PAST AND FUTURE OF INFORMAL WORKERS

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The informal economy comprises half to three-quarters of all non-agricultural employment in developing countries, according to the International Labor Organization (ILO[1]). In the Global South, workers employed with a formal contract and benefitting from social protection are a minority.

Following the Second World War, when decolonization and development became important issues for the international community, informality was seen by analysts of different political inclinations as "backward" and synonymous with "underdevelopment." It was a result of the persistence of self-sustained agriculture and/or plantation economies associated with slavery and post-slavery forms of workers› exploitation. Modernity would come with urbanization and industrialization. Under a paternalistic (and frequently authoritarian) state, national bourgeoisie and formal, frequently unionized workers had a common interest in "development." Progress required capital and technology and bringing them from abroad would accelerate the path towards catching up with advanced countries. The first wave of Asian "miracle countries" (like Taiwan and South Korea) largely followed that path, which started with agrarian reform meant to eradicate rural poverty and generate local demand. Performance requirements were imposed on foreign investors to be allowed in, such as the obligation to associate with local entrepreneurs, reinvest profits, transfer technologies, and buy and hire locally.

At the end of the Cold War (usually dated to 1989 with the fall of the Berlin Wall), the "Washington Consensus," promoted by the US and the Washington-based World Bank and International Monetary Fund, attributed all of the development benefits to foreign direct investment. To attract more of it, countries were asked to stop imposing conditions on foreign investors and offer more profitability than their neighbors, starting a "race to the bottom" to reduce taxes and cut regulations.

Without offering any evidence that less "red tape" actually resulted in more investment, the World Bank ranked countries on the easiness of "Doing Business" in them[2]. The original Doing Business index included an indicator on how easy it is to fire workers as part of what makes a country "attractive." As a result of that trend, trade unions became explicitly illegal in many of the "export processing zones" or "free trade zones" that mushroomed everywhere.

Instead of raising the environmental and social standards over those of local small business and informal family firms, this incorporation from below into the global value chains had the opposite effect.

On 24 April 2013 the Savar building collapsed in the Rana Plaza of Dhaka, the capital of Bangladesh. Over one thousand people died, mainly women who worked in garment factories that produced for global brands like Benetton, Bonmarch, the Children›s Place, El Corte Inglés, Joe Fresh, Monsoon Accessorize, Mango, Matalan, Primark, and Walmart.

The Savar building lacked proper authorization to host industries in a structure designated as commercial and had four more floors than the original building permit. When cracks were detected the building was evacuated, but managers requested workers to return to work and more than three thousand were inside when the building collapsed.

The notion that multinational corporations were helping improve working conditions in developing countries collapsed along with the Savar building. In Rana Plaza, only nine of the 29 brands that sourced products from the collapsed factories attended meetings to discuss compensation to the victims. The logic for not accepting responsibility is that they were buying products from local Bangladeshi firms. The workers were therefore not their employees and their safety not their responsibility. It has been argued that those same firms have tight quality control processes over the products they buy and that their pressure to complete orders on time was behind the managers› requirement for workers to return. Short production deadlines are required to maximize profits in a so-called "fast fashion" industry due to the quick changes of designs. Yet, the minority of global brands that actually contributed to a fund for the victims did so out of compassion or an interest in protecting their brands from public outrage, not out of any obligation to remedy a damage of which they were at least co-responsible.

High levels of informality in non-agricultural sectors are often seen as associated with low institutional quality. The state cannot provide basic social services and tolerates an informal urban economy which creates jobs (even if low quality). Informal jobs reduce the social tensions of unemployment, but without paying taxes or contributing to social security, which postpones problems to a later time, when the informal workers of today won›t be able to work and will lack proper health care or any pension. On the other hand, informality contributes through bribes to compensate the low incomes of public officials and local police and in doing so generates forces of silent resistance to changes in the status quo.

The negative impact of informality has abundantly been demonstrated as exceeding any short term advantage, but any strategy to combat informality requires the strengthening of the capacities of the State. Instead, development thinking and funding conditionalities over the last three decades have been directed towards creating an "enabling environment" for business, in particular foreign direct investment. While the foreign direct investors generate a few formal good quality jobs among those nominally working for the corporation itself, the laxity of state regulations and the effect of the "race to the bottom" on taxes and regulations soon result in corporations resorting to informal work themselves in their production chains, instead of generating a "modern" formalized labor market in the countries where they operate.

As noted by Leila Adim, "undertakings operating in more than a country rarely employ informal workers and plan other strategies for saving labor costs. In most of the cases, multinational corporations that aim at capitalizing on the incompliance with tax payments and other legal duties in order to minimize labor costs and increase their profits in the "formal" global market, subcontract other firms which employ informal workers for producing/extracting the goods or providing the services that they require. Such an outsourcing does not exclude the unfair competition that the corporation provokes by subcontracting firms that employ informal labor force."[3] The garment industry is an example of the recourse to informal work in sweatshops or by home workers, but not the only one. As a result, instead of improving working conditions, the impact of foreign direct investment ends up doing the opposite.

1. www.ilo.org/global/topics/employment-promotion/informal-economy/lang--en/index.htm

2. www.globalpolicy.org/global-taxes/52703-doing-business-report-strongly-flawed.html

3. Adim, Leila, "Tackling multinational corporations' abusive practices for promoting inclusive growth", paper to be published in May 2017 by the Progressive Lab for Sustainable Development in Brussels.

On the second anniversary of the Rana Plaza catastrophe, Sam Maher, the "Labour Behind the Label" campaign›s director of policy for workers› safety, wrote in The Guardian that "the assumptions underlying the belief that Bangladesh is just at an earlier stage of development (leaving aside the strongly colonial and racist undertones of the suggestion that Bangladesh is not as civilized as Europe) are wrong. Bangladesh is not a reminder of our past but a vision of our future.

"When our governments promote neoliberal, free market capitalism as the only game in town, they are aiming for a reorganization of society exactly like that being delivered in Bangladesh. This envisages an almost non-existent state whose role is largely limited to providing the security forces required to subdue a dissatisfied population. It also anticipates a total lack of any "barriers" to the rapid accumulation of profit – no taxes, no trade unions, no "red tape" of regulation."[4]

There is an ongoing academic and political debate in many countries, rich and poor, between those that argue, on the one side, that the rich should be taxed less, so that they have more money to invest and create jobs and that more jobs will be created if there is no minimum salary, no social security (or the existing one is reduced to a minimum) and workers negotiate with their employers individually instead of through unionization. The argument that this is not what workers want is dismissed as a defensive tactic of union bureaucracies or as a "kick the ladder" strategy by those who already have a formal job, but would not reflect the long term interest of a majority of unemployed or informal workers. The existence in some countries of "voluntary informality" with some highly qualified individuals opting out of formal jobs to earn more as informal entrepreneurs is an additional argument.

In fact the definition of "informal" is so wide that those cases do exist, but are a minority even among high income and high medium income countries. For the majority of developing countries, the reality is closer to that found in Côte d'Ivoire, where a study estimated that about twice as many urban workers want to work in formal employment than actually do, and that about three times as many urban workers are in the lower tier of informal employment than want to be.[5]

Further, the trickle down effects of cutting taxes to the rich are nowhere to be found. A recent study published by the IMF finds "an inverse relationship between the income share accruing to the rich (top 20 percent) and economic growth. If the income share of the top 20 percent increases by 1 percentage point, GDP growth is actually 0.08 percentage point lower in the following five years, suggesting that the benefits do not trickle down. Instead, a similar increase in the income share of the bottom 20 percent (the poor) is associated with 0.38 percentage point higher growth. This positive relationship between disposable income shares and higher growth continues to hold for the second and third quintiles (the middle class)."[6] In other words, the poor spend any extra dollar they receive and thus stimulate the economy, while the rich might save that extra dollar in offshore banks, without any domestic benefit and subtracting it from the national economy.

With the new wave of digital technologies, policy debates in many countries focus on the destruction of traditional jobs, associated with a formalized long term contract between worker and employer and its substitution for a multiplicity of micro-contracts. Instead of taxi drivers we have Uber drivers who work whenever they want, as much as they want, without paying any fees to enter the market, which undermines the traditional, formalized taxi business. Hotels suffer competition from individuals renting free rooms in their homes via Airbnb.

Mark Graham, a researcher at the University of Oxford, has studied "online labor markets (that allow) to outsource work directly to any corner of the planet. Millions of new jobs are thus available for workers in some of the poorest parts of the planet. But the fact that we now have millions of people around the world all competing for the same jobs threatens to undermine a range of working standards." [7]

Hundreds of thousands, if not millions, of workers in developing countries are turning to online work marketplaces do to tasks such as virtual assistance, translations, transcriptions, computer programming, graphic design, writing, and other such intellectual and digital forms of work. Since workers then try to outbid each other for contacts by offering a lower price or better service, "practices like paying minimum wages and living wages become less meaningful – when tasks can be commoditized and outsourced. The very existence of a broad base of people willing to work for subsistence-level wages can exert a gravitational downwards pull on any work towards them in a supply chain."

While populists around the world blame the downward trends on migrants and/or cheap imported products, the actual threat comes from high speed data communications that no wall can stop, combined with the commodification of work and the deregulation of corporations.
Paradoxically those same technologies can be a tool for the formalization of workers and the improvement of their social protection benefits. In Uruguay the employer of a domestic worker can register her over the Internet in ten minutes and get my mail in a week an invoice of the social security contributions to be paid at any supermarket. The worker is immediately entitled to health care, insured against accidents, and accumulates retirement benefits. Around the world, most domestic workers are women and a majority of them are informal migrants who lack any recognition of their rights. The combination of easy procedures and strong penalties for informal employers led to the formalization of around %60 of domestic workers and a reduction of informality of the work force from %35 in 2006 to %23 in 2016, the lowest in Latin America.
In India, between 2010 and 2016 one billion identity cards were issued (in a total population of 1.25 billion). Indonesia started its national ID program in 2012 and is expected to cover this year the total of its 250 million inhabitants. ID cards are essential to protect the human right to an identity, without which no citizenship is possible. They also make it easier for work to be formalized and social services and welfare benefits to be provided. There is also potential for misuse by a controlling state and threats to privacy associated with large databases containing personal information and biometric data.

In Kenya the process of getting an ID card is still complicated but the number every Kenyan has is that of her or his mobile phone. Mobile penetration reached %89 in 2016 and keeps growing, with phones widely used for commercial transactions instead of cash.

4. www.theguardian.com/global-development/2015/apr/23/rana-plaza-bangladesh-factory-tragedy-little-changed

5. Günther, Isabel; Launov, Andrey. 2006. Competitive and segmented informal labor markets. IZA Discussion Paper No. 2349. Bonn, Institute for the Study of Labor (IZA).

6. INTERNATIONAL MONETARY FUND, "Causes and Consequences of Income Inequality: A Global Perspective", prepared by Era Dabla-Norris, Kalpana Kochhar, Frantisek Ricka, Nujin Suphaphiphat, and Evridiki Tsounta, June 2015

7. GRAHAM, Mark and Alex Wood, "Why the digital gig economy needs co-ops and unions" OpenDemocracyUK, 15 September 2016