

The Informal Economy: Social Justice Through Cooperatives*

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Introduction

The informal economy is growing. Hernando de Soto (2000) points out that US\$132.9 billion of informal capital is owned by 65% of the population in the Philippines. This is “dead capital”, he explains, as it cannot produce more capital. Those in the informal sector operate outside the purview of law—they do not pay taxes and are often called “underground economy” or “black market.” Thus, property held informally cannot be mortgaged with a bank to get a loan. De Soto notes that the process within the formal system that breaks down assets into capital is unavailable to the poor; those who cannot get the fruits of their labor represented by the formal system live outside that system. He argues that redistributive combines—elite combinations that control the reins of government—redistribute wealth among themselves; government caters to special interests, not the general interest; laws favor the elite, and that legality or formality is a privilege of the few. He adds that the problem of the poor is access to the legal or formal mechanisms that could fix the economic potential of their

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assets to attain greater value in the market. Albeit, an important role carried out by the informal economy is that of being an “escape hatch,” according to de Soto. Michael Todaro uses the term “catch basin.” Those not absorbed by the formal sector go to the informal sector where they somehow eke out a living.

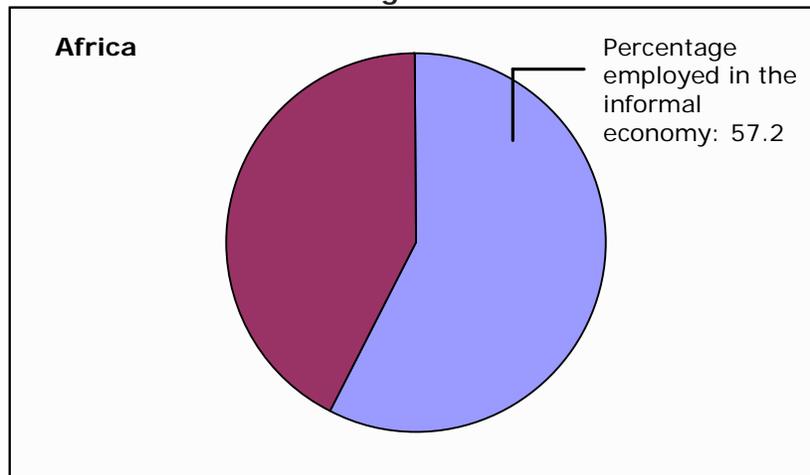
Is work in the informal sector “decent”? The aim of cooperative and labor laws is social justice. But if 65% of the population lives outside the formal system, is there social justice? De Soto suggests the formalization of the informal. The other alternative is to keep things as they are. How does one then formalize the informal? Does it refer to the creation of channels for participation? Would participation not lead to outcomes that reinforce the interests of the elite and the powerful? This study takes a closer look at cooperatives. Is formalization of the informal possible through cooperatives? Taiwan’s cooperatives are looked upon as a model. How have Philippine cooperatives fared compared to their counterparts in Taiwan? The study also aims to address the following issues: Would formation of and participation in cooperatives address the relative dependency and powerlessness of workers? Is there a need for reforms at the system level (e.g., law and supporting policies)? Or is there a need simply to build, strengthen and sustain capacities at the institutional (e.g., organizational goals and objectives, structures and processes, communication and information systems, performance measures, external linkages and financial, physical and human resources) and individual (e.g., knowledge, skills, attitude, work ethic) levels?

Literature Review

Sachs (2005) distinguishes between forms of poverty. Extreme poverty means that households cannot meet basic needs for survival—they perennially lack food, water, sanitation, health care, shelter, education, and clothing, among others. Extreme poverty is primarily found in the developing countries of Africa and Asia where crippling debts, recurrent wars, overwhelming diseases and devastating natural disasters have left millions suffering. He notes that lack of savings, absence of trade, technological reversal, natural resource decline, adverse productivity shock, and population growth could lead to a reduction of household income per capita. The poverty trap itself, physical geography, fiscal trap, governance failures, cultural barriers, geopolitics, lack of innovation, and the demographic trap are among the reasons why at the macro-level countries fail to achieve economic growth.

Based on his book, the Philippines achieved negative economic growth from 1980 to 2000, while China attained positive economic growth during the period. To Sachs, food productivity seems to be the most important determinant why some poor countries grew and others declined. He emphasizes, however, that the extreme poor lack six major kinds of capital: human capital, business capital, infrastructure, natural capital, public institutional capital and knowledge capital. Thus, private and public investments in these areas are crucial. Sachs predicts that world poverty would end if, as recommended by the United Nations, each nation in the First World donates (by way of foreign aid or official development assistance) 0.7% of its GNP or national income to the developing world. A timetable is suggested for ending extreme poverty, that is, by 2025; and by its midpoint in 2015, to achieve the Millennium Development Goals of: eradicating extreme poverty and hunger; achieving universal primary education; promoting gender equality and empowering women; reducing child mortality; improving maternal health; combating HIV/AIDS, malaria and other diseases; ensuring environmental sustainability; and developing a global partnership for development.

Figure 1



Employment in the urban informal economy is on the rise worldwide. In year 2000, the International Labour Office (ILO) reported that those employed in the informal economy made up 57.2% in Africa, and 36.2% in Latin America. Employment in the informal sector constituted 32.8% in Asia and the Pacific, and Europe 11.9% in Europe as shown in figures 1, 2, 3, and 4:

Figure 2

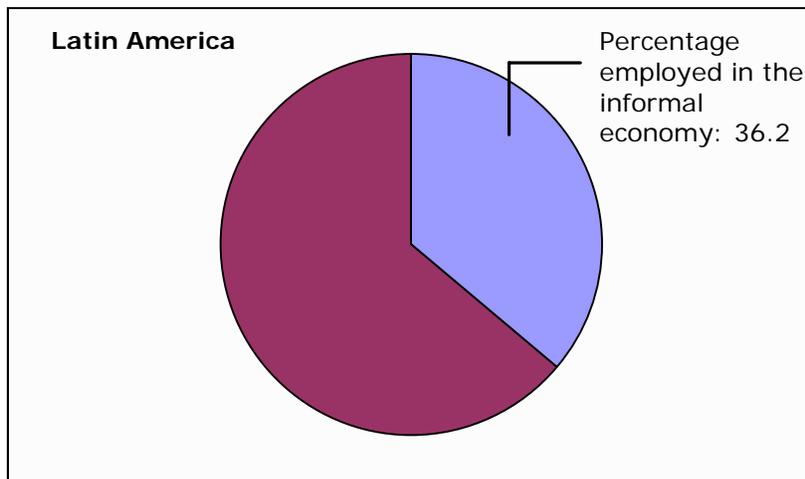


Figure 3

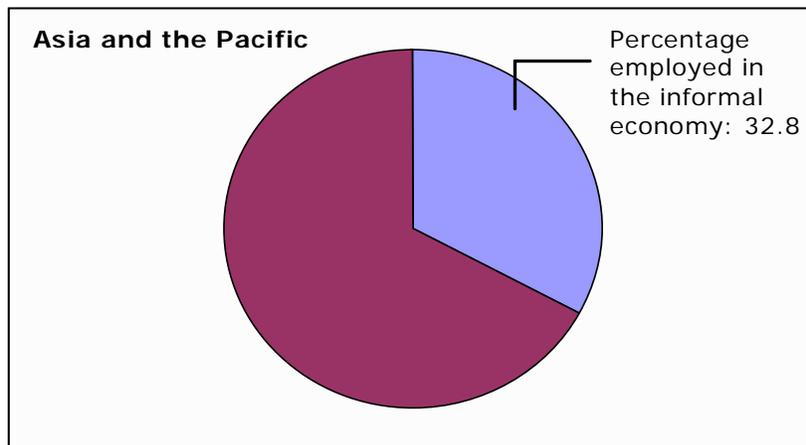
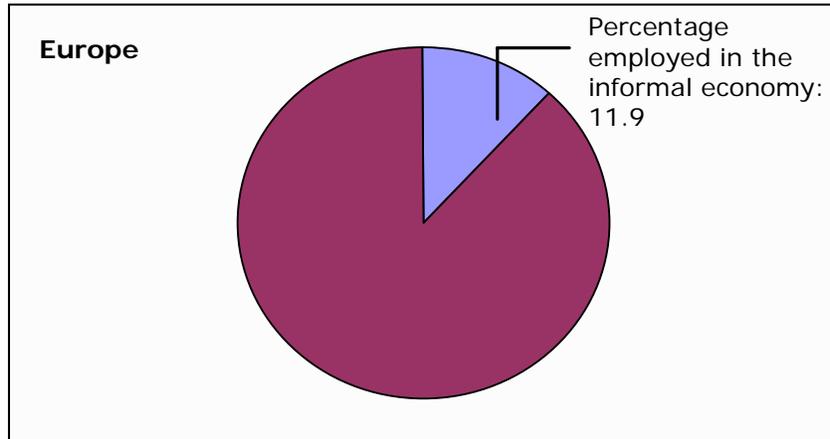


Figure 4



According to ILO, the notion of the informal economy includes small-scale income-generating activities outside the official regulatory framework that typically utilize a low level of capital, technology and skills, while providing low incomes and unstable employment, excluding “underground” activities that may be profitable but deliberately evade taxes and regulations. The 1993 International Conference of Labor Statisticians adopted a resolution defining the informal sector as consisting of household enterprises, which include own-account workers (without paid employees on a permanent basis) and employers of informal enterprises (employing one or more on a continuous basis).

In “The Mystery of Capital” (2000) de Soto points out that the key is to find out why that sector of society of the past—which he calls capitalist—should have lived as if in a bell jar, cut off from the rest. He asks why it was unable to expand and conquer the whole of society. He also wonders why a significant rate of capital formation was possible only in certain sectors and not in the whole market economy of the time. According to de Soto, the answer lies in restricted access to formal property, both in the West’s past and in the developing and former communist countries of today. He says that the formal property systems of the West produced six effects that allowed their citizens to generate capital, namely: (1) Fixing the economic potential of assets; (2) Integrating dispersed information into one system; (3) Making people accountable; (4) Making assets fungible; (5) Networking people;

and (6) Protecting transactions. But the process within the formal property system that breaks down assets into capital is extremely difficult to see. It lies hidden in pieces of legislation, statutes, regulations, and institutions that govern the system. For instance, de Soto cites that 728 bureaucratic steps are required by the municipality of Lima in Peru to obtain legal title to a home in a validated housing settlement. He notes that the great majority of people who cannot get the fruits of their labor represented by the formal property system live outside that system, that is, they live in the informal economy. What the poor lack is easy access to the property mechanisms that could legally fix the economic potential of their assets so they could be used to produce, secure, or guarantee greater value in the expanded market. That is why most people cannot participate in an expanded market. They do not have access to a legal property rights system where assets are widely transferable and fungible, and the owners are accountable. De Soto is of the view that representational systems, such as a legal property rights system, must be made simpler and more transparent to help people understand and gain access to them. Much behavior that is attributed to culture is not the result of people's ethnicity or idiosyncrasies but of their rational evaluation of the relative costs and benefits of participating in the legal property system which provides the exchange rates and economic commonalities by which business is done across cultures.

In "Participation: The New Tyranny?" (2001), however, questions are raised about participation and the need to diffuse power for equity reasons. Tyranny is about the unjust uses of power, and in the context of participatory development, three types of tyrannies are initially identified in the book: the tyranny of decision-making and control, the tyranny of the group, and the tyranny of method. As thus suggested, power relationships then are central to the discourse of participatory development. For instance, Hildyard et al. argued that the nature of participation to and the design of (development) programs have resulted in state and commercial interests extending their influence into villages and households or in more subtle forms of control. A project in the Philippines was even cited as merely instituting sophisticated mechanisms to manage women. To Taylor, participation is part of the effort to influence power relations between those who belong to the elite and those who are less powerful. He noted the relative dependency and powerlessness of employees within organizations. Taylor suggests that in the "world of work" participation is constrained for it hides and