal income tax revenue described by the IRS 1979 study would almost have been enough to wipe out the $27 billion deficit in the 1979 federal budget....the underground economy is an important phenomenon in the United States. We can no longer afford to ignore it."

Estimates of the underground economy for other nations are as high. Italy is one of the most researched areas (Mingione, 1985; Mattera, 1985; De Grazia, 1984; Frey et al, 1982; Contini, 1982) and the estimates presented vary. According to Frey
(1982) Italy's hidden economy is 30-40 percent of the GNP, while Contini (1982) estimates it at 20 percent of the work force. The informal sector in Canada was estimated roughly at 5-20 percent of the total economic activity in 1976 (Mirus and Smith, 1982). In Australia, the informal sector was 10 percent of the GDP in 1979 (Tucker, 1982). The estimates for other nations, in percentage of labour force, include: France, 3-6 percent; Belgium, 20-30 percent; Sweden, 13-14 percent; Germany, 8-12 percent; Norway, 40 percent (De Grazia, 1984).\textsuperscript{12}

Frey (1982) cautions against the accuracy of these statistics. According to Frey, most of these figures are speculations or educated guesses and were not obtained by the use of well defined methods. However, it is obvious that the hidden economy will always be difficult to measure simply because it is hidden.

Although studies of the informal sector in the developed world tend to concentrate on tax evasion and barter, the activities in the sector are quite varied. They include:

1. Barter of professional and skilled services on an individual basis eg. doctor, lawyer, plumber, repairmen etc.
2. Operation of small unregistered firms under single or family ownership eg. household production of greeting cards, tailoring, pottery and so on.
3. Use of labour illegally for casual work, for instance the

\textsuperscript{12} See De Grazia 1984, Clandestine Employment, for data on the size, and the general characteristics of the hidden economy in European nations.
use of Mexican labour in U.S.A..

4. Self-employment that is unreported, eg. babysitting, house cleaning services, garage sales, street entertainment, empty bottle collecting, street hawkers and vendors, 'scalpers' by resale of tickets.

5. Moonlighting in addition to regular job or other forms of collecting unrecorded money eg. tips, bribes.

6. Criminal activities eg. drug peddling, illegal prostitution, illegal gambling.

While there are many types of informal sector activities in Western nations the focus of the studies tends to be on measurement of tax evasion (Tanzi, 1982; Bawly, 1982; Kenadjian, 1982; Isachsen, 1982; Mirus and Smith, 1982) or on refining measurement techniques (Frey et al, 1982; Reuter, 1982; Dilnot and Morris, 1982). In spite of this emphasis, Tanzi (1982) states that survey methods have not been applied to the estimation of the hidden economy in North America as it has been done in Europe.

Some other aspects of the informal sector such as the characteristics of the sector are also studied (Mattera, 1985; Redclift and Mingione, 1985; De Grazia, 1984); the use of illegal immigrant or surplus labour (De Grazia, 1984; Del Boca and Forte, 1982; Contini, 1982). Refering to Italy, Contini and Del Boca (1978; in Del Boca and Forte, 1982, p.182) say:

"the surplus labour supply is no longer openly manifest as it was in the beginning of the Italian miracle but is on the contrary hidden".
Finally the aspect of public policy is also a part of the studies on the informal sector but mostly in reference to the control of tax evasion (Simon and Witte, 1982; Bawly, 1982).

The question that arises, is why should this sort of an economy form in relatively prosperous nations. The hidden economy in Western nations, is not new, it is "as old as taxation" but "rediscovered" in recent years (Mingione, 1985). One can speculate that changing times have in some way either increased the hidden economy or changed its character such that it is important to study. Some reasons have been proposed by scholars. Rogerson (1985) states that depressing wage levels force individuals into the informal sector. Gershuny (1985) Gerry (1979), and Pahl and Wallace (1985) point to the fact that sometimes the provision of services by the state is inadequate necessitating the services from the informal sector. Frey (1982) suggests that often the burden of taxation inflates the informal sector, a view that is shared by Simon and Witte (1982) in their study of the U.S.A., and Hansson (1982) in his study of Sweden. Del Boca and Forte (1982) present an interesting point of view. They state that higher education levels induce individuals, who have some work time available, to shift their preferences for jobs to the informal sector. Speaking of the case study of Canada, Nicholls and Dyson (1983) propose that the informal sector is a response to the limits of monetisation i.e. the limits of depersonalised and distant human relationships in society.

"On the other hand, to the extent that informal
economic activities increase de-monetisation (non-money transactions), it is necessary for people to increase the number and quality of their interpersonal relationships" (Nicholls and Dyson, 1983, p.25).

It is evident from this discussion of the informal sector in Western capitalist economies that considerable work has been done, certainly sufficient to provide a tentative profile of the sector. But, as yet, there has been no comparative study with the Third World situation.

4. THE INFORMAL SECTOR IN CENTRALLY PLANNED SOCIALIST COUNTRIES

Studies of the informal sector in centrally planned, socialist economies are not as easily accessible. It is sometimes difficult to obtain documents, some of which are not in English, and when these are made available by the government, the accuracy of the information is often suspect (Aslund, 1985). Nonetheless, there is enough information to indicate the existence of the informal sector in socialist economies.

Although the terminology used for the informal sector is not as varied as that in Western capitalist and Third World capitalist economies, it appears to be a common feature in socialist economies (Mattera, 1985; Aslund, 1985; Ping Yu, 1984; De Grazia, 1984; Time magazine, April, 1984; Sit, 1983; Newsweek magazine, March, 1983; Grossman, 1982; White, 1978; Gormsen et al, 1977). The general term applied to the informal sector is 'private sector enterprises' to distinguish these from the state controlled economy. Private sector enterprises are mostly forms of self-employment, or small group ventures. The presence of
private enterprises is a political/ideological contradiction within the centrally planned socialist systems but this aspect will not be discussed in this review. The purpose of this review is only to establish the presence and predominant characteristics of the informal sector in the socialist economies.

Studies of the informal sector in socialist economies show that it is sometimes underground, but sometimes even state encouraged. It used to be easy to dismiss the informal sector as a holdover of capitalism but this is hardly acceptable now since some socialist nations have acknowledged the presence of the sector as an inherent part of the socialist system, eg. in China (Ping Yu, 1984; Lin et al, 1980), Poland, Hungary, East Germany (Aslund, 1985; Mattera, 1985), and U.S.S.R. (Mattera, 1985; Grossman, 1982). Lin (1980) for instance states that the private enterprises were part of the "unified socialist market" of China. Mattera (1985, p.11), quoting a Moscow correspondent of the New York Times states that

"parallel to the official economy there exists an entire thriving counter economy...(which) has become an integral part of the Soviet system a built in permanent feature of Soviet society".

The informal sector comprises "atleast a few percent of employment" in eastern European nations (Aslund, 1985, p.2), and

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13 See Aslund Anders 1985, Private Enterprise in Eastern Europe, for an insight into the ideological contradiction of the private enterprise sector in the socialist economies.
in most instances these are officially recognised by government (Aslund, 1985; De Grazia, 1984).

The size of the informal sector in socialist economies varies, depending on whether the estimates include the legal, the illegal, or both forms of informal activity. Both are usually present. Aslund (1985) studied only the legal private enterprises in Poland and East Germany. Similarly, Shen Ping Yu (1984) studied the legal private enterprises in China and Gormsen (1977), the legal private enterprises in U.S.S.R. Grossman (1982), Mattera (1985), and Cai (1980) on the other hand, studied the illegal side of the informal sector in the U.S.S.R.; the U.S.S.R., Poland and Hungary; and China respectively.

Estimates for the U.S.S.R. indicate that the legal and the illegal informal sector was 20 percent of the official economy in 1970 (Kaiser, 1976; in Frey et al, 1982). According to Mattera (1985 p.115),

"Andrei Sakharov has been quoted as estimating the second economy at about 10 percent of the official one, but he apparently based that figure on nothing more than impressions".

Estimates are hard to get, but it is indicated by scholars that the private enterprise sector is quite large in Poland, Hungary, Yugoslavia (Aslund, 1985; Mattera, 1985; De Grazia, 1984). The exception, Aslund (1985) points out, is the informal sector in East Germany, which is small due to a stricter control on corruption. De Grazia (1984) states that in Yugoslavia the
proportion of wage earners, regularly engaged in the informal sector was at least 10 percent rising to 25 percent in areas with a shortage of skilled labour. The second economy of Hungary was estimated at one third of the country's production and 40 percent of the personal income in 1981 (Mattera, 1985). For China, Cai (1980) estimated that there were about 10,000 illegal hawkers in Shanghai during the cultural revolution, although this figure does not really indicate the total size of the informal sector. Most scholars admit that the figures may not be accurate, but there is an agreement that the informal sector exists "on a large scale in the Soviet Union and in Eastern Europe" (Grossman, 1982, p.245).

Descriptively, the informal sector in socialist economies does not differ much from the informal sector in other nations.

"The exchange of goods and services (i.e. various forms of barter carried out mainly for tax evasion purposes in most industrialised market economy countries), which is often considered as a branch of the underground economy is also viewed as an important feature of the secondary economy in socialist countries" (De Grazia, 1984, p.1).

De Grazia (1984) indicates that tax evasive private enterprises are as much a part of the informal sector in socialist economies as Western capitalist economies. But other forms of illegal activities exist as well, are highly varied "and appear to be limited only by human ingenuity" (Grossman, 1982, p.248). These activities include:

1. Moonlighting from regular jobs, typically for household repair and building services (Mattera, 1985; De Grazia, 1984;
2. Small scale production of garments, footwear, Vodka etc. usually within legal premises eg. behind the facade of a collective farm (Mattera, 1985; Grossman, 1982).
4. Stealing on the job, eg. black market sale by truck drivers of freight in their custody (Grossman, 1982).
5. Stealing from the state, eg. diversion of finished goods (Grossman, 1982).
6. Other forms of collecting undeclared income, eg. bribes.
7. Criminal activities such as narcotic sales and prostitution (Mattera, 1985; Grossman, 1982).

On the legal side the use of government stalls for the private sale of fruits and vegetables seems to be one of the most common informal activity in the U.S.S.R. (Grossman, 1982; Gormsen et al, 1977) as well as in China (Ping Yu, 1984). The prices for the sale of these goods are higher than in the state controlled economy, but subject to a ceiling on profits imposed by the state (Gormsen, 1977). According to Grossman (1982), the government permits some private activity in certain professions such as physicians, dentists, teachers, tutors, and in a few crafts and trades. But Grossman (1982) emphasises that even in the legal side of private activity, illegal transactions do take place. He cites examples of 'stealing on the job', bribes, using state resources for private enterprises etc.

It appears from these studies that reasons for the existence of private enterprises in the socialist economies
include, tax evasion, making extra money, and meeting shortages in consumer goods. The illegal informal sector appears to be the haven for prosperous entrepreneurs. This seems logical for the risks of illegal ventures are too high for the poorer individual.

"the illegal side of the Soviet second economy adds considerably to the consumers well being, both by enhancing the flow of goods and services available to him, qualitatively as much as quantitatively, and provides him with extra income" (Grossman, 1982, p.259).

Most scholars tend to describe a dynamic informal sector for instance;

"A new type of entrepreneur has appeared, formed by socialism and cut off from the old business tradition. He is generally very able and innovative...desiring quick and large profits, he is more market than production oriented" (Aslund, 1985, p.209).

However, not all the private enterprises are prosperous. In China and Poland poverty can be related to the informal sector (Aslund, 1985; Cai, 1980). By contrast, Aslund states that the private enterpriser in East Germany is "old, conservative, and fairly law abiding...he has not been transformed by socialism but is a remnant of the old society" (Aslund, 1985, p.169).

In concluding this section it can be said that while the informal sector in Western economies was generally viewed negatively due to tax evasion, there is quite the opposite response for the socialist economies. Consider this remark:

"By permanently filling in the gaps left by the
regular economic institutions, the second economy becomes an institution itself and probably even serves as a political stabiliser. Rather than being a subversive force, it may be the thing that keeps the 'socialist' system from collapsing" (Mattera, 1985, p.121).

5. A COMPARISON OF THE INFORMAL SECTOR IN THE THREE DOMINANT ECONOMIES

From the review of the informal sector in the Third World, Western capitalist countries and centrally planned socialist countries, it may appear that the phenomenon is different in the three contexts. On closer scrutiny however, one can find many commonalities.

Firstly, a comparison can be made of the definitions and descriptions of the informal sector. In the case of the Third World, the definition of the informal sector varied from self-employment (hawkers, vendors), the low wage sector (casual hired help), small enterprises that are low or well paying in profits (food stalls, small manufacturing units) to criminal activities (drug peddling, black marketing). These activities are a form of employment and income but can be tax evasive if they are unreported or illegal.

Compare this list to the activities in Western capitalist and socialist countries. In these nations the informal sector is also a means to acquire undeclared income and evade taxes. However, while this aspect may be emphasised in the literature, the nature of the activity is not very different from that of
the Third World. Most activities whether these are vendors in China (Cai, 1980), or babysitters in U.S.A. (Simon and Witte, 1982) or the barter of professional services (De Grazia, 1984), are forms of self employment. While most may be well paying activities, it does not exclude low paying activities such as the income earned illegally from house cleaning, baby sitting, gardening etc. In China and the U.S.S.R, it was indicated that illegal small manufacturing units are prevalent, often using the state resources (Mattera, 1985; Grossman, 1982). Criminal activities, such as prostitution, and smuggling were present in these economies as well (Tanzi, 1982; Bawly, 1982). In fact, smuggling of foreign goods is an important part of the informal sector in socialist economies (Grossman, 1982) as well as the Third World.

Conversely, it appears that because the small enterprises, and self-employment are so well studied in the Third World that the tax evasion aspect of the informal sector may not have been as thoroughly examined. In the case of India, tax evasion by black marketing is very large and even though economists have studied it for a long time it has only entered the informal sector debate recently (Mattera, 1985; Kabra, 1982; Ray, 1981; Wisser, 1981).

"The combination of under-reported regular income and black market profits has reached so high a level that the London economists has declared that India is awash with 'black money'" (Mattera, 1985. p.107).

Mattera (1985) and Caballero (1982) also discuss tax
evasive activities in Colombia, and Mattera states that the "underground economies of Colombia and India seem to have more in common with the off-the-books activities in the U.S.A. and Western Europe than with the informal production in other parts of the Third World" (Mattera, 1985, p.9). However, speaking of India from personal experience, it would be more accurate to say that India has both a large black market as well as a large low profit informal sector, both of which evade taxes.

While the experience of India or Colombia cannot be used as indicators of tax evasion in other Third World nations, this cannot be ruled out either, pending empirical work. What the studies on India and Colombia do indicate is that tax evasive informal activities are not exclusive to the Western capitalist or socialist nations. Similarly, because not many studies in the Western world have concentrated on the petty activities such as baby sitting or empty bottle collection, it would not be fair to draw conclusions on the proportion of such activities within the informal sector. These activities may be small in the amount of money transferred but large in the numbers employed. There is little statistical evidence.

What the comparison of the type and size of the informal sectors indicates is that certain types of informal activities appear to predominate over other forms in particular nations, and types of economy.

The second part of the comparison is based on the form of transaction used in the informal sector. The choice is between the barter of goods and services or money transfer. It appears
from the review of the three dominant economies that direct money transfer may be more important in the Third World and socialist economies while barter may be an important aspect of the informal sector in the Western nations (De Grazia, 1984; Bawly, 1982; Tanzi, 1982). Again, this conception may simply be the result of the current focus of the studies in these nations. Estimation of tax evasion by the use of barter may be important in terms of the total money involved but number of persons in the informal sector who directly transfer money may also be large, but this has not been studied. The bottom line in such studies is how much does it cost the government. This is not a fair representation of the informal sector in Western nations because although other forms of activities are recognised they are less investigated.

On the other hand, it would also be unfair to say that barter is unimportant to the informal sector in Third World. Certainly in India the black market involves barter transaction involving large amounts of money for tax evasion purposes (Mattera, 1985; Kabra, 1982). But there is another level of barter that is not apparent in the literature, perhaps because the money value is less significant. In India, for example, constant barter between those employed in the informal sector and the upper income groups exists usually involving the trade of service for food. For instance, the laundry-man will iron garments for a client in exchange for a meal or a ration of rice for his family. Hawkers of new stainless steel utensils come frequently to the doors of the well-to-do to barter their wares
for old clothes, which they resell to the poor.

One can infer from these comparisons, that irrespective of the nature of the transaction, the informal sector activities are mostly illegal in all three types of economies (Mattera, 1985; Grossman 1982; Simon and Witte, 1982; Sethuraman, 1981). This includes the criminal as well as the non-criminal activities.

The third part of the comparison deals with the reasons why the informal sector forms in the three very distinctly different types of economies. In the Third World the existence of the informal sector has been closely tied to poverty and unemployment, i.e. underdevelopment. Four approaches were reviewed earlier, the evolutionist, the functionalist, by default, and proletarianization (Kahn, 1980). Essentially, these approaches have explained the conditions in the Third World that necessitate the informal sector. These approaches, by and large, cannot be transferred to the other types of economies simply because they are not in a similar development process. There is an obvious contradiction here. If the informal sector is present in other economies, why can these approaches not be transferred unless perhaps it is because they are unsound in which case there is either a case for modifying the approaches or finding a new one.

Of the four approaches, perhaps only the 'by default' approach can be stretched to cover the presence of the informal sector in the other economic systems. Under the 'by default' approach, the informal sector is created in areas that the
dominant capitalist mode finds unprofitable or high risk (Kahn, 1980; Roberts, 1978). If the 'dominant capitalist mode' is changed to 'any dominant mode' then the concept may apply. In any case, it is difficult to view the informal sector as a symptom of underdevelopment.

"the IFS is a symptom of underdevelopment is also exposed by observing how well it thrives in highly developed countries" (Richardson, 1984, p.4).

In the case of the socialist economies one of the reasons cited for the creation of the informal sector is meeting shortages of goods and services (Grossman, 1982). In the Western nations, although the shortages are less identifiable, it has been suggested by some scholars that the informal sector has evolved as a result of the inadequate provision of services by the state, and this includes even petty services such as baby sitting (Gershuny, 1985; Pahl and Wallace, 1985). The shortages of goods is less studied but smuggling of drugs would fit into this category (Mattera 1985; Bawly, 1982). However, the transfer of the 'by default' approach is purely speculative at this point and certainly needs more research.

Apart from this there are no other correlations apparent, partly because the reasons for the informal sector in the Western capitalist and the socialist countries have not been closely examined and no coherent approaches have as yet been formed.

The fourth part of the comparison is why the conditions that create the informal sector exist in the three types of
economies. In the case of the Third World the presence of surplus labour and poverty are two causal factors (Sabot, 1977; Bose, 1977; Mookerjee, 1975), while in the other two economies, depressing wage levels\(^{14}\) (Rogerson, 1985), burden of taxation (Simon and Witte, 1982), and meeting shortages (Grossman, 1982) are some of the reasons cited.

It appears, however, that while some reasons may dominate in a particular economy other reasons may exist as well.Depressing wage levels for instance, a source for the creation of the informal sector in western nations may also account for the 'modern' and thriving informal sector activities (Demol and Nihan, 1982; House, 1978; Nihan et al, 1977; King, 1974)) in the Third World. The burden of taxation may similarly have led to the black markets in India because the burden of taxation is greater on a poor population (Kabra, 1982; Ray, 1981).

Similarly, poverty and surplus labour are not exempt in the creation of the informal sector in Western capitalist and socialist economies. Poverty is a relative term and to say that the poor usually participate in the informal sector should mean that people at the lower end of the income scale participate. How low this point is, decides perhaps how desperate the need for employment in informal sector may be. In the case of the Third World it is a matter of survival but it appears that in other economic systems, informal activities such as moonlighting are primarily a means of augmenting income.

\(^{14}\) Depressing wage levels refers to the declining value of fixed incomes as a result of inflation
The aspect of surplus labour in the creation of the informal sector is also present in the Western capitalist and socialist nations. For example, in China migrants from rural areas were encouraged to enter the informal sector so that this sector would develop in a planned manner (Ping Yu, 1984). In Italy, surplus labour has contributed to the labour force in the hidden economy (Del Boca and Forte, 1982). While discussing the use of labour it should be mentioned that it is not only the use of surplus labour that is at issue here, but also its exploitation. When labour is surplus in a nation, it often coincides with the labour that is exploited. But this does not mean that labour is not exploited in other nations. The use of illegal immigrants is a part of the informal sector in Western nations and exploitation of this labour force exists in U.S.A, e.g. illegal immigrants from Mexico (Simon and Witte, 1982) as well in Switzerland, France, Belgium, West Germany and other European nations (De Grazia, 1984). Often the immigrants are brought in to be exploited. In Switzerland, De Grazia (1984, p.16) states that the problem is very serious and "various estimates put the number of illegal residents at between 25,000 to 100,000. Banerjee (1984) states, however, that there is little exploitation of labour in the socialist economies.

However having said throughout this section that there are many similarities, it should be also said that there are many differences which are proportional rather than absolute. For instance, in the Third World the informal sector is in most cases its participants only source of income, whereas in the
Figure 5 - Simplistic representation of the major means and motives of the informal sector in dominant economic systems

<table>
<thead>
<tr>
<th>TYPE OF ECONOMY</th>
<th>MOTIVE FOR PARTICIPATION IN PETTY CAPITALISM</th>
<th>MEANS USED TO ACHIEVE MOTIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>DECREASE COSTS</td>
<td>INCREASE PROFITS</td>
</tr>
<tr>
<td>WESTERN CAPITALISM</td>
<td>XXX</td>
<td>XX</td>
</tr>
<tr>
<td>SOCIALIST</td>
<td>X</td>
<td>XX</td>
</tr>
<tr>
<td>THIRD WORLD</td>
<td>X</td>
<td>XX</td>
</tr>
</tbody>
</table>

X-XXX: LEAST TO MOST COMMON

Western capitalist nations, the informal sector usually supplements income from other sources. Thus, the labour force in the Third World is often compelled to work in the informal sector, while in the other nations it is a matter of choice. In the Third World and the socialist economies there appears to be a greater number of activities in the production and distribution of goods than in the provision of services. Perhaps this is, in some way, the result of shortages of goods from the formal sector. But in the Western capitalist economies, the provision of services is dominant in the informal sector perhaps because, the consumer market is saturated or services are more easily bartered, and even if money is exchanged cash is used and there is no tangible evidence. Thus, tax evasion is easy. It
appears that there is a greater use of technical and professional skills in the Western nations, perhaps because barter of these services can be used to evade taxes in a significant way.

These differences, which appear to be more proportional than absolute, occur because of the differences in the motives and means of the informal sector in the three dominant economies. This is represented in a simple way in figure 5.

This comparison is admittedly general, but it does show that most types of informal sector activities are found in all three types of economies, although in varying proportions. It also suggests that this could be the basis for a re-examination of the factors that create the informal sector. Perhaps the commonalties as well as the differences in the proportional distribution of informal sector activities has a common explanation.

The following chapter proposes an alternative analysis on the urban informal sector taking into account the debate thus far.
CHAPTER 4: AN ALTERNATIVE ANALYSIS OF THE INFORMAL SECTOR

"Hawkers and vendors have not disappeared from the streets of London, New York, and Paris. If this is not in some sense the same thing as what is being called the informal sector in Bogota and Hongkong, one would like to know why not" (Peattie, 1984 p.179)"

This chapter is in pursuit of an answer to this dilemma. The study on the urban informal sector has expanded so much in recent years that it includes a wide range of activities in different economic systems and, therefore, certain questions arise. How is the informal sector to be defined, since it exists not only in the Third World but also with considerable similarity in the socialist and Western capitalist countries? More critical than that, how does the informal sector form in the three quite different economic systems? Obviously, if a common explanation is to be found, it must be capable of explaining the commonalities and the differences.

This chapter proposes an alternative explanatory analysis of the informal sector. The argument is based on the current state of knowledge, much of which is empirically derived, by a literature review. But, it has not been possible to undertake field survey specifically to test the alternative analysis. This chapter is divided into two parts. The first contains the arguments of the alternative analysis. In the second, this argument is used to explain the similarities and differences in the informal sector Third World, socialist nations and Western capitalist nations described in chapter four.
1. **AN ALTERNATIVE ANALYSIS: THE DEMAND AND SUPPLY FOR PETTY CAPITALISM**

1.1 **Definition**

The problem with definition of the informal sector is that there are too many of them (Rogerson, 1985; Richardson, 1984; Moser, 1978). Most of these adequately define the phenomenon in a particular circumstance, or at a particular place. While one cannot be critical of these definitions per se, it is also difficult to comprehend how one phenomenon can be defined in so many different ways. In the list below it can be seen that exceptions can be found for some of the criteria selected for the definition of the informal sector:

1. The informal sector has been defined as a traditional sector using a low level of technology and skill in the Third World and socialist economies (Aslund, 1985; I.L.O., 1972), but a 'modern', thriving informal sector also exists in all three economic systems (Grossman, 1982; Tanzi, 1982; Steel, 1977; Nihan et al, 1977).

2. The informal sector has been defined as a low paying, employment generating sector in the Third World, but a well paying, profit making sector also exists in all three types of economies (Richardson, 1984; Aryee, 1977; Beinefield, 1975).

3. The informal sector has been defined as self-employment (Hart, 1973), as well as small enterprises using family or wage labour (Sethuraman, 1976).

4. The informal sector has sometimes been conceived as a
refuge for the poor and the unemployed (Moser, 1978; Friedmann and Sullivan, 1972) but also found to be a preferred employment in all three economic systems (Mazumdar, 1981; Moir, 1978; Fowler, 1978).

5. The informal sector has at times been found related to rural-urban migration, surplus labour and at other times to have no such correlation (Richardson, 1984; Das, 1978; McGee, 1977; Sethuraman, 1976).

In fact, the informal sector has been defined in so many ways that it appears to be composed of a highly heterogenous group of people and activities. If an all-encompassing definition is to be found then it must directly or indirectly provide an explanation for this diversity and yet arrive at some boundary to distinguish between the two sectors. In this regard, the work of Polyani (1968) is important. Referring to the problems of defining boundaries in social systems he has stated that the boundary should not be conceived of as an enveloping membrane which defines some sort of physical limit to the system. Instead, the system boundary should be identified by the concept of controlling paradigm. It is perhaps better to use this view in the search for a definition here, because finding a precise boundary between the informal and formal sector has been a problem since the beginning of the debate.

In order to provide a definition, the approach in this research is to identify the more stable characteristics of the informal sector. After reviewing the definitions provided over the last twenty years, some of the more stable or dominant
characteristics are:

Firstly, it appears that in all three economic systems the informal sector has been portrayed to include activity that is mostly small in terms of numbers engaged in the activity. For instance, hawkers in Third World cities (McGee and Yeung, 1977), barter of professional services in the Western capitalist economies (Simon and Witte, 1982; Tanzi, 1982) or moonlighting of repair services in socialist nations (Mattera, 1985; Grossman, 1982) are all small-scale operations. However, the organisation of these small-scale operations, in some cases, may be much larger such as in sub-contracted work. The size of the activity alone is not sufficient to distinguish the informal from the formal sector because the latter has small scale activity as well.

Secondly, activities in the informal sector, can be distinguished from their formal sector counterparts by the lower capital input into the informal activities although profits may be large. Capital input appears to be relatively small due to:
1. A lack of capital, as is the case for the poor in the Third World.
2. By choice, when the activity is temporary and greater capital input would be unprofitable, (eg. hawkers selling seasonal produce).
3. By choice, when the activity is illegal. This exists in the three types of economies because small enterprises are easier to organise and disguise from detection (eg. small repair stalls in socialist countries). There are some exceptions in this
category. Illegal drug peddling, for instance, has a high capital input into the activity.

Thirdly, it appears that informal sector activities can be distinguished from the formal sector activities by the degree of legal protection received and the degree of government regulation followed. Informal activities often violate the municipal, provincial or federal rules and regulations governing economic activity. These include quality and quantity control of the merchandise sold, the enforcement of proper working conditions and the enforcement of appropriate payment to labour by minimum wage levels, and overtime pay. But, by the same token, participants in informal activities are unable to take legal recourse in cases of dispute over appropriate pay to labour or quality of goods. In some Third World nations informal activity is often licensed by the government but in such instances, licensing is merely a permit to work, there are few other benefits.

Thus, it can be seen by the above discussion that most of the characteristics previously attributed to the informal sector, such as the level of technology used, the level of profits gained, the scale of operation, type of labour used and so on, are subject to a great many variations. Some characteristics, on the other hand, such as the small scale of activity, and the small capital input into the informal activity are more common but exceptions also exist. Furthermore, these very same characteristics, that are either highly variable or more stable in petty capitalism, are also present in the formal
sector activities. This makes it difficult to use the characteristics to arrive at an exact boundary.

It appears, therefore, that the activities in the urban economy are on a continuum ranging in scale from large to small, from high profit to low, using a high level of technology to low, creating what Dunn (1971) calls 'nested hierarchies'. This makes it difficult to identify a precise boundary between the two sectors. However, as Dunn (1971, pp 191) states, "systems do not always form a simple formal hierarchy but commonly overlap in many ways to form exceedingly complex functional patterns". However, what does distinguish the informal from the formal sector, and this is perhaps the controlling paradigm described by Polyani (1968), is the lack of regulation of the informal activity by the government, and the lack of legal recourse for disputes over labour and working conditions or quality of goods and services in the informal sector.

The more common characteristics of the informal sector activities such as the scale of operation, may not be exclusive to the informal sector but because they are relatively more common these can be used to define the activities in the sector. Similarly certain characteristics are more common to the formal sector activities such as the use of high technology or larger profits. As a result of this, there is likely to be a continuum of activities where at one end lie the formal sector activities, at the other end the informal sector activities more easily identifiable by the dominant characteristics, and in between an intermediate zone where the activities cannot be easily
identified as formal or informal except by the degree of government regulations followed and the legal recourse available to those involved in the activity.

An example of this situation is the "family-owned corner stores" in Vancouver. While the scale of operation may be small and use of family labour common, resembling an informal sector activity, these stores are actually a part of the formal sector because they abide by municipal, provincial and federal laws with respect to quality control of goods, maintenance of transaction records for taxation purposes etc. Furthermore, if hired labour had been used it would be protected by the minimum wage laws. In the informal sector, a similar small scale operation using family labour such as the "dhabas" or tea stalls in India, would neither abide by government regulation nor be protected by the legal system.

In the alternative analysis, therefore, a redefinition of the informal sector is proposed, keeping in mind that the features identified are not exclusive to the informal sector, but are the common features, and that the boundary is a thin one based on government regulation and legal protection of the activity.

To begin with the informal sector is redefined as the petty capitalist sector not because petty capitalism is exclusive to the sector (in fact formal sector activities can also be petty capitalist) but because activities in the petty capitalist sector are mostly small scale capitalist enterprises. This petty capitalist sector can be described as:
Small scale capitalist enterprises, unregulated by government laws on quality and quantity of goods sold, the wages paid and the working conditions provided. It is a subordinate market economy that co-exists with any type of dominant market economy. The co-existence of the two sectors is mostly an interactive one, and this interaction can sometimes be exploitative. It is a market form of exchange that is comparable to the dominant market economies and between which the relationship is symbiotic. Both labour, capital and resources flow between the two sectors. However because the market conditions in the petty capitalist sector is a response to the market conditions in the dominant economy, the petty capitalist sector is put in the subordinate position. That is, the subordinate sector responds to the fluctuations in the level of production and labour force demand in the dominant sector and this makes the subordinate sector unstable and unorganised. Transactions with clients are informally set and interactions are personal.

In the balance of this chapter, the term 'petty capitalist sector' will be used to identify the informal sector in connection with the alternative analysis, while the term 'informal sector' will be used in connection with all preceding work. At this stage in the presentation of the alternative analysis not all aspects of this definition will be clear. However, as details of the analysis unfold, it is hoped that the logic behind this definition will become apparent. But, before the details can be presented it is necessary to show how this definition differs from other definitions of the informal sector.

15 According to D. Harvey 1973, a market economy is a system of exchange that occurs through the operation of price fixing markets.
16 In the dominant economy the price fixing market is supported by specific legal and political institutions, while in the subordinate economy it is not.
17 Although this idea is independently conceived, it is found that Portes, 1978, has applied the same term to the relationship between the petty commodity production sector and the formal sector.
Firstly, the petty capitalist sector as defined here, is not the same as the informal sector conceived by the International Labour Organisation (1972), and widely supported in the seventies (Popola, 1978; Konigsberger, 1976; Pendakur, 1975; Sethuraman, 1974). The list of characteristics presented by the I.L.O. describe a poor sector, that complements the formal sector but is independent of it and thrives in a self-sustaining manner. The petty capitalist sector, on the other hand, does not imply a correlation with any particular income group. In fact, individuals from any income group can be employed in or consume from the petty capitalist sector. Thus, the activities can be profit making or low paying depending on who is employed in the petty capitalist sector and what their motives for employment are. How and why they will do so depends on the prevailing market conditions. Poverty can influence the market conditions in an economy and this can affect the composition of activities in the petty capitalist sector.

Furthermore, in contrast to the I.L.O. approach, the alternative analysis proposes that the petty capitalist sector complements the formal sector interactively rather than independantly.

Secondly, the petty capitalist sector differs from the definition of the informal sector as a precapitalist, traditional, peasant-type mode of production (Lister, 1980; McGee, 1979; Bettleheim, 1972). The latter view can be related to the 'evolutionist' approach to the creation of the informal sector (Kahn, 1980), i.e. the informal sector is seen as a
transitional feature in the Third World development process in an essentially one way process.

In contrast, it is argued that the petty capitalist sector is non-evolutionary in character. That is, while it co-exists with the formal sector, it will not evolve into the formal sector. The fluctuations in the petty capitalist sector will correspond to market conditions in the formal sector in a back and forth process, not in a one way process. The petty capitalist sector may repeatedly increase and decrease in an urban economy according to the market conditions. This means that the petty capitalist sector is not tied to a specific course of development such as that of the Third World economies, because its presence has more to do with market forces in the formal sector regardless of the type of economy. There is ample evidence of an informal sector in socialist and Western capitalist economies even though these are undergoing distinctly different processes of development (Aslund, 1985; Mattera, 1985; Mingione, 1985; Richardson, 1984; Ping Yu, 1984). The co-existence of the petty capitalist sector with the formal sector indicates that both sectors are part of the same historical process of development, and not at two different stages of a development process, a view that is not unlike that presented by Peattie (1968) and Stavenhagen (1968). This is also similar to Kahn's (1980) suggestion that informal activities exist "by default" in areas that the formal sector finds unprofitable.

Thirdly, the petty capitalist sector is not the same as the 'petty commodity production sector' (Forbes, 1981; McGee, 1979;
Bromley and Gerry, 1979; LeBrun and Gerry, 1975), which is a recent view proposed by neo-marxists. This definition arose when scholars noticed that the informal sector in the Third World was not always an employment generating sector but sometimes profit-making, and 'modern' (Steel, 1977). The concept of a petty commodity production sector was used to define the activities that could not be strictly classified under the informal or the formal sector. The petty commodity production sector was said to lie at the margins of the dominant capitalist mode, subordinated by it in a dependent way (LeBrun and Gerry, 1975). The problem with the petty commodity production approach is that it only explains the presence of profit oriented commodity production and not the profit making services that may be present in the economy. Recent studies have shown, that profit making services can be a large part of the informal sector, not only in Western nations eg. the barter of professional services, but also in some of the Third World nations as well (Mattera, 1985; Mingione, 1985; Grossman, 1982).

In contrast, the petty capitalist sector includes the profit making activities providing either goods or services or both. Petty capitalist activities respond to market forces in the urban economy which create a demand for goods or services. Furthermore, the alternative analysis proposes that the petty capitalist sector is only dependent upon the formal sector for the creation of favourable market conditions but the petty capitalist sector does not exist only to serve the formal sector, nor is it necessarily always exploited. The
relationship between the formal sector and the petty capitalist sector is mostly symbiotic, where labour, capital and resources flow back and forth between the two sectors.

Finally, the petty capitalist sector is not a sector in addition to the informal and formal sectors. Some scholars have presented a third sector called the 'modern', or 'intermediate', sector to include activities that could not be classified in the formal or informal sectors (Nihan and Jourdain, 1978; Nihan et al, 1977; Steel 1977). In contrast, the alternative petty capitalist approach maintains that the boundary between the formal and the petty capitalist sector is one based on government regulation and legal protection of the activity and all other characteristics, such as level of technology used, are not only variable within the petty capitalist sector but also not exclusive to the sector. There is, therefore a continuum of activities in the urban economy but in this continuum the relationship of the activity to the state regulatory and legal system determines whether it belongs to the formal or the petty capitalist sector.

1.2 Formation Of Petty Capitalism In An Urban Economy

"The principal error of many 'dualists' is their partial approach to the study of the third world economy and society, focussing almost exclusively on production" (Santos, 1979, p.26).

Santos' observation is important in the presentation of the
argument for the alternative analysis. In agreement with Santos, it is proposed here that the production is only a part of the issue in the creation of the petty capitalism in an urban economy. There are two aspects to the formation of petty capitalism:

1. The production pattern: refers to the supply and spatial distribution of the goods and services available from the formal sector. This production pattern indicates if the supply from the formal sectors has met the demands of the population and whether there are any gaps in it. The production pattern also indicates the labour employed in the formal sector and therefore the size of the unemployed labour force.

2. The consumption pattern: refers to types of demand for goods and services that can exist in an urban economy. Some of this demand may not be met by the formal sector and therefore an alternative source, such as petty capitalism, can potentially meet this demand. These two aspects, in combination with each other can indicate the potential for the growth of the petty capitalist sector in the Third World, the Western capitalist as well as the socialist economies. Different development processes create variations in the production and consumption patterns. The size of the petty capitalist sector and the type of petty capitalist activities will be conditioned by the specific pattern of production and consumption in the dominant economy. This is perhaps the reason why so many types of

\[18\] The size refers to the numbers employed in petty capitalism.
informal activities exist not only within similar economies, but also between different types of economies, as discussed in chapter three.

1.2.1 Demand For Petty Capitalism: The Role Of Production And Consumption Patterns

In the current theories of the informal sector, production in the formal sector is used to identify the size of the unemployed labour force and therefore the potential size of the informal sector. This equates the surplus labour force to the labour in the informal sector (Moser, 1984). Another approach is to locate the needs of the formal sector that can be served by the informal sector i.e. the exploitation approach (Kahn, 1980). The alternative analysis suggests that both approaches present an incomplete understanding of the factors that form the petty capitalist sector. According to this analysis, both production and consumption patterns play a role in the creation of the potential demand for the goods and services from petty capitalism, and also provide some estimate of the size and types of demands from petty capitalism. Both of these aspects are discussed below.

In a particular economy, the combination of the production and consumption pattern is such that not all the consumption demands of the population are met by production in the formal sector. The equilibrium between demand and supply of a good in a homogenous market can be determined by price, but not all can afford the price. There is therefore a demand for cheaper
Figure 6 - The potential demand for goods and services from the petty capitalist sector

A: Demand (D) and Supply (S₁) equilibrium is based on price.

B: Equilibrium point between demand (D) and Supply (S₂) is higher. This occurs when the government restricts the supply of goods. Costs of production rise and only the rich can afford the restricted goods (for example, smuggled items).

C₁ and C₂: Indicates the demands that are not fulfilled by the market. Cheaper substitutes are required.

alternatives below the market price (Figure 6). Furthermore, if the production of a good is restricted by the government, the demand for that good may exist at a higher price equilibrium between supply and demand, because economic and social costs of providing that restricted good will be higher and only the
richer population can afford it. In both instances the source of supply for cheaper substitutes or the restricted good can be the petty capitalist sector. Finally, the chances of demand and supply being totally in balance is not only slim but shortlived. The imbalance will rarely be on the side of overproduction because it leads to lower prices and consequently lower returns to investment in the production sector.

Overproduction in the formal sector is economically unsound, and when such a situation arises (and this often happens in farming activities) deliberate steps are taken to curb it. For instance, farmers in the U.S.A., are paid to keep their fields fallow to prevent a glut in the market. Overproduction is not necessarily a production issue, it may happen when demand suddenly plunges because buyers decide to reduce their purchases.

While overproduction of a good in relation to the demand is uncommon, it is as uncommon to find a perfect equilibrium between consumer demands and production for several reasons. Firstly, consumer demands are ever changing as a result of changes in purchasing power, changes in consumer taste, and changes in population size or composition. It is difficult for the formal sector production to keep pace with these changes as they occur and it is not always desirable to do so as the changes may be transient. Secondly, some of the demands are such that the formal sector may deliberately limit or control the supply, if it is deemed economically, socially or politically desirable to do so. In this category one may
include certain luxury items that are restricted in a socialist state (Grossman, 1982). Finally, some demands are not large enough to warrant formal sector production because the costs of production may be too high and the benefits insufficient (Kahn, 1980; Roberts, 1978; Beinefield, 1976).

Thus, it is quite likely that there will be a discrepancy in the demand for and supply of goods and services from the formal sector such that there are some demands that are left unfulfilled. These unfulfilled demands may be for cheaper substitutes or reflect a personal choice for a good or service even at a high price. In either case, these demands constitute the demand potential of the petty capitalist sector. The size of the unfulfilled demand, if it can be assessed, is therefore the potential production capacity of the petty capitalist sector. But, this will not explain the particular types of activities will form within the petty capitalist sector, unless there is a further understanding of the types of demand that the urban population places upon the sector. Essentially, there can be two types of demands from the petty capitalist sector and these can be related to the income levels of the population.

1. Cost-based demands: Demands in this category are strongly tied to the purchasing power of the people. Cost-based demands are created when the prices of the goods and services from the formal sector are too high for the consumer. Cheaper alternatives become a necessity for this group of individuals, not a choice. Cost-based demands are, therefore, mostly inelastic. The poor belong to this category and their cost-
based demands from the petty capitalist sector are mainly for the essential needs of food and clothing. For example, the poor in India need a cheap source of vegetables and basic clothing, but once these needs are supplied, they are not likely to be able to afford fancier clothing or expensive vegetables.

This link to essential needs, results in relatively fixed cost-based demands, i.e. unchanging over time. While the poor may buy cheap vegetables one day and cheap fish the next, both items are essential to their survival and are therefore classified as cost-based demands. As a result, the petty capitalist activities that cater to these demands will be rigid or 'static' in size and growth potential, unless there is a change in the size or the income level of the population as indicated in figure 7. In 'static' petty capitalism labour supply and the demand for its goods and services are often in equilibrium. The labour engaged in petty capitalist activities quickly establishes the extent of cost-based demands of a fixed population size and maintains a steady supply of the same commodities over an extended period of time. It is difficult for labour to enter into this poverty-bound petty capitalism unless for some reason the population size increases or decreases suddenly and thereby increases or decreases cost-based demands. In a sense, the cost-based demands are poverty related and, therefore, more common to economies that are as yet developing.

2. Optional demands: Optional demands are demands for goods that are non-essential to the persons survival. These demands
are made from the petty capitalist sector as a matter of choice by the consumer. That is, the consumer could have consumed from the formal sector, for similar goods or substitutes, but has a preference for an alternative source of production. This choice can be based on cost, quality, uniqueness or convenience. It is important to distinguish cost-based demands that were discussed above from the optional demands based on cost. Optional demands can be created for a certain price of petty capitalist good but not because prices in the formal sector were unaffordable. For example, cheap vegetables from the petty capitalist sector fulfill an essential need of the poor but the very same cheap vegetable purchased by the rich is only a way of reducing expenditure.

Optional demands, with a few exceptions, are highly elastic because choices can change constantly due to changing income and purchasing power, the influence of advertising, fashions, fads, financial choices such as increasing savings as well as irrational decisions. For instance, the consumer can indicate a preference for hand made pottery items from the petty capitalist sector one year, and the next year prefer the mass manufactured porcelain items from the formal sector. In India, fads in consumer tastes have led to the production of many "copy cat" products by the petty capitalist sector. For example, in the early seventies, the lower middle class, was provided with a cheaper version of Revlon's perfume, "Intimate" by the petty capitalist sector. This perfume called similarly "Intimacy" was packaged to resemble the authentic good. But, as
the fad disappeared, so did the bottles of "Intimacy". Petty capitalist activities that are based on such optional demands must respond to these changes and this makes the sector capable of great fluctuations in type of activity and size of labour force (Figure 7).

Optional demands can come from the population belonging to any income group but it is logical that the poor can afford to have very few choices. Similarly, the poor tend to have more cost based demands. Thus the type of demand from the petty capitalist sector is a reflection of the income levels of the population.

It is difficult for a government to directly control the demands made from the petty capitalist sector, irrespective of whether they are optional or cost based. Controlling demands merely forces the demand to lie latent in the economy, or to be met by the petty capitalist sector. For instance, the government cannot control the demand for child care unless it provides for it. Failing this, illegal babysitting will develop in the petty capitalist sector. In China, it was found that when government policies regarding the informal sector were strict the informal sector went underground, instead of disappearing (Cai, 1980).

The study of consumer demands in the creation of petty capitalism has had limited consideration in the literature. The most significant work in this regard is perhaps that of Santos (1979). But his work is quite different from the ideas presented here. Santos, distinguishes two types of consumption:
Figure 7 - The effect of the types of demand upon entry of labour into the petty capitalist sector

A. Optional demands from a fixed population, over time

B. Cost based demands from a fixed population, over time

NOTE: Changes in population size will disturb the equilibrium of labour supply and demand in both cases. However, cost based demands and labour will soon re-establish a balance.

the modern and the non-modern type. He relates these to income groups so that the higher income groups have a larger proportion of the 'modern type' consumption, reflecting the influence of modernisation and technological progress in the Third World and the lower income groups have a larger proportion of the non-
modern type consumption.

Santos' study is limited to the Third World context but the arguments of the alternative analysis have universal application. Furthermore, the 'non-modern type' consumption which Santos equates with the informal sector does not distinguish between the optional and cost-based demands of the informal sector identified by the alternative analysis. Finally, equating non-modern type consumption with the informal sector does not cover consumption of 'modern' goods and services such as barter of professional services, or smuggled clothes and watches, in the Third World and in Western capitalist and socialist nations. There are many indications in recent years of modern-type consumption and production in the informal sector, described in chapter three, that are not encompassed by the Santos model. In contrast, the alternative analysis holds that the optional demands can give rise to modern-type production and consumption in the informal sector.

Other ideas in the literature on the consumption aspect are less detailed than Santos'. Squire (1981) defined the informal sector as "that in which the return to labour, whether or not it be in the form of wages is determined by the forces of demand and supply (Squire, 1981, p.81). But, he does not explain how these forces create the informal sector. Kundu and Mathur (1984) make references to "autonomous" demands that can be found in large towns as a force to attract migrants but they do not distinguish between types of demand in the large town as presented in the alternative analysis. El Shakhs (1984) does
differentiate the informal sector activities based on essential needs from those based on non-essential ones. These can, to some extent, be equated to the cost-based and optional demands that are proposed here.

The identification of the potential size or types of demand from petty capitalism does not indicate the numbers that will be actually employed in this sector. The actual numbers employed, will depend also on the labour available to participate in petty capitalist activities. Figure 8 indicates the three categories of labour and two categories of demand that must combine to create the petty capitalist sector. Although the aspect of labour in the creation of the informal sector is a well-trodden path in the debate, the alternative analysis brings additional ideas to bear.

1.2.2 Supply Of Labour For Petty Capitalism

Most of the studies of the informal sector indicate that, in terms of persons employed, the size of the sector ranges from 20-60 percent in the Third World and lesser numbers in the other economies (De Grazia, 1984; Richardson, 1984; Mazumdar, 1975). This indicates that the formal sector whether it is socialist, Western capitalist or Third World, does not employ the total labour force. In all of these economies there is, therefore, a population that does not participate in formal sector production, ie. the unemployed. Some of this unemployed population may work in the petty capitalist sector, as the existing view suggests. However, the alternative analysis
proposes that this is not the only category of labour that contributes to the petty capitalist sector. There are three categories of labour that can potentially engage in petty capitalism.

1. **Unemployed by compulsion:**

   Individuals can be prevented from participation in the formal sector production when they are unable to gain access to it. This inability can be due to many factors that are categorized here as socio-economic disadvantages. These include poverty, illiteracy, lack of appropriate skills, social stigmas (race, religion, caste, creed), physical and mental handicaps, and age (children and elderly). Not all persons with socio-economic disadvantages are alienated from participating in the formal sector but these disadvantages do make it difficult for them to compete for employment in that sector. For those who are alienated, employment in the petty capitalist sector is not an act of choice but rather a compulsion. Unless the circumstances change so as to affect the socio-economic disadvantages, the labour force from this category should be relatively easy to identify. But circumstances can change considerably. For instance, in India 20% of government employment is reserved for low caste groups. This means that the low caste persons are no longer completely disadvantaged for employment in the formal sector. The supply of labour for the petty capitalist sector, from this category is easily identifiable.

2. **Unemployed by choice:**
Some individuals may voluntarily abstain from participation in the formal sector. This form of unemployment, is limited but it indicates an exercise of choice. This implies, therefore, that the necessities of living are met from some other source, so that active employment in the formal sector is not required even though it may be available. For instance, an individual may prefer to live off assets or savings. Some may voluntarily abstain from participating in the formal sector to make a social, political or moral statement and some may abstain due to lethargy or choice. For example, in North America, some people claim they do not work in the formal sector "to break the establishment". In such instances, a choice has been made to abstain from work in the formal sector.

If individuals in this category, participate in the petty capitalist sector they must seek either monetary returns greater than that those available from the formal sector, or other forms of personal satisfaction. It would make no sense to make a choice to earn less income unless it provided some non-monetary satisfaction. Thus the activities may be far ranging, from the criminal to pottery making. This category does not provide a steady source of labour for petty capitalism because it can find alternative employment in the formal sector. This category would be uncommon in the poorer nations where unemployment rates are high, and income levels low.

3. The opportunists:

Finally there is a category that includes persons that participate in both sectors as a matter of choice and the main
motive is to increase monetary returns. However, because the

Figure 8 - The most likely relationships between types of labour and types of demand in petty capitalism

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people can participate in the formal sector, the need to engage in petty capitalism is not a necessity and can change over time. It is not easy to monitor this category of workers because participation in petty capitalism is often transient, underground and illegal. A worker can engage in one type of work (e.g. typing, repair services) and participate in the two sectors or can work in two different types of work in the two
sectors. The activities can be tax evasive, such as through the barter of professional services, or moonlighting. This category of labour can be found in the three types of economies but is perhaps greatest in the developed world. Labour from this category is not a steady source for petty capitalist activities.

What all these categories of labour present, separately or in combination, is the potential labour supply that is available to engage in petty capitalism. Labour is the tangible element, as opposed to demand, in the creation of petty capitalism and therefore labour can be manipulated by governments. For example, government policies can reduce the labour supply for petty capitalism in three ways: first, provide employment in the formal sector to those who seek it, second, provide some form of welfare so that there is no desperate need for a source of employment and third, restrict petty capitalist activities as they form. The first two are more costly but they do deal with the problems of surplus labour, while the third approach is the least effective method as it only masks the problem.

1.2.3 Creation Of Petty Capitalism

Both, a potential demand composed of optional and cost-based demands, and a labour supply, composed of labour that is unemployed by compulsion, unemployed by choice, or the opportunists, must exist in an economy for the creation of petty capitalism. Variations in the numbers employed in the petty capitalist sector and the differences in types of petty capitalist activities are caused by the particular combinations
of labour supply and consumer demand. Figure 8 indicates the most likely relationships between labour and demand. This in turn is the result of market forces in an economy. Thus, as market forces fluctuate in the formal sector, so will the petty capitalist sector.

Figure 9 - Combinations between types of demand and types of labour in the creation of petty capitalism

<table>
<thead>
<tr>
<th>TYPE OF DEMAND</th>
<th>TYPE OF LABOUR PARTICIPATION IN PETTY CAPITALISM</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>BY CHOICE</td>
</tr>
<tr>
<td></td>
<td>BY COMPULSION</td>
</tr>
<tr>
<td>OPTIONAL (FOR NON-ESSENTIALS)</td>
<td>DYNAMIC</td>
</tr>
<tr>
<td>COST-BASED (FOR ESSENTIALS)</td>
<td>--</td>
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</tbody>
</table>

The different development patterns in the Western capitalist, socialist and Third World economies create different combinations of labour and consumer demands in petty capitalism
(figure 9). A particular combination of labour and consumer demands from petty capitalism may reflect underdevelopment of the economy but underdevelopment is not necessary for the creation of petty capitalism. Petty capitalism exists without underdevelopment as in Western capitalist and some socialist nations. Figure 9 indicates that the combinations between labour supply and demand for petty capitalism can create essentially two types of petty capitalist sectors; the dynamic and the static. The effect of these two types of petty capitalism upon entry of labour has already been discussed under the section on demands. It is necessary to note, however, that the static sector is more related to underdevelopment. The influence of development patterns upon market forces and consequently the creation of the petty capitalist sector will be clearer in the following section where the arguments of the alternative analysis are applied to the three dominant types of economies, in order to understand the features of petty capitalism found in each.

2. APPLICATION OF THE ALTERNATIVE ANALYSIS TO PETTY CAPITALISM IN DIFFERENT ECONOMIES

2.1 Petty Capitalism In Western Capitalist Economies

In the Western capitalist economies evidence suggests that the informal sector is mostly illegal eg. tax evasion, smaller than the formal sector in the numbers employed, and typically uses barter as a form of transaction (De Grazia, 1984; Tanzi, 1982; Simon and Witte, 1982). Its size is debatable, because
estimates have tended to exclude the minor forms of activity such as garage sales, and baby sitting. But, according to the alternative analysis, both the tax evasive activities and the minor activities, can be related to the types of demands from petty capitalism (cost-based and optional) and the types of labour available, (unemployed by compulsion, unemployed by choice, and the opportunists) in Western nations.

In a capitalist economy, uneven distribution of wealth is common (Weaver, 1981) and therefore poverty and unemployment will exist which can create a labour pool for the petty capitalist sector as well as create cost-based demands for goods and services of the petty capitalist sector. However, Western capitalist nations are now welfare states and welfare capitalism strongly modifies both the labour supply for petty capitalism as well as the potential demand for petty capitalist goods and services. Thus, the petty capitalist sector that could have formed is reduced by the introduction of welfare policies within the capitalist state. Welfare is a form of compensation for those who have not benefitted by the gains of capitalism and usually takes the form of transfer payments to the poor and unemployed; unemployment insurance for workers temporarily out of employment; workers compensation for those disabled as a result work-related accident; old age pension for the elderly who are no longer capable of being economically productive and so on. These transfer payments raise the purchasing powers people and this impacts upon both the demand potential and the labour potential for petty capitalism in the western economy.
2.1.1 The Demand Potential Of Petty Capitalism In Western Capitalist Nations

The demand for goods and services from petty capitalism is affected by welfare measures. Welfare raises purchasing power and thereby enables consumption from the formal sector. That is, the socio-economically disadvantaged population is able to afford more, as a result of government transfer payments. Additionally, non-monetary compensation is also available to the poor or needy who are provided with food banks, food stamps, and shelter (e.g. Salvation Army, Homes for the elderly, orphanages). This means that cost-based demands, (e.g. for food or basic clothing), are less than what would have existed without welfare state measures.

However, the urban population in Western capitalist nations does create optional demands for petty capitalist goods and services, based on preference for its cost, quality, and convenience, even though alternatives are available from the formal sector. This explains the types of petty capitalist activities that have been observed in the Western nations, such as babysitting, garage sales, street entertainers, use of cheap immigrant labour and bartering of professional services, for which equivalents are available in the formal sector (e.g. day care centres, second hand stores, night clubs and so on).

The optional demands are, as described earlier, subject to many changes as a result of changes in consumer tastes, availability of money, influence of the media and the like. Therefore, the potential demand for petty capitalism in Western
nations can be quite inconsistent and fluctuating. For instance, tax evasive activities may reduce if the tax burden is reduced; or baby sitting services may not be required if the government provided adequate day care centres.

2.1.2 The Labour Potential For Petty Capitalism In Western Capitalist Nations

Welfare measures in Western capitalist economies also have an effect on the labour available for petty capitalism. Compensation for the poor, the unemployed and the disabled depresses the urgency of finding other sources of income to meet essential needs. That is, economic necessity is not the major reason for participation in petty capitalism. Survival is mostly assured under welfare capitalism even though the standard of living of some people may fall below the accepted poverty level. In effect, welfare removes the economic necessity and thereby reduces the numbers that could have engaged in petty capitalism.

Those who do participate in the petty capitalist sector will do so by choice, by voluntarily abstaining from employment in the formal sector and/or by participating in both sectors. Only a few will need to participate for lack of choice. Even the unemployed or the poor have a choice because their essential needs can be met by the state through welfare payments. Employment in petty capitalism merely raises their standard of living. In the case studies of the informal sector in Western nations, there is ample evidence of this (Mattera, 1985; Simon
and Witte, 1982). It can be recalled from the previous chapter that the informal activities were mostly tax evasive either through the barter of professional services or by moonlighting (Tucker, 1982; Bawly, 1982; Tanzi, 1982). These activities, assure an increased net economic gain.

Thus, if a choice is made, it must mean that participation in the petty capitalist sector must provide the participant with something that is not available in the formal sector. This can be one or both of the following: personal satisfaction in the creative, religious, social aspects of life and/or opportunities for economic gain. The latter may be in two forms: increased income or increased savings. Petty capitalism allows illegal ways of increasing gains, mostly through tax evasion, by barter of services and the accumulation of undeclared income.

It can be seen that both the demand for petty capitalist goods and services and labour supply for petty capitalist activities are largely temporary. Demand is mostly optional, and labour has alternative choices of employment. There is, therefore, no urgency to work in or consume from the petty capitalist sector as an economic necessity. Furthermore, there is no specific relationship between the population that demands the petty capitalist goods and services and the labour that is employed in petty capitalism. Both demands and labour supply come from the population at large and not necessarily from a specific economic or social group. For example, all income groups can need the services of a babysitter, or individuals from any income group can engage in barter eg. barter of
services between a plumber and a dentist.

In summary, it can be said that the combination of labour supply and demand for petty capitalism in Western nations is such that the activities that are created exist primarily:

1. To increase the economic gains of those who have chosen to work in the sector by decreasing costs or increasing earnings, both of which create increased net incomes. Illegal means make this effort to increase income profitable, because tax can be avoided on undeclared income, taxable income can be reduced by barter of services, and wages and prices can be set lower than in the formal sector.

2. To provide for the demands of the population that are not satisfied by the formal sector for reasons of cost, quality or convenience eg. some hand made goods, and child care.

2.2 Petty Capitalism In The Centrally Planned Socialist Economies

In socialist economies such as the U.S.S.R., China, or the Eastern European nations, the presence of petty capitalism represents a conflict with the prevailing political ideology. In the centrally planned socialist economy, the opportunities for private profit are extremely limited. Theoretically, any form of capitalism (and this would include petty capitalism) is undesirable in the socialist economy. But, there is evidence of a petty capitalist economy, both legal and illegal, in China (Ping Yu, 1984, Lin, 1980), the U.S.S.R. (Mattera, 1985; Grossman, 1982), and Eastern European nations (Aslund, 1985; De
Grazia, 1984), which suggests that a demand for petty capitalist goods and services and a labour supply for petty capitalism must exist. It is the purpose of this section to investigate the demand potential and the labour potential within the socialist economy, in the light of the theoretical arguments of the alternative analysis.

2.2.1 The Demand Potential Of Petty Capitalism In Socialist Economies

In the socialist system, minimum basic needs, such as food, shelter, basic clothing, should be affordable through the formal sector, avoiding dire economic necessity for cheaper alternatives, but this is not entirely true. Both poverty and unemployment are present (Aslund, 1985; Banerjee, 1984). Thus, cost-based demands from the petty capitalist sector are likely to be present. In China, and Poland the informal sector activities have been linked to the needs of the poor (Aslund, 1985; Mattera, 1985; Cai, 1980). Furthermore, because the socialist market is controlled, the supply of goods and services is restrained in variety, quality and quantity (Mattera, 1985; Grossman, 1982). There is, therefore, also a strong potential demand for goods that are different, more easily accessible or superior in quality. For instance, the demand for foreign goods such as blue jeans, is an important part of the informal sector (Grossman, 1982). Petty capitalism can form in response to these cost-based and optional demands if labour is available.

One can suspect that because the dominant consumer market
is not inundated with goods and services, that the demands for an alternative source may be latently quite high. In China, for example, the petty capitalist sector increased at every opportunity, and even when government policies were strict the underground petty capitalist economy was sizable in Shanghai (Cai, 1980). The demand potential for petty capitalism in the socialist economies, therefore, can be considerable.

2.2.2 The Labour Potential For Petty Capitalism In Socialist Economies

In socialist economies, unemployment and the desire to improve the standard of living can both contribute to the labour supply for the petty capitalist sector. The labour supply can, therefore, come from any income group. However, it appears that the motive for participation in petty capitalism is partly economic survival but mostly economic gain, insignificant as it may appear in some cases. This is only partly like its western counterpart because the motive is to increase incomes and not necessarily to evade taxes. Unless allowed by the state, most private enterprises must operate illegally. The penalties for this are stiff and those who risk being engaged in illegal activities must logically want to outweigh the risk by the money earned. It is also unlikely that workers would choose not to work in the formal sector so it is more likely that labour either participates in both sectors, eg. moonlighting of repair services in the U.S.S.R. (Grossman, 1982), or participates due to a lack of choice, eg. vendors in China (Cai 1980), and
Hungary (Aslund, 1985). This was illustrated in the case studies of the informal sector in socialist economies presented in chapter three. Thus, the labour for the petty capitalist sector in socialist nations comes from those who have alternative employment as well as those who do not.

In socialist economies, petty capitalism represents a violation of the economic as well as the political system of the nation, although the socialist nations have started to accept the informal sector as an integral part of the system. For instance in China the informal sector is recognised to be a part of the "unified socialist market" (Lin, 1980). Similar statements have been made for the U.S.S.R. and the Eastern European nations (Mattera, 1985; Aslund, 1985). In Western capitalist, and Third World nations petty capitalism is only a violation of the economic system. The violation of a political ideology is vulnerable to greater criticism and, therefore, the petty capitalist sector will be more strictly controlled in the socialist nations.

It is the great personal risks involved in participation in petty capitalist activities as well as strict state surveillance that restricts the proliferation of petty capitalism even though the demand is present and there is labour willing to participate. As a result, petty capitalism is often underground and not just openly illegal. This instability, however, is conducive to easy entry and exit of labour in the petty capitalist sector. Empirical evidence has shown that relaxation of state restrictions led to a proliferation of petty capitalism.
in the case of China, Hungary, Poland (Aslund, 1985; De Grazia, 1984; Cai, 1980)

2.3 Petty Capitalism In Third World Economies

Petty capitalism in the Third World is substantial (Moser, 1984). It has been stated that the informal sector is a result of the fast growth in labour force and the slow growth in formal sector production, leading to poverty and unemployment. But this view is too limited. It cannot explain, for instance, the 'modern' thriving informal sector. However, if the alternative analysis is applied to the Third World and both the consumer demand and the labour supply potential of the petty capitalist sector is considered, then the great variations in type and distribution of activity becomes more comprehensible.

2.3.1 The Potential Demand From Petty Capitalism In The Third World

In the Third World the demands from petty capitalism are large. Poverty and unemployment is a problem in most of the developing nations and there is limited compensation in the form of government welfare (figure 10). Some charitable institutions look after the needs of some of the poor but this is not extensive. In India, the Ramakrishna Mission, the Salvation army and other such institutions are present, but these are clearly not sufficient because the poor can still be seen living on the city streets. Thus, not all the basic minimum needs of the poor, such as food and shelter, are met.
The purchasing power of the poor is so low that formal sector products and services are generally beyond their reach. For the poor, cheaper alternatives are a vital necessity and since the formal sector can only provide some of these cheap goods, there is an array of cost-based demands for cheaper substitutes to be met. For instance, in India, the formal sector does attempt to bring some consumer goods to the reach of the poor by packaging techniques or cheaper products, eg. cigarettes sold individually; small packages of soap; 'biddi', a type of cheap cigarette; and coarse cotton cloth. Ration stores exist to provide essential foods such as rice, wheat and sugar at government controlled prices. But, there are many needs of the poor that are not met through the formal sector, for example, perishable foods, clothing, and utensils. Thus cost-based demands can be a large part of the potential demand from the petty capitalist sector. But this is not all.

In the Third World the income disparities are significant, mostly due to the large middle income group. This is attributable to two factors. Firstly, many jobs are created in the support systems of the industrialisation process (i.e. commerce, transport, and marketing). Secondly, providing employment in the government, for administrative or clerical positions, is a deliberate strategy of many Third World nations for combating unemployment.

The large income range, from the upper income groups to those poverty stricken, creates a wide variety of demands both of the cost-based and optional categories, from the petty
capitalist sector. This is best understood by a general description of the types of demands from the petty capitalist sector according to income groups, as discussed in the following paragraphs.

The upper income group, in every society, likes to increase its leisure time. While it is difficult to reduce the work time, time spent on other aspects of living can be reduced to acquire leisure without affecting earning capacity. For instance, time spent on domestic chores is easily reduced, and the leisure time gained can be used to further material gains, or for personal achievements, social or recreational benefits.

In the developed nations, technological innovations have reduced the time spent on domestic chores. eg. microwave ovens, and power lawn mowers. In the labour surplus Third World economies, leisure time is acquired by the use of cheap labour. Thus, the petty capitalist sector provides the upper income groups, who are employed in the formal sector, with cheap labour to be used as domestic help (gardeners, cooks, laundrymen) or for use in the production of goods of the formal sector.\textsuperscript{19} Santos (1979) has observed, for instance, that the amount of domestic help is quite high in Rio de Janeiro and Calcutta. Upper income groups also like the convenience of door to door sale of goods such as fruits, vegetables and ice, by the petty capitalist sector. The marginally higher prices of these goods is compensated for by

\textsuperscript{19} This can be nationally or an internationally controlled venture depending on the integration of the nation into the international capitalist market.
the savings in time, costs, and inconvenience of going to a market. The demands of the upper income population are thus based on preferences for convenience, cost, and quality, which are similar to those in Western capitalist or socialist economies. Most of the essential and non-essential needs of the rich can be met by the formal sector, but if they consume in any form from the petty capitalist sector then they exercise a predilection to do so. Because a choice is involved, demands from petty capitalism by the rich are optional and likely to fluctuate over time. For example, domestic help can be replaced by the acquisition of modern household gadgets.

The middle income group creates both optional demands as well as cost-based demands from the petty capitalist sector. The optional demands are similar to those described for the upper income group. Much of the middle class demands reflect their desire to emulate the lifestyles of the rich in the use of consumer goods. These are not essential to survival, but enhances their standard of living. Products from the petty capitalist sector, based on such demands, tend to be cheaper versions of formal sector goods. Here the petty capitalist sector exhibits a great capacity to be innovative and flexible. For instance, cheap lemonade sets made from old bottles are sold in India as substitutes for the better quality, more expensive ones from the formal sector. In India, this fixation of the middle class for the status of the rich borders on humour. The petty capitalist sector is quick to take advantage of this need. For instance, for those who cannot afford 'Kwality' ice cream,
the reputed best brand, the petty capitalist sector provides a cheaper imitation called 'quality' ice cream.

The demands from the petty capitalist sector, by the middle class are not only variable but on a continuum between optional and cost-based demands. The richer middle class will create optional demands such as the services of a cook, or gardener, while those bordering on poverty will create largely cost based demands for bare, essentials like food items.

The lower income bracket, the poor, are less able to consume from the formal sector. For this group, petty capitalism provides many of the needs essential for survival. For example, in the squatter colonies in Rourkela, India, the poor rented shacks from others in the same income group (Das, 1977). The interesting point to note was that the landlords were illegal occupants of the land. Others rely on the petty capitalist sector for food, clothing and even medical and other services. The demands from the petty capitalist sector, by the lower income group is therefore almost entirely cost-based. Only a small minority may be able to afford optional demands. Cost-based demands are, as stated earlier, unchanging in time and create a petty capitalist sector that is 'static'.

2.3.2 The Labour Potential For Petty Capitalism In The Third World

In the Third World, the unemployed and the poor are uncompensated by welfare state measures. Those who are socio-economically disadvantaged from entering the labour force in the
dominant mode are in great need of a source of livelihood and income. Petty capitalism offers a means of survival for the poor but it is not chosen in preference to employment in the formal sector. Labour supply for the petty capitalist sector comes partly from the poor and the unemployed in urban areas.
some of which is through migration of the rural poor. The poor cater to both the cost-based and optional demands. However, the cost-based demands are also created by the poor and thus when the needs of the poor are met by the poor through the petty capitalist sector, the sector is poverty-bound. For instance, in India the poor go to the main vegetable and fruit markets in the early morning hours, as the trucks with the produce arrive, and collect the discarded items to sell to the poor. The price of fruits or vegetables in the formal sector is too high for the poor. It is, therefore, unique to the Third World that the source of demand and the labour supply for petty capitalism can come from the same income group. This type of petty capitalist activity was noticed in the early years of the dualism debate (Reynolds, 1966; Geertz, 1963) and was consequently related to Third World underdevelopment/dependency.

However, labour supply for petty capitalism is not restricted to the poor alone. The well-to-do may join the petty capitalist sector in preference to employment in the formal sector, or hold dual participation. Their motive is not economic survival but economic gain, and they are more likely to work in response to the optional demands eg. handmade cards, moonlighting of services, or tax evasive activities, which resemble the petty capitalist activities in other economic systems. Such petty capitalist activities are likely to be more thriving and perhaps modern. This can explain the modern profit making activities that have been found in the informal sector in recent years. While scholars have sought to separate these from
the others, the alternative analysis postulates that they are no different. The differences are only the reflection of a particular combination of labour supply and type of demand.

Thus, in the Third world petty capitalist activities can range from the 'static' to the 'dynamic'. In the static type, the needs of the poor are met by the poor allowing little scope for growth in employment or income. The dynamic type has a greater input of other income groups and allows for labour absorption and economic gain. These are, however, the polar ends and many activities will be on a continuum between the two.

2.4 Petty Capitalism And Urban Size

Rural-urban migration has been found to inflate the size of the petty capitalist sector in the Third World cities. While it is true that migration contributes to the size of the sector it must be stressed that it is not necessary for the creation of the petty capitalist sector in an urban economy. Rural migrants certainly add to the labour pool and also increase the cost-based demands from petty capitalism, but other categories of labour and other demands are already present from other income groups. Thus, the petty capitalist sector can exist independent of migration as has been observed in recent years (Richardson, 1984; Mazumdar, 1981; Sabot, 1979).

The Third World development process, one should recall from chapter two, is such that production efforts of the formal sector are concentrated in the large towns leading to the concentration of middle and upper classes that are employed in
and consume from this sector. The upper income groups, it was explained in the alternative analysis, create optional demands which are unstable over time and consequently allow labour to enter the petty capitalist sector easily. Large towns are, therefore, attractive to migrants from rural areas.
Small towns, on the other hand, were neglected in the early phases of development and are left with few or no formal sector production units, and consequently a poorer population. This distribution pattern leads to the presence of mostly cost-based demands in small towns, that are unchanging in time, and a supply of labour from the poor (figure 11). The petty capitalist sector that forms in small towns is poverty bound and rigid. It is incapable of growing once a balance is reached between the demand for goods and services of the poor and the labour supply. Small towns will not easily permit labour entry unless the balance is disturbed by the creation of optional demands or by a substantial increase in cost-based demands.

In smaller towns, because the formal sector is lacking, the petty capitalist sector is not only present it is proportionately larger than the formal sector. But, because it is based on cost-based demands, it is a static sector, and is less able to absorb labour. This explains why some studies have found a larger proportion of the informal sector in the small towns (Kull, 1984; El Shakhs, 1984; Das, 1982). This spatial distribution of petty capitalism in the Third World, is an aspect to consider in development plans.

3. CONCLUSION

This chapter has presented an alternative analysis on the informal sector that not only explains the various types of petty capitalist activities that have been observed in the Third World but also its distribution in different sized urban
Figure 12 - Simplistic representation of labour participation and type of demand in petty capitalism by economic systems

<table>
<thead>
<tr>
<th>TYPE OF ECONOMY</th>
<th>TYPE OF LABOUR PARTICIPATION IN PETTY CAPITALISM</th>
<th>TYPE OF DEMANDS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>UNEMPLOYED BY CHOICE</td>
<td>UNEMPLOYED BY COMPULSION</td>
</tr>
<tr>
<td>WESTERN CAPITALIST</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>SOCIALIST</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>THIRD WORLD</td>
<td>X</td>
<td>XXX</td>
</tr>
</tbody>
</table>

X-XXX: LEAST TO MOST COMMON

centres. It explains the presence of petty capitalism in Western capitalist and socialist economies and the differences that occur in the petty capitalist sector in each economy. Altogether, the alternative analysis has incorporated recent empirical findings that could not be explained under the old view of the informal sector as a symptom of underdevelopment/dependency.
The alternative analysis presents the informal sector as a petty capitalist sector that responds to the unfulfilled consumer demands in each type of economy provided that there is a labour supply willing (voluntarily or involuntarily) to engage in it. This allows many different combinations between labour supply and consumer demand such that many variations in type of activity are present (Figure 12). The petty capitalist sector is thus a sector of a great variety of activities, only some of which are a reflection of poverty and unemployment.
CHAPTER 5: IMPLICATIONS OF THE ALTERNATIVE ANALYSIS TO PLANNING

The informal sector has been of concern to planners in the Third World because of its association with poverty and unemployment. The causes of poverty and unemployment were tackled by economic planners at the national level. The manifestations of poverty and unemployment in the urban areas in the form of hawkers, vendors, and squatter colonies created problems of housing quality, traffic congestions, unsanitary conditions and strain on urban infrastructure, all of which attracted the attention of urban planners. This focus on poverty and unemployment in planning, at the national and urban scale, has not changed over the last thirty years although the planning approach has. These efforts by planners will be reviewed later in the chapter. It is the intention here only to point out that the informal sector in the Third World has been viewed as a planning problem at the national and urban scale. In light of this position, the implications of the alternative analysis will be discussed.

There are some differences between the informal sector and the petty capitalist sector, proposed in the alternative analysis, that will affect the current position of planning. These are:

1. The petty capitalist sector includes a wider range of activities.
2. The petty capitalist sector is not restricted to the poor.
3. The petty capitalist sector is not restricted to the Third
4. The formation of the petty capitalist sector is not determined by the presence of surplus labour alone. Other sources of labour are also necessary for its creation.

5. A demand for goods and services from the petty capitalist sector is also necessary for its creation.

The first difference reframes the 'problem' to be planned for. The other differences affect planning strategy, that is, how should planning proceed in the light of the reframed 'problem'. Between identifying the problem and planning for it, lies the decision whether planning is necessary. Therefore, this chapter is divided into five sections, the goal of planning; the role of the state in the past; the success of past planning efforts; the proposed role of the state; and suggestions for planning for the petty capitalist sector. The first, fourth and fifth sections are based upon the findings of the alternative analysis. Most of the discussion in these three sections is in the context of the poverty-bound petty capitalist sector in the Third World but the focus in the last section, is on India. References will be made to the past planning efforts where necessary. References to petty capitalism in other economies and to other categories of petty capitalist activities will only be made for comparative purposes.
1. REFRAMING THE PROBLEM FOR PLANNING

As already mentioned, the informal sector has been viewed to be largely the refuge of the poor in the Third World. While the more profitable informal activities have been recognised in the last few years (Steel, 1977; Nihan and Jourdain, 1978), planning efforts have not covered these activities. Consequently the context of planning is restricted to the activities of the poor. In this light, consider the range of activities that are proposed by the alternative analysis as belonging to the petty capitalist sector. Four major categories of activities are presented here.

1. Tax evasive activities, the underground or black economy activities are present in the Third World and should be recognised as a part of the petty capitalist sector. In Western capitalist economies these activities have not only been included in the informal sector, but have been accorded a greater importance in the study of the informal sector than low paying activities such as baby-sitting, because of the loss of national revenue. In the Third World, tax evasive activities have been treated as a separate problem. Speaking of tax evasion in India, Kabra (1982 p.1) states, "It is a far more pervasive and serious equivalent of what is known as 'moonlighting' or the 'second economy' in many developed market economies". What is common in tax evasive activities in the Third World or developed economies is that several facets of the economy are hidden i.e., production, consumption, employment, and income distribution (Heertje and Ahers 1982).
Tax evasive activities include the use of legitimate economic activities to acquire undeclared income, (eg. by barter of professional services, or moonlighting), as well as the use of illegal activities (eg. underground factories, or selling of goods at prices higher than the government controlled rate). In India, hoarding of essential commodities to create an artificial shortage and then selling the commodity at exorbitant prices in the black market is a major problem for the government that is trying to provide essential goods at government controlled prices. (Ray, 1982; Kabra, 1982). Moonlighting is quite common in the lower income groups of India. For instance, individuals with low wages in the formal sector, (eg. peons in a government offices) sometimes also work as part time domestic help. Bribes can contribute to the money earned illegally. Customers can be cheated into paying higher prices by the use of inaccurate weigh scales in produce stores, or inaccurate meters on a scooter-rickshaws. It is only in recent years, that any similarity has been recognised between the tax evasive activities in the Third World and the underground economy in Western nations (Mattera, 1985). The types of activities that can exist in this category are extensive but as Ray (1981, p.33) states they are "all working with a common objective, profiteering". Ray (1981) has provided some of the major types of tax evasive activities that can be found in the Third World (See figure 13).

2. The second category includes activities that are sub-contracted to the petty capitalist sector. Sub-contracting is
usually associated with exploitation of the labour in the petty capitalist sector, usually by the formal sector. Essentially, the petty capitalist sector provides goods and services to the formal sector i.e. Third World entrepreneurs, and multinational corporations at a cheap price (Mattera, 1985; Kassalow, 1979; Snow, 1979). It is this type of activity that contributed to the argument that the informal sector persisted due to exploitation of the labour by capitalist pursuits.

A typical feature of sub-contracted activities in the petty capitalist sector is the high use of female labour (Meis, 1982; Schmitz 1982). This is not, however, necessarily a feature of the Third World, because the use of female labour in Western nations is also well documented (Redclift and Mingione 1985;
Mattera, 1985). For example, the yarn stores in Vancouver often contract work to knitters, mostly housewives. Perhaps the fact that subcontracting work can be carried out in the workers home makes it easy to use female labour eg. the lace makers in Naraspur, India (Mies, 1982), or the hammock makers in Brazil (Schmitz, 1982).

However, further sub-contracting and exploitation of labour is also found within the petty capitalist sector. Mattera states that sometimes sub-contracted activities from the formal sector are dispersed within the informal sector i.e. "further into tiny workshops" (Mattera 1985, p.104)

3. The third category includes activities that were identified in the Third World as the "modern informal sector". Essentially these are activities that are small scale, and engage in the provision of goods that are sold at lower prices than that of the formal sector. Most studies of this 'modern informal sector' have focussed on the African nations (Page and Steel, 1984; Demol and Nihan, 1982; Steel, 1977) but, there are indications of a profitable modern sector in other developing nations, eg. India (Little et al., 1984), Latin America (Cortez and Berry, 1983).

The definition of the small scale, thriving informal sector is inconsistent (Page and Steel, 1984) but according to the World Bank sector policy paper (1978), most such enterprises are dependent on middlemen or money lenders for working capital and

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20 Information is based on personal communication with knitting stores.
personal emergencies instead of the banks. These enterprises are not aggressive in marketing techniques, and the use of infrastructure and services such as power, water, and access roads is inferior. But, "their ability to function without such services may help to protect their market niche from powerful competitors" (World Bank sector policy paper, 1978). This type of activity is not only lucrative but is often a preferred form of employment. In recent years, these small scale enterprises have been identified as "having a rightful place in the strategies for socio-economic development" (Page and Steel, 1984).

4. The fourth category includes the types of activities that are not highly profitable. These activities include forms of self-employment based on unskilled labour, low technology and small capital input eg. hawking of goods. This category of activities has had the most attention in the debate on the informal sector in the Third World, particularly in the early years. These activities are not necessarily an expression of poverty, although in the Third World this may be the case. For instance, hawking in the streets of Delhi may be the result of unemployment and poverty, but the hawking of sandwiches at wreck beach in Vancouver is just another way to make some money. Similarly, although activities such as baby sitting and garage sales found in Western nations would fall in this category they are not expressions of poverty.

What these four categories of petty capitalist activities indicate is that the petty capitalist sector in the Third World
is much more diverse than currently perceived. The current focus on poverty and unemployment deals with only one category but there are many other types of petty capitalist activities and, therefore, many other problems. Each category of activity presents a different type of problem and each should be analysed separately for planning purposes.

Because of the diversity of the activities in the petty capitalist sector, the "goals" for planning also becomes diverse. That is, planning for the petty capitalist sector can include several policies, each one reflecting the planning needs of a particular category of activities. For example, planning for the petty capitalist sector in India can include control on smuggling activity as well as planning for the street vendor, but both will need a separate analysis and a separate planning strategy. The petty capitalist activities that are selected for planning will depend on the development priorities of the nation. Each nation has its own mix of petty capitalist activities and some activities may pose a problem in some nations but not others. For example, small scale, low profit activities has been the focus of much planning in the Third World, but in Western capitalist nations similar activities such as baby-sitting and garage sales are of lesser concern. Therefore, the objective of planning for the poverty-bound petty capitalist sector in the Third World would be to reduce its size by increasing incomes and employment opportunities or to cope with the sector, in other ways, at the urban level.
2. THE ROLE OF THE STATE IN THE PAST

In the past, it was largely determined that some sort of planning was necessary for the informal sector activities, which according to the alternative analysis constitutes only the poverty-bound part of the petty capitalist sector. It is for this reason, the terms 'informal sector' and 'poverty-bound petty capitalist sector' are used in this chapter to convey the same sector. The term 'informal sector' is retained in the discussion of planning efforts in the past because that was the term originally applied to the sector. For this category of activities, the role of the state has moved from a negative one, i.e. discouraging the activity, to a more positive one of compensating and rehabilitating the participants.

There are three major phases identifiable:

The negative phase: 1965-70

At this time studies of the informal sector were just beginning and although models were proposed to explain urban dualism (Reynolds, 1966; Geertz, 1963) they were not sufficient to influence planning. What influenced planning in the mid-sixties was the pro-modernisation approach towards development of Third World nations. In this light, the informal sector, was not viewed favourably because it was described as a peasant-type, precapitalist sector.

It was also a period when Third World urban planning was strongly under the influence of urban design concepts and the British system of physical planning. Planners had a bias towards physical design solutions to urban problems
(Wishwakarma, 1981).

The net result was that the informal sector was not only perceived to be an impediment to the process of modernisation, but also an unaesthetic feature of the city. Planning had a negative attitude towards the informal sector and therefore eradication, control, and restriction were dominant in the strategies of this period. Of course, planning for the informal sector was virtually synonymous with planning for the urban poor and squatter colonies (Moser, 1978). The relationship of the informal sector to the formal sector or the national economy, was not understood at this time (Gerry, 1979; McGee, 1979; Bose, 1974) and so the possible consequences of these negative measures upon the urban and national economy were not taken into account. It is as if the informal sector was assumed to function independently of the formal sector and the population at large. Thus, strategies such as removal of squatters and informal activities were not viewed as actions that could affect the city's economy. Rather they were viewed as actions towards the maintenance of modernisation of cities, by the removal of impediments to modern growth.

Planning for the informal sector was highly physical design and 'cosmetic' in content. That is, the strategies at the urban level considered the outward manifestation of the participants in the informal economy i.e. squatter colonies, hawker zones etc. and not the economic or social aspects of the informal economy. Some of the negative measures used were:

1. Closure of the city to rural migrants eg. Jakarta (McGee,


4. Discouragement of the informal economy through higher licensing fees, and propaganda against the use of their services and goods eg. Jakarta (McGee, 1972).

One must note that during this phase there was an absence of a regional approach to the problem. One reason for this may be that regional planning had not developed as a profession. There was a lack of trained regional planners at this time and, as in the case of India, there was no legislative backing for implementation of regional plans even if they had been made (Pouluse, 1979). Secondly, national development strategies were pro-modernisation, which also meant pro-urbanisation. Consequently, rural and regional development were not a priority.

It may be said that the application of the growth pole concept during this phase, i.e. by the creation of new towns, and satellite towns for the large cities (Appalaraju and Safier in Gilbert 1976), did syphon some rural migrants away from the crowded large cities and, therefore, indirectly affect the size of the informal sector. However, growth poles were primarily oriented to the achievement of rapid economic growth, and not development of the rural hinterland in order to reduce rural
unemployment or poverty. The growth poles, therefore, were not envisaged as locations for receiving rural migrants as an alternative to large cities, although that might have been the indirect result. In the negative phase, therefore, the poor and the unemployed were, by and large, either neglected or treated callously.

The positive phase: 1970-late seventies

During the seventies, the literature on the informal sector had grown voluminously (see chapters two and three). Many more urban dualism models had been proposed (Hart, 1973; Santos, 1973; McGee, 1973: I.L.O., 1972). Some attempts had also been made to identify the relationship of the informal sector to the urban economy, and even to the national and international economy (Santos, 1973). Although this decade marks a period of wide variation in perception of the informal sector, there is little doubt that the work of the I.L.O. (1972) dominated the approach in planning (Richardson, 1984). The I.L.O. proposed that the informal sector although independent in function, was also complementary to the formal sector, and should, therefore, be preserved rather than removed. Furthermore, if the physical presence of the informal activities or squatter areas was unacceptable for aesthetic reasons, then upgrading the working and living conditions of the poor could retain the sector as well as beautify the city.

This approach was acceptable to some of the policy makers and planners in the Third World because the informal sector seemed to persist inspite of the negative measures that were
applied, and because the pro-modernisation approach was already under criticism. It was, therefore, thought to be, no longer critical to maintain an image of modernisation in cities, or to eradicate the informal sector for the purposes of modernisation (Angel and Benjamin, 1976; Poethig, 1971). Some planners were receptive to ideas such as those of the I.L.O. as an alternative approach to specific problems of development. Thus, there was a move towards a more positive attitude towards the informal sector at the urban level. This was not the only change during this phase.

With the onslaught of criticisms of the pro-modernisation approach, national planning encouraged greater development of rural areas to elevate the problems of rural poverty and unemployment (Mabogunje, 1980; Singer, 1977; Funnel, 1976). Regional development strategies were introduced, although not exclusively for the purposes of reducing the magnitude of the informal sector in large towns. They were, rather, strategies for a larger scope of problems. Almost as a complement to this change in development approach, regional planning was growing as a profession. This led to an increasing number of social scientists in the planning profession, and resulted in the consideration of the social and economic aspects of problems, along with the physical aspects, in urban and regional planning.

It was, thus, a combination of factors that led to the more positive strategies for the informal sector in the seventies i.e. the decline in faith in the growth centre approach as a vehicle for modernisation; the rise of regional planning, and
the inclusion of social and economic factors in planning strategies. Some of the positive approaches to planning for the informal sector introduced in this period were:

**Urban level:**

1. Relocation of the informal activities such as "hawking" to new areas with minimal registration fees eg. Singapore (McGee and Yeung, 1977).

2. Organisation of co-operatives to subsidise the costs of infrastructure and construction of housing eg. Ahmedabad, India (Shah, 1976), (Sethuraman, 1974).


4. Loans and distribution of equipment necessary for specific work at a subsidised rate eg. a cart for vendors.

5. Provision of 'sites and services' as a housing alternative to squatter colonies eg. Chile (Poethig, 1971), Delhi (Rao, 1974).


**Regional level:**

1. Rural development as a means to reduce the flow of rural-urban migration.

2. Development of small towns to act as countermagnets to
migrants from rural areas heading for larger cities.

However having stated that the strategies were more humane, it must be said that these strategies were not without reproach. The most important criticism against the urban level strategies was paternalism (Skinner, 1980; Angel and Benjamin, 1976). The participants in the informal sector were charitably provided for as if they were incapable of contributing to the decision making process. Their opinion was unsolicited in matters pertaining to their welfare and there was, therefore, no check on whether the needs of the participants in the informal sector were properly considered. The participants in the informal sector were often viewed to be citizens without a voice, and without political will. There was also the tendency of planners to dwell upon design solutions (Angel and Benjamin, 1976). Thus, even though the positive measures were a step in the right direction they were not free from criticisms. Regional plans were not criticised as quickly as the urban plans, mostly because it takes a longer time to implement such plans, and a longer time to see results.

By the mid-seventies therefore, while the positive strategies were being implemented there was already the rise of a more radical view of development. But, in spite of criticisms and other alternatives, the positive measures in planning were the most widely implemented in the seventies and continue to dominate today.

The Radical phase: late seventies onwards

Dependency theory, the 'marginalisation' concept, and the
'bottom-up' approach are major contributors to the evolution of strategies in this phase (Quijano, 1973; Perlman 1976; Brookfield, 1973). Basically, the strategies stemmed from the radical changes that were proposed for Third World development. The lack of success of the growth pole strategy (Friedmann and Weaver, 1979; Corragio, 1975; Kongstad, 1974), had left the field open for other proposals to achieve development. The dependency theory, a critique of Third World development, offered no alternative course of development but it increased the awareness of the persistence of underdevelopment, poverty and unemployment. Consequently, however, new ways of achieving development were proposed (Ghai, 1979; Singer, 1977).

The radical phase includes a number of changes that are basically a reversal of the older strategy to development. It includes de-emphasising the role of urban areas in the development process, promoting rural development with greater autonomy and a more equitable distribution of national wealth amongst the population (Weaver, 1981; Turner, 1980; Mabogunje 1980; Friedmann and Weaver, 1979; Pioro, 1975; Taylor, 1975; Johnson, 1975). In essence, promoting development that started at the grass roots level (Brookfield, 1973) or as McGee (1978, p.98) stated "dirty boots beget wisdom". The radical phase was clearly more humanistic as it strove for equality amongst people not just economically but socially as well. With regard to planning for the informal sector, the main difference of the radical phase from the other phases is that it promoted the self respect and dignity of the poor and the strategies were to be
less paternalistic. It also recognised the political strength of the poor. Planning efforts in this phase include:

1. Legitimisation of the informal sector.
2. Education of the public into an acceptance of the informal sector, and the squatter colonies as an integral part of the city structure (McGee, 1976).
4. Formation of co-operative housing societies eg. Lima, Peru (Poethig, 1971)
5. Incorporation of community participation in the preparation of strategies for the informal sector (Skinner, 1980).
6. Recognition that the poor are a political body whose actions (eg. voting) can contribute to the making of a government.

To implement these strategies requires some sacrifices in rapid economic development which many nations were unwilling to accept. For example, rural development was perceived to not provide the quick economic returns that came with urban-industrial development. As a result, strategies in the radical phase were combined with the strategies of the negative and positive phases. Therefore, although the radical phase is distinguishable in theory it is less clear in its application. For example, rural development and growth centre strategies could very well be part of the same development strategy, or provision of self-help housing and sites and services could both be part of a housing program for the poor. As a result, this
fragmented approach has not led to a clear success of the strategies of the radical phase (Skinner, 1980).

3. **EFFECTIVENESS OF PAST PLANNING EFFORTS**

Current planning efforts with regard to the poverty-bound petty capitalist sector have not met with great success. In the discussion below, it will be evident that the poverty-bound petty capitalist sector is still present in large numbers. In this context, this section will present some suggestions for planning arising from the alternative analysis.

The best indicators of the success of planning for the poverty-bound petty capitalist sector, whether indirectly at the national or the regional level, or directly at the urban level, should be in the reduced size of the poverty-bound petty capitalist sector, and the extent of poverty and unemployment, but there is little evidence to indicate this.

"In a policy view, the prescriptions emanating from the informal sector approach have borne little fruit" (Rogerson, 1985 p.19).

It is difficult to generalise about the success of planning, or the lack of it, for several reasons. First, Third World nations have different levels of poverty and unemployment and it is difficult to make comparisons. Obviously the economies of Bangladesh and the newly industrialising nations such as Taiwan or South Korea are very different, the former suffers from acute poverty and unemployment while the latter have had a declining unemployment rate in the last decade.
Second, there are also problems in the definition of poverty because poverty levels are dependent on the general economic level of a nation. Third, the definition of the informal sector is also not clear. At times it is equated with the urban poor, and at other times with the manifestations of poverty such as squatter colonies. To illustrate the problem, take the case of India. An estimate of squatters in 1978 indicated that one fifth of the urban population in India were squatters (D'Souza, 1978), but the urban population under the poverty line of Rs. 30,21 i.e. C$.4, per month, was as high as 51.3 percent (Government of India, Ministry of Planning, 1973). It is difficult to choose whether the figure for poverty or the figure for squatters is more representative of the informal sector. There are difficulties, therefore, in presenting an accurate picture of poverty, unemployment and the informal sector and consequently the discussion presented here about the effectiveness of the planning strategies has to be based on generalised conclusions.

At the national level, there is little indication of a reduction in poverty and unemployment. According to the I.L.O. Yearbook of Labour Statistics 1984, and the United Nations Statistics Yearbook 1982, it appears that with the exception of the newly industrialising nations in the Third World, most developing nations face a high unemployment rate. Although unemployment increased for most nations in the developed as well

21 Poverty line of Rs.30 per month is based on 1963 prices.
as the developing world as a result of the world recession, it can be expected that any increase in unemployment in the Third World will add to the size of the informal sector. Richardson (1984) states that not only does the informal sector grow at a faster rate than the formal sector but that this pace is likely to increase. Along with indications of unemployment, there are indications of poverty. For instance, in India the estimate for urban poverty was 51.3 percent in 1973, and the estimate of urban population living in one roomed tenements was 66 percent in 1971 (Census of India, 1971). At the national level, the overall picture is one of deep poverty, unemployment and a large informal sector.

Another indication of the limited success of planning is that scholars have continued to study the informal sector over the last two decades, because of the persistence of the phenomenon. Development theorists have tried to find explanations for this persistence. One may recall from chapter two that proponents of the unilinear development theory expressed the opinion that poverty, and therefore the informal sector, persists because the nations had not yet modernised. In rebuttal, the dependency theorists argued that poverty and underdevelopment persist because the modernisation process creates a dependent relationship between the Third World and the developing nations. Clearly then, the persistence of underdevelopment and features thereof are well documented.

At the town level, there are also indications that planning has not been very successful. The poverty-bound petty
capitalist sector, whether it is equated with the urban poor, informal activity or squatters, is still visible in cities of the Third World. There are both personal impressions and statistical indications of this. As a researcher on the informal sector in selected large cities in India, the author has found little visible change in the absolute size of the informal sector. Although 'sites and services' were provided to some of the urban poor, these have deteriorated into 'planned slums', and many squatters never benefitted from any planning strategies.  

Estimates made by scholars of the size of the informal sector suggests that planning has not had much success. The absolute size of the informal sector remains high as indicated by Sethuraman (1981) in table 3. In Calcutta, for instance, the estimate of the informal sector was 45 percent of the labour force in 1974 (Lubell, 1974; Bose, 1977) and 40-50 percent in the Sethuraman's (1981) table. There is little statistical evidence, therefore, to suggest a declining informal sector.

Finally, the study of informal activities continues to be of interest to scholars eg. Lucknow rickshawallas (Gould, 1965); Manila Jeepney drivers (Pendakur, 1975); Hawkers and vendors in South East Asian countries (McGee and Yeung, 1977); Shoe manufacturers in Colombia (Peattie, 1978); and Street occupations of Cali (Bromley and Birkbeck, 1984). The

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22 Opinion is based on research work done on the informal sector in Delhi, Raikot, Ludhiana, Sambalpur and Rourkela as well as casual observation.
Table III - Estimates of the informal sector in selected developing nations

<table>
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<tr>
<th>Area</th>
<th>Per Cent</th>
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<tbody>
<tr>
<td>Africa</td>
<td></td>
</tr>
<tr>
<td>Abidjan (Ivory Coast)</td>
<td>31</td>
</tr>
<tr>
<td>Lagos (Nigeria)</td>
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<td>Federal District and State of Mexico</td>
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<td>Mexico D.F., Guadalajara and Monterey</td>
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The overall indication is that the informal sector persists despite planning efforts. It is because the informal sector is...
Large, persistent and closely tied to poverty and unemployment that the need for planning cannot be ignored.

4. PROPOSED ROLE OF THE STATE

From the discussion of the three phases of planning efforts it can be seen that not only was planning deemed necessary in one form or another but that the efforts were guided by the view that the informal sector is a temporary phase in the Third World and will no longer be present when and if the Third World nations developed. In contrast to this view, the alternative analysis states that the petty capitalist sector is a fluctuating but permanent feature in any type of economy. The small scale, low profit activities that are being discussed here are not a feature of the Third World alone. Even the Western capitalist nations have low profit petty capitalist activities although in lesser numbers. But, the difference between the two is that in the Third World the small scale, low profit activities are poverty-bound while in the developed world it is not necessarily so. Therefore, since the poverty-bound petty capitalist activities are not a temporary phase, government is faced with the need to decide how to best utilise its resources to benefit the poverty-bound sector, so that the petty capitalism that exists in the Third World can be a sector of choice not compulsion. So far, Third World governments have intervened in the workings of the sector either positively or negatively, usually because the illegal nature of the activity violates several government rules and regulations. It is
pertinent to consider whether this sort of intervention is necessary.

In contrast to previous views, it is suggested that illegality of the petty capitalist activity in itself should not be the basis for state intervention. Instead, the costs and benefits of the activity to the state should be analysed and the decision to intervene and in what ways should be based on this analysis. In some cases, if the benefits of retaining the petty capitalist activity outweigh the costs then it may be necessary to facilitate the activity even if it were illegal. For any category of petty capitalist activities whether they be low profit or high profit, state intervention seems justifiable if the activities create social and economic costs to the state. For example, tax evasive activities create a considerable loss of revenue to the state, and hawkers and vendors increase the costs of maintenance of city infrastructure such as public water taps, sanitation, public transportation.

However, these costs to the state should be weighed against the benefits received by the presence of the petty capitalist activities, and how much it would cost the state to provide the same or similar goods and services. If the costs to the state exceed the benefits, a more negative intervention may be necessary. For example, the state may intervene to restrict illegal criminal activities, such as drug peddling, because the social and economic costs of the activity, such as treatment of drug addicts and increase in crimes, outweigh the benefits it provides to drug users. On the other hand, the poverty-bound
petty capitalist activities in the Third World, which is the focus of discussion here, require less negative intervention. Consider the benefits from the poverty-bound petty capitalist sector.

1. Provider of cheap goods and services.
2. Provider of convenience in shopping.
3. A source of employment of the poor.
4. A source of income for the poor.
5. Recycler of resources
6. A source for the preservation of traditional skills.

The cost to the state to provide or extend its services to this population, to cope with the illegal occupation of government land and property, and the health and safety hazards created by the activities are high, but the cost of providing employment or welfare to the poor would be a no lesser task.

It is, therefore, necessary in this case that the role of the government should be more positive. Some positive planning measures already exist, as reviewed earlier, but the alternative analysis suggests other positive measures that would be more effective. This is discussed in the next section.

5. SUGGESTIONS FOR PLANNING FOR THE POVERTY-BOUND PETTY CAPITALIST SECTOR IN INDIA

There are serious and important implications of the alternative analysis to planning for the poverty-bound petty capitalist sector. To discuss these implications, some of the main conclusions of the alternative analysis are repeated here:
1. Rural migrants are not the only source of labour for the poverty-bound petty capitalist sector.
2. Demand for petty capitalism is as necessary to the creation of the sector as labour supply.
3. The type of demand present in an urban economy, i.e. optional or cost-based, will affect the entry of labour into that sector.
4. The poverty-bound petty capitalist sector caters to both the urban poor as well as the well to do, and labour, capital and resources flow back and forth between the poverty-bound petty capitalist sector and the formal sector.

These conclusions can be used to improve the planning process for the poverty-bound petty capitalist sector. However, it is not feasible to discuss the implications for planning in the Third World without over-generalising and, therefore the discussion here is only in the context of India.

The suggestions that are presented are made within the constraints of the Indian planning system. The institutional structure of planning in India is top-down and planning permeates every aspect of development, i.e. economic, social, and physical (Wishwakarma, 1981; Poulose, 1979; Bhattacharya, 1979). It is, therefore, necessary to present the context within which the suggestions are posed.
5.1 The Institutional Framework For Planning In India

There are three levels of planning in India that affect the poverty-bound petty capitalist sector (Poulose, 1979). See appendix F. These are:

1. **The Planning Commission:** This institution is responsible for making the five-year plans that guide economic development in India. The five-year plans are sectorally divided such that development of each sector becomes the responsibility of a particular Ministry. The Planning Commission is responsible for the sectoral allocation of funds for federal and state level development. It does not prepare or implement urban and regional development plans.

2. **The Town and Country Planning Organisation.** This is a public sector undertaking that is staffed with trained professionals to deal with problems of urban and regional development. It is directly under the Ministry of Works and Housing. It has two major roles. Firstly, the T.C.P.O. advises the Ministries concerned with urban and regional development on the setting of goals. Secondly, it studies the urban and regional problems identified by the Ministry of Works and Housing and prepares plans accordingly.

The T.C.P.O. has regional offices in the states of India, that are under the state Ministries of Planning. The actual development of the urban areas and regions in a state are the responsibility of the state Ministry of Planning and plans are prepared by the state T.C.P.O.'s. The T.C.P.O., however, whether at the national or state level, is not responsible for
the implementation of urban plans.

3. **The urban development authorities:** These are organisations that prepare and implement plans for urban development under the advice of the state Ministry of Planning but also implement the plans prepared by the state T.C.P.O..

It can be seen that the planning structure in India is highly centralised but responsibilities for urban and regional development are delegated to regional offices. This has not changed much in spite of the literature on the benefits of a bottom-up approach.

By examining the planning structure (Wishwakarma, 1981) and the literature on planning strategies in India, as well as the Third World, certain limitations in the approach to the poverty-bound petty capitalist sector in India become evident:

1. At the national level, the planning approach is uncoordinated and indirect due to the sectoral basis of economic planning.

2. At the urban level, the strategies are applied in a piecemeal manner and are limited in scope. For example, there is no uniform application of the sites and services programme to cover all the squatters in Delhi (Ghosh, 1979).

3. The majority of the direct planning efforts are 'cosmetic' and incapable of reducing the number of urban poor (Ghosh, 1979).

4. Some of the 'cosmetic' approaches are inappropriately designed (Angel and Benjamin, 1976). For example, while housing may have been provided, it frequently did not meet the socio-
economic needs of the urban poor.

In the next section, suggestions are made for planning at the national and urban levels, in the context of the Indian situation, using the alternative analysis. It should be clarified that these suggestions are not transferable to other categories of petty capitalist activities.

5.2 Suggestions For Planning At The National Level

A. Planning for the poverty-bound petty capitalist sector at the national level should be coordinated under a unified national policy.

The need for coordination and unification of the planning approach at the national level cannot be overemphasised, because the problems of poverty and unemployment are the result of the entire process of development, and not sectoral development. The alternative analysis showed that the source of labour supply for poverty-bound petty capitalism is not only through migration of the rural poor and that the demand for the goods and services of the sector are created by all income groups. The relationship is, therefore, not a straightforward correlation to poverty and rural migration. A national level analysis is required and this will facilitate coordination of planning efforts. There are three reasons for a coordinated approach.

Coordinated planning and increased effectiveness.

Coordinated planning and implementation will increase the effectiveness of planning by ensuring that the plans reflect a national level analysis of the issues and that separate
strategies do not work against each other. Although planning for poverty and unemployment is a priority in India, the approach has been uncoordinated. This is because economic planning in India is divided by economic sectors. Strategies to reduce poverty and unemployment are then fitted into sectoral development plans. For example, the agricultural development sector may create jobs in the rural areas while the industrial development sector constructs industrial estates to provide industrial employment for the poor. On their own, each strategy may be a well intentioned effort but the drawback of the sectoral approach is that the strategy in one sector can adversely affect the strategy in another sector.

This was the case in Punjab where the small towns were developed into agricultural market centres to absorb some of the rural migrants, as a part of the state's agricultural and rural development plan. See appendix D. However, the industrial development sector created industries and jobs in the large towns and provided a higher wages than that in agricultural markets. As a result, migration has continued towards large cities and the small town development strategy has been unsuccessful (Das, 1984B).

**Coordinated planning and better regional coverage of strategies.**

A coordinated approach will ensure that no regions are neglected in the development process by oversight. Sectoral policies can overlap in some regions, while other regions are totally neglected. This makes it difficult to predict the
results of a development policy in a particular region. For example, the development of Rourkela, India, as an industrial town in 1951 was expected to provide employment to the population of that region. However, by 1971, demographic studies showed that the population from the surrounding less developed regions took greater advantage of employment in Rourkela than the local population. Rourkela was also the only source of demand for poverty-bound petty capitalist activities, whereas labour supply was available from many of the surrounding regions. Consequently, unemployment amongst the local population had not decreased significantly (Das, 1977). Coordination will not only improve effectiveness of policies but also ensure that the policies reach all regions.

**Coordinated planning and improved information base.**

A coordinated approach can be used to improve the information base on the poverty-bound petty capitalist sector. Currently, information collection is restricted to large towns because the problem has been viewed in that context. However, as the alternative analysis shows, the poverty-bound petty capitalist sector is also present in smaller towns. Furthermore, the consumer demand for the sector's goods and services are neglected in the study of the sector at both the large and the small town level. The study of the poverty-bound petty capitalist sector is necessary not only for all urban areas but also for linkages between them. Sectoral policy data do not provide the information base on the poverty-bound petty capitalist sector that is essential for planning. Sectoral
planning is more concerned with the development of the particular sector, and data on poverty is collected only as it affects that sector. But, the poverty-bound petty capitalist sector involves directly and indirectly as much of the population, if not more, than the formal sector. Yet, while the information base for the formal sector is extensive the same is not true for the poverty-bound petty capitalist sector. Data is collected periodically for the formal sector through National Census collection, and coordinated studies also exist for formal sector production units such as steel mills. But these do not include the participants in the petty capitalist activities even though these activities often provide the needs of the formal sector. For instance, labour was hired on a casual basis, unrecorded in employment documents, in the steel mills of Rourkela. This labour, that is part of the petty capitalist sector, assists the production of the steel mill but is neither recorded nor analysed in the steel mill project. A coordinated approach will facilitate the collection of information in a unified manner and thereby enhance the information base.

In summary, the first suggestion at the national level is to coordinate the strategies in the different economic sectors under a national approach to the problem, to increase effectiveness of planning, cover all regions, and improve the information base.

B. Demand for petty capitalism and spatial linkages

The alternative analysis proposed that demands are
essential to the creation of poverty-bound petty capitalism and that two types of demands are present, the optional and the cost-based. These demands are present, to some degree, in all urban areas. Consequently, any development strategies designed to cope with poverty and unemployment must analyse the spatial distribution of demand along with the analysis of labour supply.

Currently, much thought is given to the labour supply for petty capitalist activities and efforts are made to redirect or reduce it. This amounts to reducing or redirecting the rural migrants by the creation of jobs in the rural areas or smaller towns. But, little thought is given to the fact that this labour caters to particular demands which have to be created if labour is to be attracted. To recapitulate the arguments of the alternative analysis in this regard, it was stated that optional demands created by the upper income groups have a higher capacity to absorb labour than the cost-based demands created by the poorer population. It was also stated that the development patterns in the Third World have led to the concentration of the formal sector units and consequently the upper income groups in the large towns (Mathur and Kundu, 1984; Santos, 1979), thereby creating more optional demands there. Current strategies that focus on the creation of jobs do not consider the aspects of demand.

In India, agricultural markets are developed in the small towns to attract rural migrants. These markets create opportunities for petty capitalist goods and services but are few in number. The creation of a few job opportunities in the
petty capitalist sector neither leads to an increase in demand sufficient to attract labour to that sector, nor to the creation of optional demands that allow easier entry of labour. This is illustrated again by the case study of the Punjab small town development strategy cited earlier. Field study in Punjab showed that the jobs created in the agricultural markets were too few to attract rural migrants (Das 1984B). There were no jobs created to attract the upper or middle income groups. Without these groups, and consequently optional demands created by them, the scope for attraction of rural migrants was limited to the few jobs in the market. In contrast, the larger towns offered greater number of jobs in industry, and there was already a sizeable upper and middle income group to create optional demands. As a result, the rural migrant was attracted not only to the jobs in industry but also because there was a wide range of demands that they could cater to (Das, 1984B).

In the Punjab case study, small towns might have attracted rural labour if the industrial development had been placed there (Bhalla, 1977; Johl, 1975). If this was not feasible due to a lack of supporting infrastructure for industrial development, there should have been no need to create agricultural markets for the purpose of attracting migrants. That is, it would be more realistic to accept that the demand for petty capitalism is larger and more dynamic in the large towns and concentrate on dealing with the problems of the sector at the large town level, provided that the creation of greater demands, including the optional demand, is not possible at the small town level. The
location and distribution of the types of demand is, therefore, a necessary consideration in regional development strategies that seek to redistribute labour. This brings the discussion to planning at the urban level and how the alternative analysis affects it.

5.3 Suggestions For Planning At The Town Level

The discussion here will be based on the view proposed earlier that the role of the government should be positive. However, the suggestions for government intervention range from minimal to more direct and intensive, depending on the situation. All the suggestions proposed can be the responsibility of the Town and Country Planning Organisation and implemented by the urban authorities.

A. demand for petty capitalism in urban areas and spatial linkages planning.

It is necessary to include the demand aspect in spatial planning whether this is planning for the poverty-bound sector in an existing town or in a new town. This necessitates a recognition that the location of the petty capitalist activities in a city is closely tied to the location of its demand. Most poor people make the right choices for their location within existing constraints, with regard to the demand for their goods and services, even though these choices may not be acceptable to city authorities for economic, political or aesthetic reasons. However, if such linkages exist between demand and supply these linkages should be put into the analytical framework for
planning. In some instances, the intervention can be minimal and the poor can be allowed to remain in their original sites but in other instances more intervention may be necessary as in relocation of activities or planning for the sector in new towns. But, the aim should be to allow the poor to maximise their benefits and minimise their costs. Related to the selection of optimum location for the poor is provision of security of tenure at the selected site. Some system of land tenure is necessary so that relocation of the same population does not occur several times. This was the case in Bombay where 72,000 squatters were evicted from their relocated sites because the Bhabha Atomic Research Centre required the land (Deshpande, 1976) Consideration of the location of consumer demands for the poverty-bound petty capitalist sector in spatial planning can cope with urban poverty as well as maintain a orderly image of the city.

**Spatial linkages planning in an existing town.** In an existing town where the poverty bound petty capitalist sector is already manifest, the linkages between consumer demand and labour supply for the sector can be planned for in two ways, relocation of the activities and retaining the activities in their original locations. When the activity is retained in the original location, the linkages are least disrupted. However, relocation may be necessary where the activities pose a health or safety problem. In such instances, the relocated site should be provided as close to the original site as possible or at an alternative source of demand for the activities. Currently,
relocation strategies, which are common in India as well as other developing nations, do not consider the linkages of the sector. Activities are relocated on the basis of city image, and space availability. In the mid-seventies, 'sites and services' were provided on the outskirts of Delhi to some of the urban poor without any analysis of their role in the economy and the significance of their selected original sites (Ghosh, 1979). This sort of relocation neither improves the city image nor does it cope with problems of the urban poor.

Firstly, as long as demand exists in the city for poverty-bound petty capitalism, labour will respond to meet the demands. The relocated population will either return to its original site or new migrants to the city will occupy it. Take the case study of Rourkela, an industrial town in Orissa, India. Field study conducted in 1977 indicated that squatters who were resettled on the periphery of the city returned to their original sites (Das, 1978). Ghosh (1979) speaking of the resettlement schemes in Delhi argued that resettlement was costly to the people and the authorities, and was unnecessary when there was an adequate area within the city to contain them.

Furthermore, removal or relocation of the informal sector or squatters without consideration of demands only perpetuates poverty. During the years 1973-1977, for instance, 150,105 squatter families were removed from Jama Masjid area in old Delhi to the periphery of the city by the Delhi Development Authority, as a part of the 'city beautification movement' initiated by politician Sanjay Gandhi (Government of India,
1978). This move severed the economic and social ties of the people and thereby removed their means of livelihood, increased their costs of travel to places of work, and decreased their access to cheap goods within the city. In sum, relocation increased the poverty of the poor, a rather contradictory result to the one intended (Ghosh, 1979). In existing towns, therefore, if the spatial linkages are fitted into the analytic framework for planning, the optimum locations can be derived not only to cope with the petty capitalist sector that is present in the city, but to make provisions for the growth of the sector as the city expands in population and area.

Spatial linkages planning in new towns.

In new planned towns, there is no provision made for accommodating the poverty-bound petty capitalist sector that is sure to develop due to the demands present. In Chandigarh, India, a new town planned by Le Corbusier, hawkers vendors, and squatters crowded the city violating some of the original plan design in a very short time (Sarin, 1982). Planners have since been coping with the problems by relocation, removal and the like. This could have been avoided if areas had been allotted within the city, close to the expected sources of demand, such as upper income residential areas, market places and transport nodes.

B. Planning for infrastructure and housing.

While the selection of the optimum location allows the poor to maximise their benefits in the long run, certain immediate needs of the poverty-bound petty capitalist sector also require
the attention of urban planners. These are mostly in the provision or improvement of shelter, services and facilities. Although the provision of housing is an enormous task, the government can undertake the responsibility of supplying building materials at a subsidised rate, providing appropriate housing designs and providing technical knowhow for construction if necessary. It becomes necessary for the government to provide the infrastructural needs because the present unequal distribution does not meet the needs of the poor, strains the urban infrastructure that was not equipped to handle the extra load, and ultimately affects other users of the services. In this light, there are two suggestions.

**Distribution of infrastructure.**

It is suggested that efforts be made to improve the services, working equipment and facilities to the poor at their optimum location. Currently, the poor live and work in substandard structures and do not have access to public transportation, water, electricity or garbage disposal except by using or pilfering from nearby sources. Since the costs of removal and relocation will be reduced if the activities are allowed to remain in their original sites or close by, resources can be put towards upgrading their living and working conditions in a uniform manner, not piecemeal as has been the case in the past. In India, there is a programme for the provision of minimum basic needs but implementation has been slow. In new towns infrastructure can be prepared for the poverty-bound petty capitalist sector in advance and in existing towns some advance
preparation can also be made to allow for city expansion.

Design of housing.

Improvement of housing, by the design of housing units or 'sites and services', will be ineffective if it does not meet the needs of the poor. It has often been the case that the socio-economic needs of the poor are not adequately incorporated in the design of relocation schemes (Das, 1978; Payne, 1974). Since, it was stated earlier that it may be necessary for the state to intervene and relocate activities when they pose health and safety problems, it is suggested that socio-economic profile be given greater attention, particularly in the design of housing. The design of low cost housing may not be cheap enough for the poor. According to Mazumdar (1975), 71 percent of squatters in Delhi earn less than Rs. 250 per month and yet the Housing and Urban Development Corporation in India has constructed low cost housing in Delhi that requires a monthly payment of Rs. 115 per month (Mulk Raj, 1977). In Madras, India, high rise apartments were provided to the fishermen who originally squatted on the beaches. The fishermen returned to their original sites because there was no space in the apartments to hang their nets. It is, therefore, suggested that the links between social and economic aspects of poverty be analysed before the design of strategies at the national and urban level.
5.4 Differences Between Proposed Strategies And Others

The suggestions presented here may appear to be similar to those in the positive and radical phases of planning described earlier. However, previous strategies were not based on an analysis of the spatial linkages between consumer demand and labour supply of the poverty-bound petty capitalist sector. In the positive phase, strategies were designed to compensate the informal sector because it complemented the formal sector, but not with a view to maximise its benefits. Relocation of the sector was frequently not to an optimum location.

Similarly, the suggestions in the radical phase were made in the context of the development approach of the time which was to reverse the top-down approach to one with greater autonomy for the local governments; a bottom-up approach with emphasis on rural development, and agropolitan growth (Friedmann and Weaver, 1979). Self-help for the urban poor, in that context, meant replacing the paternalistic approach of providing for the poor with a more dignified way of letting the poor help themselves, with some government assistance. For example, instead of providing housing to the poor, provide materials so that the poor can construct their own. But this self-help housing was often in relocated sites, removed from the demand areas. Skinner (1980) is critical of the approach because of its dismal failure in Lima, Peru.

The term self-help itself also appears to be inappropriate, because the poor have already helped themselves by engaging in petty capitalist activities to cope with their poverty and
unemployment. Whatever else is done by the government to cope with poverty, whether paternalistic or more humane, is some act of provision or compensation to the poor who could not benefit more directly by the development process of the nation. The suggestions arising out of the alternative analysis also fit into this context.

One suggestion that is sometimes made is to organise the poverty-bound petty capitalist activities into cooperatives. There are several aspects to this approach that makes it unfeasible under current situations in the Third World. Firstly, given the magnitude of the informal sector which varies from twenty to sixty percent of the population the task is enormous in many instances. Calcutta is a city over 9 million (1980, Census of India) where 40-50 percent has been estimated as belonging to the informal sector (Sethuraman, 1981). It would be difficult to attempt organising cooperatives for such numbers and if a piecemeal approach is taken, then the strategy cannot be considered as one that is totally effective because many will not benefit from it. Secondly, organising the activities into cooperatives may result in loss of clientele. In India, many of the hawkers who sell food items survive not only because the items are cheap but also because they are conveniently located and provide variety. Organising these activities can lead to increase in costs and therefore prices, and may even affect the location of the activity. Finally, organising the informal activities into cooperatives leads to some degree of formalisation in marketing and distribution of
the goods. This raises the price of the product and although those in the cooperative may ultimately enjoy higher incomes, the government must then cope with providing the poor who have not benefitted by the cooperative system, with cheap goods. Many of the needs of the poor are met by the poor, and cooperatives may affect the supply of cheap goods to the poor. Dairy farmers in Kaira district of Gujarat, India, were organised into a cooperative by the initiative of a private individual. Today the cooperative provides many of the dairy product needs of the upper income groups but the poor continue to buy milk from the 'gwala' or the milkman.

As a final note on this entire section on suggestions for planning, it can be said that since the financial resources in most Third World nations are limited in what can be done for the poor, it would be in the interest of the poor and the government to help the poverty-bound petty capitalist sector in the cities to maximise their benefits and minimise their costs, rather than disrupt their activities. The Delhi Development Authority has already taken this position, as the following quote indicates, but only out of frustration of coping endlessly with a problem that does not lessen.

"We realised we couldn't beat the squatters. Instead we've joined them by providing the minimum sanitation and services and registering the squatter colonies as a legal part of our housing stock." Rebiero, Planning Commissioner for Delhi Development Authority, in Hodgson, 1985.

However, efforts should be increased at the national level
to absorb the surplus labour in rural and urban areas into higher paying activities in either the rural sector or in industrial development for this is where solutions to poverty and unemployment lie. The Government in India needs to also consider population control, consolidation and redistribution of agricultural land, control of absentee landlordism in rural areas etc. all of which are known to have contributed to the surplus labour supply. Ultimately, the policy objective should be to reduce the poverty-bound activities in the petty capitalist sector and to make the sector more a sector of choice. For this purpose, a macro level approach to the problem is important.

To summarize the suggestions made in this chapter, a diagram is presented (figure 14), that briefly describes the implications of the alternative analysis to formulation of goals, the role of the state, and suggestions for planning.

In concluding this chapter, it should be reitrated that the focus of this chapter has been mostly on poverty-bound petty capitalist activities. Other types of activities, such as the thriving, small scale sector will need a separate analysis of the problem and a different planning approach. While poverty-bound petty capitalist activities in the Third World were selected for discussion here, it does not mean that other categories of activities are less important in these or in other nations.
6. CONCLUSION

The alternative analysis has been presented in this research as a means to understand the petty capitalist sector in the light of recent knowledge on the subject. It has been necessary to draw generalised conclusions about the petty capitalist sector in the dominant types of economies to cover its global occurrence. However, the particular economic development and socio-cultural context in a nation can create differences in the types of petty capitalist activities even within one dominant type of economic system. These differences can only be known by empirical study. The alternative analysis
will, therefore, greatly benefit by and can be refined through these empirical studies.
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Source: Santos, 1977.
APPENDIX B - DUALISM MODEL OF URBAN ECONOMY BASED ON INCOME OPPORTUNITIES: HART 1973

FORMAL INCOME OPPORTUNITIES

(a) Public sector wages.
(b) Private sector wages.
(c) Transfer payments - pensions, unemployment benefits.

INFORMAL INCOME OPPORTUNITIES: LEGITIMATE

(a) Primary and secondary activities - farming, market gardening, building contractors, and associated activities, self-employed artisans, shoemakers, tailors, manufacturers of beers and spirits.
(b) Tertiary enterprises with relatively large capital inputs - housing, transport, utilities, commodity speculation, rentier activities.
(c) Small-scale distribution - market operatives, petty traders, street hawkers, caterers in food and drink, bar attendants, carriers (kayakaya), commission agents, and dealers.
(d) Other services - musicians, launderers, shoe-shiners, barbers, night-soil removers, photographers, vehicle repair and other maintenance workers; brokerage and middlemanship (the maigida system in markets, law courts, etc); ritual services, magic, and medicine.
(e) Private transfer payments - gifts and similar flows of money and goods between persons; borrowing; begging.

INFORMAL INCOME OPPORTUNITIES: ILLEGITIMATE

(a) Services - hustlers and spivs in general; receivers of stolen goods; usury, and pawn-brokering (at illegal interest rates); drug-pushing, prostitution, poncing ('pilot boy'), smuggling, bribery, political corruption; Tammany Hall-style, protection racketeers.
(b) Transfers - petty theft (e.g. pickpockets), larceny (e.g. burglary and armed robbery), speculation and embezzlement, confidence tricksters (e.g. money doublers), gambling.

(Hart 1973: p 69)
APPENDIX C - A SIMPLISTIC CHART ON THE FLOW OF IDEAS ON ECONOMIC DUALISM AND DEVELOPMENT

Mid. 18C.  |  RISE OF ECONOMIC LIBERALISM (Classical Economics)
           |  Adam Smith
           |  J.J. Rousseau
           |  Ricardo

19C.       |  LIMITS TO GROWTH
           |  Ricardo
           |  Malthus
           |  Marx

Late 19C.  |  ETHICAL MOVEMENT
           |  New policies for dependent people in third world
           |  Schumpeter

Early 20C. |  CLASSIC DUALISM
           |  EXPLOITATION THEORIES
           |  Keynes
           |  Hobson
           |  Boeke

1950       |  ECONOMICS
           |  REGIONAL SCIENCE
           |  Perroux
           |  Myrdal
           |  Hirschman

1960's     |  HOW TO INDUCE GROWTH SPATIALLY
           |  LABOUR
           |  URBAN DUALISM
           |  UTILITY STUDIES
           |  UNILINEAR DEVELOPMENT THEORY

          |  UNDERDEVELOPMENT/DEPENDENCY THEORY
APPENDIX D - A STUDY OF SMALL TOWN DEVELOPMENT STRATEGY IN PUNJAB, INDIA

India, along with other developing countries, has made policy decisions incorporating the small town development idea. Whereas there is no agreement on the population limits of a small town, there is a consensus that it lies at the lower end of the urban hierarchy. By Indian Census classification, small towns lie in the population range of 5,000 to 20,000. India has stressed "intermediate" urbanisation to relieve population congestion in large cities since the fifth five-year plan (1974-1978). However, during the sixth five-year plan (1979-1983) the emphasis changed to small town development. The findings of a "Task Force on Small and Medium Towns in India" set up by the Government of India in 1975 encouraged the creation of programme "Integrated Development of Small and Medium Towns". The sixth five-year plan states:

"the thrust of the urbanisation policy during the next decade would be to give greater emphasis to the provision of adequate infrastructural and other facilities in the small, medium, and intermediate towns which have been neglected hitherto in this respect. The aim would be to straighten these market centres to equip them to serve as growth and service centres for the rural hinterland."

In compliance with this plan, the Ministry of Works and Housing, Government of India, by December 1979 sent to all the States in India the guidelines on the 'Centrally Sponsored Scheme for Integrated Development of Small and Medium Towns'. The States were to respond with a list of selected towns by early 1980. The Government of India would allot finances
for the development of the selected towns. The scheme:

"would cover small and medium towns with a population of 1 lakh (100,000) and below on the basis of the 1971 Census. In selecting the towns for support, preference would be given to district headquarters, followed by subdivisional towns, mandi (market) towns and other important growth centres .... towns selected for priority development should be such as will check the migration of rural population to the large cities and would perform the role of service and market centres to the rural hinterland in the context of balanced development of the whole district and region." Excerpt from the Scheme.

This emphasis was reiterated in 1981 and the Government of India made plans to identify and assist 200 such towns with a population of 100,000 and below. (Hindustan Times, August 4, 1981).

In the wake of such emphasis it becomes important to evaluate the experience of Punjab State where the development of small towns was undertaken in the mid-sixties particularly for marketing. Of the three preferences in the selection of towns cited in the scheme, (district headquarters, subdivisional towns and markets) the markets had the widest application, and the sixth plan has expressed faith in the market towns as service and growth centres. The Punjab experience in small town development precedes the Government of India policy decisions of the seventies and should therefore serve as a guide to expectations.

**The Punjab:** Small towns in Punjab were developed as agricultural markets in the mid-sixties as a part of the agricultural development programme of Punjab. Initially districts were chosen from each state in India for "Intensive Agricultural Development Programme". However, the changes in agricultural cultivation technology that were introduced got dispersed to the other
districts of Punjab very quickly. The Punjab Agricultural University played a prominent role in this diffusion and strengthening of agricultural change in Punjab (Sidhu D.S. 1975, Randhawa M.S. 1974). To accommodate the increased agricultural yields, the traditional marketing system was changed. The traditional marketing system had markets mainly in the large and medium towns. In 1966 there were 87 such markets. This rose to 108 by 1975. Thus all the urban areas classified in 1971 Census, were provided with markets (Bhalla G.S. 1978). The newly created markets were placed in the small towns to reduce the gap between the farmer-seller and the existing markets. This was specially so in the southern part of Punjab (Harris B. 1974). While markets in larger towns were "regulated" (government control of commodity prices, provision of proper marketing yards, etc.) and improved, markets in smaller towns had to be created, often for the first time, but sometimes improved and regulated as well. Thus Punjab can boast of the lowest ratio of villages per market in the country (Randhawa, M.S., 1974) and would surely satisfy the advocates of market towns in the Christahler and Losch fashion, such as E.A.J. Johnson (1970).

As a result of agricultural development and marketing, urbanisation accelerated. This urban growth has, however, concentrated in the large towns. Small towns have remained stagnant or declined in growth over the last two decades. The 1981 Census of Punjab indicates that only 12 out of 76 small towns recorded an increase in their annual growth rate above the State average of 4.4%. This is significant because the total number of small towns increased from 63 to 76 during 1971-1981. Large towns are obviously growing at the expense of small towns (McGee and Das 1981). The following table shows that there is a widening of disparities in the proportion of urban population by urban size.

<table>
<thead>
<tr>
<th>Census definition</th>
<th>Urban size category</th>
<th>Number of urban areas</th>
<th>Proportion urban pop. percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>large town class 1</td>
<td>4</td>
<td>7</td>
<td>40.62</td>
</tr>
<tr>
<td>(above 100,000)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>medium towns class 2</td>
<td>8</td>
<td>9</td>
<td>15.68</td>
</tr>
<tr>
<td>(50,000–100,000)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>class 3</td>
<td>22</td>
<td>28</td>
<td>21.74</td>
</tr>
<tr>
<td>(20,000–50,000)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>small towns class 4</td>
<td>33</td>
<td>35</td>
<td>13.78</td>
</tr>
<tr>
<td>(10,000–20,000)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>class 5</td>
<td>30</td>
<td>41</td>
<td>7.00</td>
</tr>
<tr>
<td>(5,000–10,000)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Census of India, 1971 and 1981, Population Tables

It may be argued that the growth rates of the urban areas should be considered in such analysis. However, growth rates are subject to the consideration of other variables, not readily apparent, such as changes in town boundaries, and by themselves are not as conclusive as the data presented earlier on proportion of urban population in the size categories. There is enough evidence, even in the growth rates, to indicate a widening in the population distribution between large and small towns.

Growth Rates of Urban Areas in Punjab by Urban Size 1961–1971

<table>
<thead>
<tr>
<th>Size categories of urban areas</th>
<th>Growth in percent 1961–71</th>
<th>Growth in percent 1971–81</th>
<th>Reasons given by Census</th>
</tr>
</thead>
<tbody>
<tr>
<td>large, class 1</td>
<td>+31.97</td>
<td>+64.13</td>
<td>extension of jurisdiction of urban areas</td>
</tr>
<tr>
<td>medium, class 2</td>
<td>-141.19</td>
<td>+21.68</td>
<td>extension of jurisdiction of urban areas</td>
</tr>
<tr>
<td>class 3</td>
<td>-5.60</td>
<td>+40.80</td>
<td>extension of jurisdiction of urban areas</td>
</tr>
<tr>
<td>small, class 4</td>
<td>+49.83</td>
<td>+15.35</td>
<td>increase in number of</td>
</tr>
<tr>
<td>class 5</td>
<td>-12.96</td>
<td>+38.05</td>
<td>increase in number of</td>
</tr>
</tbody>
</table>

Source: Census of India, Series 17 Punjab
This increasing concentration of urban population in the large towns indicates a weakness in the strategy for the development of small towns. Surely if the strategy had been effective the development of small towns should have led to quite the reverse situation in which increasing urbanisation is shared by all the urban size categories. Small towns did not grow even though they were provided with agricultural markets to attract rural migrants.
APPENDIX E - A FIELD STUDY ON THE INFORMAL SECTOR IN RAIKOT, A SMALL TOWN IN PUNJAB, INDIA

Raikot: population: 17,110 (1981)

Raikot is a small town in the Punjab state of India. The study includes use of data from the municipal office at Raikot and data collected by a participant-observation survey of 57 petty capitalist activities during November 1981-January 1982.

Evidence of a large informal sector in Raikot can be seen by the distribution of labour in commerce, trade, transport and service activities.

Public services such as banking, education, and health care are dominated by the formal sector. But the size of the units as well as their total numbers are small. For example, the family planning centre has only four beds (1971 Census of Punjab). However, even for such services, a less organised but competitive informal sector does exist. Many of the farmers for example, prefer to take loans from the private commission agents, to whom they sell their crops, rather than from the banks. The reasons are simple: easy transactions, and lower interest rates (Survey findings Raikot, November 1981: Harris B. 1974). Other services such as those of janitors, barbers, domestic helpers, shoe repairers etc. are entirely in the informal sector. The absolute number of those involved in such services far outweigh the numbers involved in the public services of the formal sector. To illustrate the point, at the time of survey, there were at least twenty shoe repairers in Raikot, half of whom cluster near the bus stop (there is only one). Their service is in big demand because the footwear, of the majority, if of poor quality and needs constant repairs. It is easier for a person to spend a small amount (equivalent of five Canadian cents) on cheap
repair than to purchase more expensive footwear (Survey findings Raikot, November 1981).

The commerce establishments in Raikot similarly show a distinct breakdown in the types dominated by the two sectors. The sale of general merchandise (cooking utensils, candles, soap etc.), clothes, and electrical goods care dominated by the formal sector whereas the sale of fruits, vegetables, groceries, and cooked eatables are dominated by the informal sector.

<table>
<thead>
<tr>
<th>Type of shop</th>
<th>Formal sector</th>
<th>Informal sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>General merchandise</td>
<td>10</td>
<td>30</td>
</tr>
<tr>
<td>Clothes</td>
<td>16</td>
<td>18</td>
</tr>
<tr>
<td>Groceries</td>
<td>30</td>
<td>50</td>
</tr>
<tr>
<td>Vegetables &amp; Fruit</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Electrical goods</td>
<td>5</td>
<td>15</td>
</tr>
<tr>
<td>Drugs &amp; Pharmaceuticals</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>Restaurants</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Total</td>
<td>68</td>
<td>123</td>
</tr>
</tbody>
</table>


To begin with, the absolute number of commerce units in the informal sector are slightly greater than those in the formal sector. However, the above table does not give the complete picture. According to the Municipal Corporation Office at Raikot, there are approximately 600 commerce establishments, which includes mobile haw­kers, and peddlars. Table 1 only covers those operating in a fixed place, less than half of the total number of units (both formal and informal). Furthermore, only a fifth of the total of 600 are part of the formal sector i.e. 123 units, because they are registered by the Municipal Office. Registration occurs when there has been a total annual income of at least Rs. 20,000 (approx.)
This camouflages the fact that even these formal sector units are small scale operations, employing family labour and are operated by persons without formal skills and training. The remaining four-fifths of the commerce units are unregistered and are totally unprotected by legislation of any sort. Those with fixed locations have been enumerated and therefore form a part of the table. Some of the commerce units in the informal sector pay a municipal tax. This tax is paid only if the unit earns at least Rs. 1200 (C$ 180) annually. According to the municipal office records approximately 280 units (likely to include those with fixed locations) pay this tax. The remaining 200 or so are neither registered nor pay the tax. Survey observations (Field survey Nov. 1981) show these to be itinerant "lohars" (metal bucket repairsmen), "ayurvedic" (traditional medicine) doctors etc. and the transient and unsteady newcomers to the labour force as peddlars of fruits, vegetables, candy, "samosas".

Trade activities in Raikot are concentrated around the agriculture market for the collection and distribution of agricultural produce from the hinterland. It is evident, from observations and field survey, that the employment generated by the market is mainly informal. A simple calculation of the market employment structure will support this. In any regulated market of Punjab the "pucca arhatiyas" (private wholesalers), and the government wholesalers (eg. Food Corporation of India) are the buyers. However, they do not transact directly with the producer-seller (farmer). An intermediary, the commission agent is required. Each commission agent hires approximately 15-20 labourers (Marketing Committee Raikot November 1981, Kahlon A.S. 1970). Labourers are required for unloading, sieving and weighing the arrivals of grain and stitching the jute bags for storage of grains. In Raikot, there are 29 commission agents who hire approximately 600 casual labourers. Thus in the employment
structure of the Raikot market there are only 29 commission agents and an equivalent number of private and government wholesaler-buyers who can be classified as a part of the formal sector. This totals to approximately 60 persons. In contrast, there are 600 persons who are in informal sector activities in the market.

Transport activities in the formal and informal sector also have a distinct breakdown by mode and purpose. Movement in Raikot is mainly pedestrian. The town is compact, being contained within a wall, the entire town can be traversed in fifteen minutes. Some bicycle traffic is also found within the town. Automobiles are only required for inter-regional, or inter-urban travel and this is met by the Punjab state bus system. Employees of this public system are obviously part of the formal sector and there is no counterpart for this in the informal sector.

Transport, however, forms a major part of the agriculture market in the town and here there is a distinction between the formal and the informal transport system. The "rehri" is the means of transport for the poor farmers. The more wealthy farmers prefer to use trucks because they have larger quantities of agricultural goods to transport. The use of trucks is cheap, and is at the same time quick and efficient. However, richer farmers have a preference for the markets in large towns for many reasons, one of which is the higher prices for their commodities (Pendakur and Das 1984). Higher prices are offered for the sale of agricultural goods in large towns because of stronger competition from a greater number of buyers. Consequently, not many rich farmers come to Raikot. Therefore the "rehri", informal transport system predominates.
The size of the informal or formal transport sector is inconsequential. The majority of those engaged in the transport systems do not live in Raikot. The state's public bus system employees live in the cities where the main bus depots are, in this case Ludhiana. The trucking systems may be under private or public ownership but these are usually villagers from villages at the source of the produce. The population of Raikot is serviced by both an informal and a formal transport system but the transport sector does not employ the local population.

A small minority of Raikot's labour force do join the transport sector. There are the mobile vegetable/fruit sellers who occasionally use their carts to transport agricultural goods to and from the market. These carts are unregistered by the municipal authorities and therefore the transport sector of Raikot, however insignificant it may be, is largely informal.

In Raikot the industrial sector is the least developed. The industrial establishments in the formal sector are small in size, but employ workers (for temporary casual labour) who can be classified under the informal sector. The unregistered industries are greater in number, and even smaller in size, often with only two workers. Due to a lack of registration, these industries must be classified under the informal sector. The registered industries are not much bigger than the unregistered ones because under the Industrial Disputes Act of India, any production unit employing at least seven persons is registered as an industry. The largest of Raikot's industries are the rice mills. These employ ten to twenty persons permanently and additional casual labour during the crop arrival season in November.
Distribution of registered and unregistered industries in Raikot

<table>
<thead>
<tr>
<th>Industry Type</th>
<th>Registered</th>
<th>Date of Registn</th>
<th>Unregistered</th>
<th>Date of Operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rice (shelling)</td>
<td>4</td>
<td>1978-79</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Cotton (ginning)</td>
<td>--</td>
<td>--</td>
<td>2</td>
<td>prior to 1960</td>
</tr>
<tr>
<td>Sugar (refining)</td>
<td>1</td>
<td>1978</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Tractor repair</td>
<td>--</td>
<td>--</td>
<td>18</td>
<td>1971 on-</td>
</tr>
<tr>
<td>Ice</td>
<td>2</td>
<td>1954, 1967</td>
<td>1</td>
<td>1980</td>
</tr>
</tbody>
</table>

Source: Municipal Corporation Office, Raikot

Thus it can be seen, by the distribution of labour in commerce, trade, transport and other sectors, that petty capitalism is not only dominant, but is often the mainstay of Raikot's economy. But it is not a dynamic type of petty capitalism and this prohibits any significant absorption of surplus labour from rural areas.
APPENDIX F - INSTITUTIONAL STRUCTURE OF PLANNING IN INDIA

Ministry concerned with regional development

Ministry concerned with urban development

National Planning Commission (Govt.)

Goals

Advice on goal formulation based on research/studies

Town and Country Planning Organ.

Means of identification of means based on technical skills

Assistance in plan preparation

Urban Authorities, Municipalities

Implementation


