

# INFORMALIZATION AND POLITICAL ECONOMY OF RESTRUCTURING



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**ABSTRACT:** This article has two main aims. The first is to problematize the dominant view of the informal economy as a sort of separate economy, related primarily to (immigrant) small business and distinct from the so-called formal economy, which for the most part encompasses big companies as well as state economic activities. In contrast, the present article assumes that all economic actors are increasingly ready to adopt informal economic strategies to secure their economical survival. In line with this assumption, the second aim of the article is to contribute to our knowledge of the causes of, as well as the actors within, the current informalization trends that characterize Western economies. The article concludes that the informalization of contemporary advanced economies in general terms is a result of a structural conflict between new economic trends and old regulatory frameworks. These frameworks, with their focus on de-commodification, have become too restrictive for new forms of capital accumulation, with their focus on flexible adaptation, which include an increasing demand for the re-commodification of labour. The conflict emerges and intensifies, among other reasons, because of the radically different internal operational logics, agendas and priorities that characterize these two social processes.

**KEYWORDS:** informal economy, post-Fordist transformation, recommodification of labour.

**RESUMEN:** Este artículo tiene dos propósitos principales. El primero consiste en problematizar la visión dominante de la economía informal como una especie de economía por separado, relacionada principalmente con las pequeñas empresas (de inmigrante) y distinta de la llamada economía formal, misma que en su mayor parte engloba a las grandes compañías así como las actividades económicas del Estado. En contraste, este artículo asume que todos los actores económicos están cada vez más preparados para adoptar estrategias económicas informales para asegurar su sobrevivencia económica. En congruencia con esta suposición, el segundo propósito de este artículo es contribuir al conocimiento de las causas, así como de los actores participantes, en las actuales tendencias hacia la informalización que caracterizan las economías occidentales. El artículo concluye que la informalización de las economías avanzadas contemporáneas, en términos generales, es consecuencia de un conflicto estructural entre las nuevas tendencias económicas y los viejos marcos regulatorios. Estos marcos, con su énfasis en la des-mercantilización, se han tornado demasiado restrictivos para las nuevas formas de acumulación de capital, con su concentración en la adaptación flexible, la que incluye una creciente demanda a favor de la re-mercantilización de la fuerza de trabajo. El conflicto surge y se intensifica, entre otras razones, por las lógicas operativas internas, las agendas y prioridades radicalmente diferentes que caracterizan a estos dos procesos sociales.

**PALABRAS CLAVE:** economía informal, transformación post-fordista, re-mercantilización de la fuerza de trabajo

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## INTRODUCTION

The following quotation is illustrative of a number of issues that will be discussed in this article:

IP: ... One day I was approached by one of those «big bosses» (a good reputation used to spread quickly at that place, you know). He said: «Enes,<sup>1</sup> you are in great demand here, how many men do you have?» My answer was «ten», though I had only one. What could I do? I was forced to lie a little, just to get the job! So it was the first piece of business that I had managed to settle, and I got a fixed total of 300 000 crowns for it. We were supposed to be demolishing some asbestos wall. And I sold it right away to my buddy Ivan.

ZS: Wait a little. Isn't it dangerous to work with asbestos?

IP: Of course it is dangerous! And I had neither the equipment nor the training to deal with it. You need to have special training to be able to deal with it. But I knew a guy who had a licence to deal with asbestos, and I sold it to him. And that person did the job and was paid by me. But in this particular case, I first called a Swedish company that specialized in this kind of business. I said that I was a customer who was wondering about the price for a demolition of approximately the same scale –all this in order to ferret out how high a price I could ask for. This was very important, since if you are not able to ask for the right price in this business, it is all up with you. So I asked for 85 crowns per square meter plus container costs. I wanted to charge a slightly lower price than the Swedish company. And I got the job. Then I sold it right away to Ivan for 40 crowns, and he sold it on to a certain Bulgarian for 20 crowns. That guy had just established his business and even had a licence to deal with asbestos. So it was good deal for all of us. I cheated Ivan and he cheated the Bulgarian. The Bulgarian in his turn was not worried about anything. He just kept on digging, without a protection mask, without anything, you know... And I made a lot of money out of that business. There was plenty of work in those days ...

The first small detail that attracted my attention in this quotation was the fact that some «big boss» himself made contact with Enes, a small businessman of immigrant background, and, moreover, an absolute beginner in this line of business—he even lacked the essential qualifications for his occupation. This contradicts our everyday experience of immigrants' situation in the labour market as well as in working life in general. We have become used to how job applicants with accents or «strange» names are rarely invited to interviews, let alone get the chance to personally present their credentials to someone in authority. Some-time later, another informant told me a story that threw new light on the matter. He said that nowadays there are more and more jobs, or parts of jobs, within the construction industry that larger companies do not want to do at all. It is most-

<sup>1</sup> Names as well as ethnic affiliations in this quotation are fictitious in order to protect informants' anonymity.



ly seasonal work, such as facing, or related to special, more demanding requirements, such as asbestos renovation, or demolition. Since such work is often associated with problems of effectiveness or with the high cost of safety equipment and/or training, most larger companies treat it as unprofitable. Instead they subcontract it to some of the smaller players who specialize in just these kinds of job. But the big problem, according to my informant, is that this cooperation always takes place under conditions imposed by the bigger and more powerful companies.

This story contains some important points for the argument in this article. First, the fact that big companies do not perform certain types of work suggests that small companies' involvement in such work is not limited to isolated cases but is a more general practice and thus among the orderly and systematic strategies of big business. Furthermore, this means that big companies, regularly classified as part of the so-called formal economy, are evidently deeply involved in the *informal outsourcing chain* described above. In sum, this short story challenges a common feature of academic renderings of informal labour, which usually bypass this first link of the chain, namely, big companies, and focus exclusively on relationships such as that between Enes and his «buddy» Ivan, or between them and the «poor» Bulgarian, who «just keeps on working», with his own health as his means of competing.

The aim of this paper is to critically re-examine this actual concept of informal economy, and to highlight the permeability of the borderline between formal economy and informal economy. Informalization of so-called advanced economies is, according to the argument developed here, closely related to the wider processes of ongoing post-Fordist restructuring of Western economies on the one hand and to the parallel process of the recomposition of Western welfare states on the other.

Two notions of informalization are proposed: informalization from above and informalization from below. Informalization from above includes corporate strategies of downsizing, outsourcing and subcontracting, as well as the coping strategies of the welfare state, both of which contain dynamic forces of *informalization* in economies and labour markets. Informalization from below is constituted by a range of marginalized actors (low-income earners, small-business owners active in work-intensive and highly competitive markets, immigrants and irregular migrants), who share a common condition manifested in the lack of legal status and protection, extreme vulnerability and a dependence on informal engagements that generate their own idiosyncratic «political economy». As these actors develop strategies beyond the reach of formal regulatory frameworks in order to cope with their vulnerable situation, they contribute to a reproduction of irregularity resulting in growing informalization.

An important methodological point needs to be made in this context. While the article discusses the general background of the informalization trends that



increasingly characterize contemporary Western economies, it does not amount to a concrete empirical case, even though all countries manifest, to varying degrees, all the trends discussed below.

In what follows, the history of the concept of informal economy is first discussed, followed by short account of general transformation trends in the capitalistic economies as well as in the capitalistic (welfare) states. Third, the issue of how these general transformation trends influence the mutual relationships between the three central economic and political actors—capital, labour and state—is examined. Finally, the way in which all these interrelations may contribute to the processes of ongoing informalization is made explicit.

### CONCEPTUALIZING THE INFORMAL ECONOMY

The original concept of informal economy was developed within the International Labour Organisation (ILO) in the beginning of 1970s (Bangasser, 2000), and was associated exclusively with analyses of economic and social processes in Third World countries (Portes, 1994). This research field has continued to develop mostly within the ILO, or with ILO sponsorship, to the present day. During the 1980s, however, the concept of the informal economy, re-defined as all income-earning activities that are «... *unregulated by the institutions of society, in a legal and social environment in which similar activities are regulated*» (Portes *et al.*, 1989:12), was brought into play to explain social and economic processes in First World countries. And since the mid-1990s a growing literature has emerged dealing with the process of informalization in so-called transition or post-Communist economies.<sup>2</sup>

With regard to the informalization of advanced economies, despite scepticism on the part of some scholars (Samers, 2004; 2005), there is a growing consensus that the informal economy in developed countries has been expanding since the late 1980s (Portes *et al.* 1989; Schneider and Enste, 2000; Williams and Windebank, 2001). This expansion, however, has from the beginning usually been associated with increased immigration from Third World countries. Such a view of informalization characterises US literature, both of older variety (Portes and Sassen-Koob, 1987; Light and Karageorgis, 1994; Portes, 1995; Sassen, 1996; 1998), and more recent contributions (I. Light, 2004; 2006), as well as much of the European literature (Kloosterman *et al.*, 1998; Freeman and Ögelman, 2000).

The assumed direct causal association between immigration and informalization, has been criticized by scholars on both sides of the Atlantic (Portes *et al.*, 1989; Sassen, 1997; 1998; Reyneri, 1998; Wilpert, 1998, Williams and Windebank, 1998; Kloosterman *et al.*, 1999; Samers, 2003; 2004; 2005; Jones and Ram, 2006), with

<sup>2</sup> For Hungary, see Czákó and Sik (1999); for Romania see Neef (2002); more recently, for Latvia see Woolfson (2006); Lithuania, Woolfson (2007); Slovakia and Poland, Smith *et al.* (2008). For a general account see Smith and Stenning (2006).



the argument that the informalization of First World economies is not generated by immigrants and their culture, but rather by the structural changes taking place in these economies.

This debate includes a controversy about the so-called «marginality thesis», which asserts that the informal economy is in principle a marginal economic phenomenon, employing in the first place the most marginalized social groups, like migrants, the unemployed, and the poor. According to Williams and Windebank (1998; 2005), this thesis is simply a myth, since those individuals and groups who are marginalized within the formal economy tend to be equally marginalized within the informal economy, and those individuals and groups who are privileged within the formal economy tend to be also privileged within the informal economy.

A quite different perspective on the informal economy has been developed as a result of an academic debate on the embeddedness of and motivation for informal work. Indeed, a widespread and taken-for-granted thesis within the research on informal economy holds that the individuals and groups involved in the informal economy are driven primarily by rational self-interest to pursue monetary gain. More recent research, however, shows how people engage in informal economic activities not only for monetary gain, but also for moral reasons of mutual aid, involving «active citizenship» and «community building» dimensions (Williams and Windebank, 2005; Williams, 2005). This implies, of course, a need for a new policy initiative that would move beyond traditional deterrence measures and embrace a new regulatory framework to transform informal work into formal employment (Renooy, 2007).

This article, however, will deal mostly with yet another ambivalence within the field, associated with the place that the informal economy occupies within the economic system, as well as its relation with the so-called formal economy. In this respect there is a strong tendency within the research community, first, to define the informal economy as a negation of the formal economy (Harding & Jenkins, 1989) and, second, to overlook the unity of the economic system, dealing instead with sub-economic models (Leonard, 1998). Despite the growing body of literature arguing that the relationship between the formal economy and the informal economy is much more complex (Benería, 2001; D.W. Light, 2004; Schierup *et al.*, 2006; Ram *et al.*, 2007; Slavnic, 2008; Slavnic and Urban, 2008, Williams and Round, 2009), this tendency towards *reification*, as Harding & Jenkins (1989: 137) put it, or over-emphasizing the formal nature of modern bureaucratized societies is a distinctive feature of the dominant political, media, and even scientific discourses in the field.

Contrary to these simplifications, this study argues that economic actors cannot be strictly divided between the formal economy and the informal economy. In fact, it may be argued that all economic actors without exception have in certain situations a propensity to engage in informal economic activities. These situations may be caused by, for example, economic crises and/or survival strate-



gies within extremely competitive markets. In such circumstances, when *winning the game becomes more important than winning under the rules of the game*, to paraphrase Robert Merton (1938/49), engaging in the informal economy is a kind of adjustment or survival strategy for those economic actors who otherwise would not be able to survive.

The second important aim of this article is to discuss the causes of, as well as actors in, current informalization trends. The argument developed in this paper is that economic informalization is a general, (un)intended consequence of deep economic, political, and social changes which are often, in the academic literature, referred to as «post-Fordist transformations». Before the discussion on this issue proceeds something needs to be said about the historical process of post-Fordist transformation.

#### POST-FORDIST TRANSFORMATION

Representatives of the regulatory school (see for example Aglietta, 1979; Lipietz, 1987; Boyer, 1990) use two key concepts to describe and explain historical socio-economic processes within capitalism in 20th century. These are «regime of accumulation», which refers to the set of regularities that enable a relatively stable process of capital accumulation (Boyer, 1990: 35), and «mode of regulation», which refers to sets of rules, norms, institutions and social practices that make possible, support and sustain the prevailing regime of accumulation (Boyer, 1990: 43).

The dominant regime of accumulation in the West during the period after World War II until the 1970s was Fordism, which was characterized by mass production and mass consumption, hierarchically organized production of standardized consumer goods for sale within protected domestic markets. This regime of accumulation was secured by a mode of regulation that was made possible by the national (welfare) state. The role of the welfare state in this context was, on the one hand, to provide the basic conditions for capital accumulation and, on the other hand, to secure a class compromise by promoting collective bargaining, mass consumption and welfare rights for all citizens. By virtue of these welfare rights, citizens' well-being was less and less dependent on the direct market value of their labour, a process which was named «decommodification» by Gösta Esping-Andersen (1990).

During the 1970s and 1980s this model of the welfare state experienced a deep crisis. The crisis, as well as various strategies that different countries developed in response to it, were certainly functionally related to those transformations that were going on at the same time within the capitalist economy (post-Fordist transformation). At the same time these processes were influenced and determined by class conflict, which was present at all times in these contexts and which to varying degrees affected the strategies of all relevant actors. This complex internal dynamic between political and economic processes of course





varied from country to country, depending partly on different historical backgrounds and partly on the operative ability of the relevant contemporary national actors to find adequate solutions to their problems. One important consequence of this is that it is quite difficult to outline any sort of general transformation model. Nevertheless, a number of common features may be identified. According to Jessop (1997; 1999; 2002), instead of full employment, the new state tries to promote permanent innovation and flexibility within relatively open economies; social policy has been increasingly subordinated to economic policy; the national framework for economic and social policy is gradually losing its importance, while other spatial frameworks are becoming more important: and finally, the state's role as coordinator and guarantor of both economic growth and social cohesion is being gradually downgraded. As a result, the state has been increasingly abandoning its traditional role as «decommodifying agent», and replacing it with the role of the «commodifying agent» (Cerny, 1999). At the same time the old (welfare) values of equality, security and collective emancipation have increasingly been replaced by values of individualism, natural inequality and performance in the market (Hirsch, 1991).

Despite all these trends, however, it is not yet possible to talk about new regulatory solutions for the post-Fordist regime of accumulation. «*The crisis continues*», claim Esser and Hirsch (1994: 76). Indeed, while the old *grand compromise* is losing its economic and social preconditions, no new compromise is yet in view (Hirsch, 1991; Lipietz, 1992).

This is the point where informal economy and post-Fordist transformation meet, both as concepts and as historical-economic processes. According to the argument developed here, the actual process of economic informalization is a general result of structural conflict between old (welfare) modes of regulation and new (neoliberal) regimes of accumulation. Essentially, the old regulatory frameworks have become too restrictive for new forms of capital accumulation to be able to expand without disruption. This has the consequence that all relevant actors develop their own coping strategies, increasing numbers of which, in one way or another, move outside the existing regulatory framework that defines the difference between formal and informal economic activities.

After this summary of the general transformation trends within contemporary capitalism, as they are related to the process of economic informalization, the following sections examine the coping strategies of all relevant economic actors in this context.

#### INFORMALIZATION FROM ABOVE –ACCOMMODATION OF CAPITAL

One of the cornerstones of the compromises described earlier between corporate capital and organized labour, which historically have brought about both politi-



cal and economic stability in modern (welfare) states, was the regulation of mutual relationships between employers and employees in capitalistic firms. Within the Fordist model, with its focus on standardizing, mass production, routinized production processes, and vertical, hierarchic organization, it was of decisive importance for enterprises to secure stable and predictable access to qualified manpower. That became possible through the *internal labour market*,<sup>3</sup> whose purpose was to regulate all issues concerning employment, dismissal, working hours, working environment, work processes, as well as compensation for work, overtime, unemployment, absence due to illness, holidays, and so on. It was the way for both employers and employees to reduce the uncertainties that are an inevitable part of the market economy (Stark, 1986).

For employers it was important to keep qualified employees, since workers' productivity was a result of on-the-job-training, internal specialization, and so forth, mostly paid for by the employers. Hence, they were interested in having the relationship with workers regulated. For workers the concern was with the risk of losing their jobs. So they were interested in a regulated relationship, especially with regard to employment, dismissal, and compensation during unemployment (Stark, 1986).

As a result of these common interests, the relationships between employers and employees became vastly bureaucratized, that is, regulated in detail. However, these bureaucratic regulations were created not only with the help of instrumental rationality, or, as David Stark (1989:494) put it, with the help of numerical calculation, which takes into consideration increases in productivity and the cost of living, existing wage rates, and so on. To the contrary, they were often the result of long and exhausting negotiations as well as political compromises. This feature of the internal labour market is, in my opinion, central to understanding the nature of the conflict between «old modes of regulation» and «new regime of accumulation». At first, the big capitalist enterprises accepted this internal regulation, which was partly politically negotiated, because they believed that it was good for business in long run. But when the internal regulation no longer suited the perceived needs of production, the problem businesses faced was that political compromises of that kind were always resistant to change, especially when change needed to be done quickly. This is the essence of the crisis in the relationship between capital and labour that has been deepening since the 1980s.

In order to describe existing transformation trends, I will present some empirical evidence of a selection of strategies that big enterprises tend to develop in order to manage this situation, that is, strategies whereby big companies in one way or another try to avoid standard employment regulations developed within the Fordist era and materialized in labour law. In this law the standard employment contract is generally a contract of permanent, full-time employment with

<sup>3</sup> The concept of the internal labour market was introduced by Clark Kerr (1954) and further developed by Doeringer and Piore (1971).





the purpose of contributing a single economic activity under the supervision of only one employer (Supiot 2001; Frade and Darmon, 2005). This kind of employment relation has been seriously undermined by two simultaneous and mutually related trends towards new forms of employment relations on the one hand and new modes of business organization on the other hand.

### THE CHANGING NATURE OF EMPLOYMENT RELATIONS

Traditional Fordist employment relations have been increasingly diluted by new forms of employment arrangement. According to Supiot (2001), several important trends may be associated with these changes. First, there is a clear trend towards a diversity of contracts covering paid work. Alongside the standard employment contract, a growing share of employees work is in part-time employment, project employment, and other kinds of temporary and precarious employment forms. What is important here is not only that in these forms of employment the power relationships between employers and employees are more asymmetric and favour the employers, but also that they rarely meet formal normative standards for protecting employees from insecurity and hazardous work conditions (Frade and Darmon, 2005).

Second, self-employment is growing at the expense of waged employment (Supiot, 2001). This is often related to the falling value of labour, since the real reason big companies extensively use self-employed workers is to exclude these workers from the protection guaranteed by labour law (Ibid.). This argument is strongly supported by an increasing body of academic literature on the relationship between growing self-employment on the one hand and the re-commodification of labour on the other.<sup>4</sup>

The third relevant trend is the dilution of the principle of subordination that defines the employment contract (Supiot, 2001). According to this principle, the worker selling his/her labour to the employer is certainly expected to accept a subordinate position within the employment relationship but is definitely not supposed to take responsibility for any entrepreneurial risk. However, in reality entrepreneurial risk is increasingly being transferred even to employees (Supiot, 2001; see also Morin, 2005). These new working arrangements give workers more so-called on-the-job autonomy, which certainly allows them more freedom as well as the opportunity to use their own initiative in the work process; but control does not disappear, it just becomes internalized. At the same time more and more employees experience working conditions that are not essentially different from those of self-employed entrepreneurs (Supiot, 2001).

The fourth and final relevant trend is so-called outsourcing, that is, the transfer of parts of the production process to subcontracted small or medium-size

<sup>4</sup> For an overview of such literature in Sweden see Slavnic (2004).



businesses (Supiot, 2001). The outsourcing behaviour of big industrial firms has expanding continuously since the 1980s (Cooke *et al.*, 2005). The same is true of so-called in-sourcing, when the service of the sub-contracted companies is reduced to mere labour supply for big companies (Purcell and Purcell, 1998). One consequence of this has been an enormous growth in the flexibility in big businesses. Another consequence has been an equally enormous lowering of the value of labour in these small firms, which is directly related to what we call «the informal economy».

#### THE CHANGING NATURE OF BUSINESS ORGANIZATION

Standard employment relationships have been blurred in recent decades not only by new forms of employment but also by new modes of business organization. These new organizational forms (cross-organizational networking, partnerships, alliances, use of external agencies, multi-employer sites) not only result in changes in the everyday employer/employee relationship but also affect the labour law regulating these relationships (Rubery *et al.*, 2002). The issue here is that actual labour law, which is based on traditional employment relations between employees and only one employer, becomes increasingly inadequate for actual developments, characterized by so-called multi-employer relationships, as discussed in the previous. Some ambiguities in such multi-employer relations are connected to, *inter alia*, supervision and control, discipline, loyalty, and responsibility for health and safety (Rubery *et al.*, 2002); and the more ambiguous these issues become, the stronger is the tendency to impose informal solutions.

Other factors that may contribute to the deterioration of workers' positions in employment relationships include transfer of undertakings or changed ownership of firms, phenomena that doubled in number every third year in the EU during the 1980s (Cooke *et al.*, 2004). Current research shows that when firms change owners, relations between employees and new owners change (usually for the worse) despite unchanged formal contractual terms and conditions (Cooke *et al.*, 2004).

However, perhaps the most convincing report on the relationship between changes in business organization on the one hand, and growing precarious employment on the other hand, is a paper written by Frade and Darmon (2005) with reference to the situation in Spain. Analysing the case of the Spanish call-centre sector, they show how big companies strategically change their organizational forms in order to evade and downgrade existing labour regulations. Normally temporary employment contracts are considered by labour law as exceptions to the standard contracts, which means that they are supposed to be used only exceptionally and need to be justified under the law. To avoid establishing a direct employer–employee relationship with its employees, one of Spain's largest call-



centre companies arranged it indirectly, via a commercial contract with another company, a supplier whose main task was to provide labour to its client, i.e. our big company. The point here is that the supplier justifies temporary employment contracts with its employees by reference to the temporary nature of its commercial contracts with the client. The result was that all 1,796 workers in the call-centre in Barcelona in 2001 were temporary employees, even though the big company's business was carried out on a regular basis, as usual. The exception became the rule, and labour law proved to be ineffective. Big business won more flexibility by transferring insecurity and risk to its employees.

In sum, it appears that big enterprises, in situations where they no longer need the old, highly regulated employer-employee relationship but at the same time are unable to change the existing regulatory framework, simply shift the focus from those old, «over-regulated» regulatory frameworks to new fields, where employer-employee relationships are either less regulated or regulated in a way that is more acceptable to employers. These strategies are all about trying to evade existing regulations for the purpose of re-commodifying labour. In the process these strategies become nothing but informal economic strategies.

#### INFORMALIZATION FROM ABOVE-ACCOMMODATION OF THE STATE

The role of the welfare state, with its focus on the mediation of class conflict, becomes extremely difficult when companies actively seek to evade the traditional regulatory form of the labour market. On the one hand the welfare state is under the constant pressure from both global economic processes and domestic big business, which impose the need to retrench and rationalize traditional welfare programmes. On the other hand it is also under political pressure from the voters, who are permanently committed to the basic principles of welfare ideology and who do not want the above-mentioned changes. This led some scholars (see for instance Pierson, 2001, the most influential representative of so-called «retrenchment research») to conclude that, although welfare states are forced to restructure some of their welfare programmes, as well as to downsize and reduce their cost, the general welfare principles that have framed the social politics of the welfare state since World War II remain stable and intact.

Some scholars, however, view the problem more critically (Peck, 2001; Jessop, 2002; Gray, 2004) suggesting that the changes in the welfare state go beyond the ordinary retrenchment and as a consequence radically depart from the fundamental principles of traditional welfare ideology. Thus the coping strategies of the state, according to Jessop (2002), in reality result in one concession after another to big business; instead of full employment, the focus is increasingly on the importance of competitiveness; instead of guaranteed welfare rights, the focus is on so-called «workfare», meaning that those in need must earn, in one



way or another, their welfare rights. Flexibility has become the central notion in this context. But instead of fulfilling human resources' demands for more flexible organization, actual trends indicate the fulfilment of the big business demands for more flexible human resources. Paraphrasing Paul Sparrow (1998), we may say that «human resources» both discursively and really tend to be transformed into «resourceful humans».

In sum, there is a clear tendency towards so-called «flexploitation» (Gray, 1998, 2004), which includes different *anti-worker aspects* of the labour market that aim partly to reduce the labour rights of those who are employed, and partly to increase the demands on those who are looking for work. In other words, the state has been increasingly abandoning its traditional role as «decommodifying agent» and replacing it with the role of the «commodifying agent» (Cerny, 1999). This does not imply the retreat of the state but rather an operation whereby the welfare state intervenes in a way that is in harmony with the interests of the market. Chris Holden (2003), referring to Claus Offe (1984), describes such policy strategies as «administrative recommodification». At the same time a general political consensus has been established which identifies international competitiveness as the most important criterion for policy success. In turn, this definitively transforms the welfare state into a «competition state» (Cerny, 1999). Furthermore, empirical studies provide evidence of ongoing re-commodification processes in contemporary welfare states both within and outside the work arena (Siegel, 2004; Papadopoulos, 2005).

But what has this to do with the processes of informalization discussed in this article? It is that among actual the transformation processes that affect the contemporary welfare state are such strategies, employed by the states themselves, which simultaneously express a continued commitment to traditional welfare ideology yet continue and employ policy measures and social programmes that are in fundamental conflict with this ideology. This is discussed in more detail by Jacob S. Hacker (2004), who argues that the main problem with «retrenchment research» is that it focuses mainly on formal, observable changes of policy while completely overlooking all those informal and hidden means that may be employed in the process of policy change. Three examples of such hidden forms of retrenchment are *drift*, *conversion* and *layering* (Hacker, 2004: 246-248).

«Drift» is the situation in which actual policies remain intact while in reality becoming increasingly ineffective and inadequate, since in the course of time the social reality they bear upon has significantly changed. The increasing gap between old policies on the one hand and new social realities on the other hand results in yet another consequence, namely, that a growing number of social and economic processes occur out of the range of actual policies as well as actual regulatory frameworks.

«Conversion»<sup>5</sup> in its turn denotes the situation in which actual institutions and/or large-scale policies become redirected towards new ends, although with-

<sup>5</sup> Here Hacker refers to Kathleen Thelen (2003).



out formal policy revision, based on regular political procedures. Politicians, according to Hacker (2004: 246) rationally inquire whether they are able to achieve their real political ends within existing institutions and/or regulatory frameworks, or whether that is possible only outside these frameworks. If they conclude that it is possible only outside existing frameworks, then they rationally calculate the political price of changing these frameworks. If the price is too high, they try to achieve their aims within the existing institutions by changing policy internally, without formal revision.

A third strategy that leads to real policy change, but without formal revision, is «layering»,<sup>6</sup> which is related to establishing new institutions but without abolishing the old ones. The point is that the new institutions take over the role of the old ones.

In sum, even if actual social policies have not been changed radically since the 1980s, due to the more extensive deployment of the above-mentioned hidden means, these policies have been, first, increasingly inadequate in the new circumstances (drift), second, more and more redirected in relation to their initial goals (conversion), and third, threatened by new, parallel policies that have been established without abandoning the old ones (layering). The result of this has been an obvious erosion of social protection, even if the fundamental principles of the old social politics have not been radically changed (Hacker, 2004: 256).

This discussion focuses primarily on social policies that are embedded in an American context; nonetheless, it can be argued that similar strategies can quite easily be found in other political and policy spheres, as well as in other kinds of welfare state. Moreover, I would argue that the spectrum of informal strategies employed by different economic and political agents is much wider than that presented by Hacker. Nevertheless, Hacker's position is important for the purpose of this article as it draws attention to the two faces of the restructuring processes that contemporary welfare states are undergoing: the formal (observable) and the informal (characterized by invisible, hidden institutional as well as individual strategies).

#### INFORMALIZATION FROM BELOW

In the preceding two sections I have shown how two main social actors –big business and the state– strive to survive under conditions of post-Fordist transformation. In this struggle they often employ methods that are in one way or another in conflict not only with previous rules of the game and day-to-day political and economical praxis, but also with previously dominant political ideologies and ethical norms. In what follows I recapitulate the economical, political,

<sup>6</sup> Here Hacker refers to Eric Schickler (2001).



and social aspects of post-Fordist restructuring discussed above, but with a focus on the effects that these processes have had on the individual and group strategies of ordinary people.

If we bear in mind that the formation and transformation of regulatory regimes always take place through class struggle (Lipietz, 1992; Jessop, 2002), that is, through conflicts of interests between social actors who occupy different positions within the social structure, then it is clear that new regulatory regimes will be more favourable to those groups and individuals that possess the most social power. Consequently, those who receive least protection of their (welfare) rights within the new model are the weakest groups and individuals in society, that is, low-income earners, poorly educated workers, small businesspeople active in work-intensive and highly competitive markets, as well as women, immigrants. Their participation in the informal economy has two important aspects. First, they may be victims of what I have in this article called «economic informalization from above», and, second, they increasingly become part of what I call «informalization from below». My recent research on the Swedish taxi sector (Slavnic, 2008, Slavnic & Urban, 2008) provides empirical evidence of these processes.

In previous sections of this paper, I have shown how the weakest groups and individuals, as victims of informalization from above, become both object and means of the flexibilization strategies of the two major social actors mentioned above, namely, big business and the state. There are at least three important consequences of these processes. First, these groups become increasingly part of what Lúç Wacquant (1996) calls «advanced marginality», that is, new forms of marginalization that characterize growing numbers of urban zones in almost all big Western cities and whose most important features are extreme poverty, ethnic and race segregation, and violence.

Second, they become an object of economic exploitation (Slavnic, 2008; Slavnic and Urban, 2008). Even if these marginalized social groups constitute a majority of those who are active within what is usually called the informal economy, it is not they who make the greatest profit from such economic activity (Williams & Windebank, 1998). On the contrary, those groups and individual that are more established within the economic system, that have more widespread and «denser» networks, that better know how regulatory system works, are more apt to take advantage of informal economic activities (Williams & Windebank, 1998; Kloosterman *et al.*, 1998; Portes *et al.*, 1989).

Finally, on a discursive level these groups become a stigmatized part of what Harding and Jenkins (1989) call the «myth of the hidden economy», that is to say, dominant practices which essentially characterize political, mass media and, not least, scientific discourses on the informal economy. These discursive practices, to paraphrase Zygmunt Bauman (2005), symbolically promote and reproduce the formal character of those so-called formal social actors, as well as their





economic activities, by maintaining the focus on the informal character of those who do not conform to the norm(al).

In the light of the living conditions (just described) of a growing number of groups and individuals, it becomes clear that their engagement in the informal economy is on the one hand a reaction to informalization from above, that is, marginalization, flexploitation, and stigmatization, and on the other hand the only way for the majority of them to survive. At the same time these strategies make their specific contribution to the reproduction of both dominant discourses about the informal economy and dominant social and economical (power) relationships.

### CONCLUDING COMMENTS

The intention of this article has been twofold. First, the article may be regarded as providing further support for the argument that the informal economy cannot be treated as a separate and isolated part of the economic system, something that is defined exclusively in negative terms in relation to the so-called formal economy. On the contrary, the formal economy and the informal economy should not be understood as mutually exclusive. As Harding and Jenkins (1989) point out, every social action, regardless of whether it is economic action or some other sort of social action, possesses to a certain extent both formality and informality. Informality exists in all sorts of social actions, although to varying degrees. Moreover, all economic actors are increasingly prone to act in ways that conflict with existing «rules of the game», in order to survive economically. In line with these methodological principles, I have tried here to treat all economic actors equally in respect of their propensity to become a part of the informal economy.

With this perspective in view, the second main aim of this article has been to describe the causes of, as well as the main actors in, the informalization trends that characterize contemporary advanced economies. Based on this, it has been argued that economic informalization is a general result of structural conflict between old modes of regulation and new regimes of accumulation, where the old (welfare) modes of regulation have become too restrictive for new (neoliberal) forms of capital accumulation to be able to expand without disruption. Supiot (2001) has provided one example of this. In a situation where old forms of employment, carefully and closely regulated, became an obstacle to the further growth of big capitalist enterprises, these enterprises simply created new employment forms, which either were less regulated or were regulated in a way that favoured the employer. What is happening here is that the focus is being shifted from old regulatory frameworks to new ones, where the relationships



between employees and employers become increasingly asymmetrical, at the expense of employees.

Under such circumstances, the role of the state becomes problematic. On the one hand its room for manoeuvre has turned out to be limited by its welfare commitments to the population. On the other hand the fulfilment of these commitments is completely dependent on continuous economic growth. The problem is, however, that big capitalist enterprises more frequently and more forcefully demand from the state measures that basically result in limiting or even abandoning of certain welfare commitments. To manage such a situation, the state more frequently employs strategies that either are themselves more or less informal in character or force other economic actors to adopt informal strategies more often than before.

The final issue discussed in this article was the role of those individual and group actors that have been most severely affected by the structural transformation of society, whose participation in the informal economy most often takes the form of acute exploitation (Sassen, 1997), as a result of informalization from above. These weak individuals and social groups thereby become a resource that other powerful social actors use, via informal methods, to acquire economic and/or political profit. At the same time they often deploy informal strategies themselves in order to survive in situations where all other social avenues are closed to them. The phenomenon has here been discussed as «informalization from below».

This political economy of exclusion, that is, processes of informalization in their interdependent relationships with exploitation, marginalization, and exclusion (Schierup *et al.*, 2006), differ from country to country, depending on the factual dynamics between, on the one hand, political economy and class conflict, as it take place at a national level, and, on the other hand, the conditions that these states of affairs encounter at the global level.

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