

A non-formal look at the non-formal economy¹

Sean Mallin [University of Notre Dame, USA]

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Non-formal economic exchange is not a relic of the distant past nor is it a practice limited to the most underdeveloped and economically “backward” of modern times. It is ubiquitous, yet frequently overlooked; under various guises, non-formal economies exist today alongside and intermixed with formal markets, even in the most advanced capitalist countries. From the trading of snacks in an elementary school playground to the trafficking of people all around the world, the workings of non-formal economies are embedded in our daily lives, actively shaping everything from bank policies to foreign policies. The world we know floats atop a tumultuous ocean of non-formal economics. It’s about time economists—and the ordinary person on the street—take a look.

Every day, in the privacy of their homes people produce goods and services which are theoretically “non-economic”. Every year almost three *trillion* dollars is laundered worldwide—also “non-economic” (Lilley 2007, 32). The “non-economic” are consigned to the margins of analysis by the definitional poverty of mainstream economics; it is the “other” of economics, existing outside of the formal purview. Mainstream economic analysis shines its dissertational light on an exceedingly narrow and superficial field. But the distinctions erected by the mainstream discourse are purely conceptual and often don’t hold in reality; households depend on their informal activities such as non-wage labor to sustain their formal ones, and similarly, money launderers depend on formal banking institutions to transform their non-economic (i.e. illegal) activities into economic profits (Nordstrom 2007, 21). Non-formal economies do not operate independently of their formal counterparts, yet the idea of “co-existence” does not grasp the complex engagement and interplay between the two. The formal and non-formal face each other as dependants, each working with and through the other. In his analysis of modern black markets, R.T. Naylor finds that “what has emerged today is a set of interrelated, mutually supporting black markets (still usually thin and imperfect) within which there exists a mix of individual entrepreneurs along with ‘firms’ large and small, all engaged in essentially arms-length commercial exchanges. No longer isolated, these black markets are institutionally embedded in the legal economy” (Naylor 2005, 3). The mutually constituting realms of the formal and non-formal economies can no longer be clearly distinguished. Their boundaries overlap and obscure; economic reality is a messy one.

Despite this overlap, mainstream economists narrow their analytical focus to formal market exchanges. Economic indicators such as GDP only reflect the measured workings of the formal economy. Cobb et al. points out that GDP “looks only at the portion of reality that economists choose to acknowledge—the part involved in [legal] monetary transactions” (Cobb 1995, 60). The conscious omission of non-formal measures is often justified by economists in their claim that—at least in the more developed countries—the non-formal plays a negligible role in the larger reality of market economic exchanges.

¹ The difficulty in categorizing the different “types” of economies has translated into numerous, overlapping, and sometimes conflicting definitions of these boundaries. But, for the sake of some semblance of clarity, I propose “non-formal” to include: informal, illegal, extra-state – anything outside or opposite to “formal” and not measured in mainstream economic accounting (i.e. GDP). These definitions are by no means fixed through time or through space, so each must be interpreted within a specific context. In other words, what is illegal in one country may not be in another.

How substantial are these non-formal economies in their magnitude and influence on the formal economy? If the conventional wisdom is true and the non-formal has only a marginal role on the global economic stage, then it might be no foul play on the part of economists to overlook their impact. But if, as recent work by anthropologist Carolyn Nordstrom finds, 20%, 30%, or more than 50% of many national industrial economies are made up of transactions that occur outside of the recognized market, then this non-formal reality which has been largely ignored by mainstream economic analysis presents economists with a whole new set of problems and questions (Nordstrom 2004, 91-96).

The non-formal economy, long thought to be trivial in both substance and sway, now emerges as a critical force in the global economy. Economists have sought to explain the recent financial, housing and banking crises through a variety of formal viewpoints, but if we want real explanations, maybe we should ask real, non-formal questions: what is happening “behind the scenes?” What pressures do illegal, trillion-dollar financial flows put on the formal banking system? What is the effect of falsely hedging high-risk financial speculations? Who is watching, and, more importantly, who is looking the other way?

As the Société Générale or Bernard Madoff scandals show, non-formal activities can have substantial pecuniary effects on the formal economic scene. After the news broke about Société Générale, many analysts drew ties between the fraudulent trading and the current stock-market woes (BBC 2008). Jerome Kerviel, a mid-level trader, was able to illegally trade in tens of billions of dollars at one of the most well-respected (and presumably most well-secured) financial institutions in the world. Bernard Madoff, the former chairman of Nasdaq and current chairman of one of the largest investment securities firms in the world, was arrested in December of 2008 on charges of orchestrating a decades-long Ponzi scheme to the amount of \$50 billion (Henriques 2008). The waves set in motion by Madoff’s sinking hit financial institutions and charities formerly doted on by the now defunct Wall Street legend (Randall 2008). Madoff and Kerviel are just a few instances of such vice: Enron, WorldCom, and Xerox round out a list of examples of (uncovered) corporate corruption in our times. These scandals epitomize the graying line between illegal and legal market activities on a global scale—with global economic implications (Nordstrom 2007, 57-58).

Scholars such as Nordstrom and Naim have documented the rise of global crime and corruption in our contemporary world. Ranging from the disturbing (kidneys, nuclear weapons) to the more commonplace (cigarettes, lumber, intellectual property), the profits garnered in black market can dwarf the GDP’s of entire countries (Naim 2006, 157-174; Nordstrom 2007, xvii). However, it isn’t only the exotic, dangerous, or violent illegalities that should consume our worry. The everyday and altogether ordinary aspects of crime and corruption have risen to heights of power in business and government. The black market in pharmaceuticals deals in the hundreds of billions of dollars. Illegal markets in food, garbage, endangered animals, and art add billions more. In recent years, the global crime aspect of the non-formal economy “has not just soared in volume but, thanks to its ability to amass colossal profits, has become a powerful *political* force” (ibid., 13). Tyrants and traders, judges, generals, and executives now wield increasing amounts of power and influence. These actors and institutions are able to transcend the boundaries between the legal and illegal, but are only accountable in the former. Embedded in the formal economy, non-formal economies—unmeasured and unrecognized—are the real invisible hands of the market, leaving an indelible fingerprint on our everyday lives.

If informal and extra-legal markets not only exist, but have significant effects on formal markets, another question arises: why don't we see them? The popular media has brought light onto certain non-formal activities (drugs, arms, diamonds), but often downplays their breadth or romanticizes single individuals (drug dealers, arms dealers, Leonardo di Caprio), casting the non-formal into the realm of mere Hollywood fiction. Open up any introductory economics textbook and you will find little to no mention of informal gift-giving or the illegal global trade in body parts. Our non-formal blindness is a direct result of our formal education—in the most general sense of the word—through an obsolete worldview. Society today works under several conceptual dispositions:

1. Feeling local, acting global: Actions and interactions may appear to have geographic bounds but are actually tied up in a global web of interconnections. Economies and cultures are plugged into networks that span the globe. Take the production of a t-shirt: the cotton, grown in the southern United States, may travel to Latin America for dying, then to a Southeast Asian factory for assembly, then to store shelves in Europe or back in the United States (Rivoli 2005). Very few things these days are actually stay "local". What is needed is a new global awareness—one attuned to the ebb and flow of global interconnections.
2. State tunnel-vision: Our worldviews are highly state-centric. The past, present, and future are defined within the confines of a state-sanctioned world. But in the continually globalizing economy (both formal and non-formal), state borders, structures, and sovereignty are slowly losing force. Many of the current and contentious political debates, from trade policy to immigration, can be seen as symptomatic of a larger crisis of the declining sovereign state.
3. A preference for the quantitative over qualitative: The realms of the measurable and immeasurable are not mutually exclusive. There is a close relationship between what we can measure and what we can't. Emotions, history, and culture—each impossible to measure numerically—condition and are conditioned by the economic interactions that we quantify.
4. Static analysis: Learning often takes place by looking at frozen snap-shots of history, society, or the economy. History is taught in "periods," society is understood through "groups" or "states," and economics is understood through "equilibrium." Static analysis ignores the real "flow," or complexity, of social and economic processes—processes where the means are just as, if not more, important as the ends. Structures, commodities, people, and ideas are not fixed. They move, they interact, and they change, dissolving notions of stability and determinability. By ignoring "flow" reality is conceptualized devoid of the constant flux of place and meaning.
5. The legal/illegal dichotomy: The law is constantly entangled in both new and old moral paradigms and is confined to specific geographic boundaries; the law is not international or transhistorical. What is "illicit" in one country may not be in another and what is "illegal" at one time may not be at another. Similarly, punishments for specific crimes vary across times and regions. Laws regulating prostitution and drug use in the Netherlands are far removed from similar laws in the United States. This legal messiness extends throughout the global economy; from environmental standards to the production of pharmaceuticals, the "law" does not stand on equal grounds across countries and cultures (Naim 2006, 184-188).

These worldviews are, in many ways, reflective of Bourdieu's *habitus* (Bourdieu 1977, 22-30). As both methods of action and analysis, these dispositions act as the "structuring structures" that perpetuate existing structures. This circular relation beginning with interpretation (analysis) and ending in action reflect deeply internalized social expectations. The five conceptual dispositions listed above echo strategies adopted for action in and analysis of the economy. Unconscious and unreflective, the dispositions of *habitus* represent the overarching patterns of behavior which are expressed through all modes of perception and reasoning (Swartz 1997, 95). Strategies are incorporated by actors to practically engage the objective structures they face.

Bourdieu's idea of the "hysteresis effect," or structural lag, comes into play when the expectations embedded in *habitus* fall behind or come into tension with changes in objective social structures (Bourdieu 1977, 78-79). Naim notes the unexpected and radical changes in the global economic and political scene over the past two decades. Though the recent period of globalization has been the topic of scores of analysis, these have focused solely on its legal, formal, and market manifestations. Both Naim and Nordstrom charge that what has been unanimously overlooked, or *misrecognized*, is the non-formal and non-market forms of globalization that underlie everyday experience (Naim 2006, 12-18; Nordstrom 2007, xv-xxii). What is now occurring is a crisis in the conventional worldview. Relations of wealth and power are being uncovered that are inconsistent with the previous ways of seeing, thinking, and acting in the world. New strategies and methods of analysis, especially in the fields of the social sciences, are necessary to understand the changing features of contemporary life.

Paramount in mainstream economics but lingering in all forms of education, these five dispositions contribute to the continuing illusion of a static, state-centered, only-matters-if-we-can-measure-it world. We learn to group, categorize, and divide the world according to certain prescribed dualisms: local/global, state/non-state, quantitative/qualitative, stasis/flow, and legal/illegal. But in reality, these firm distinctions quickly fall apart. In her book, *Global Outlaws: Crime, Money, and Power in the Contemporary World*, Carolyn Nordstrom tells the story of Okidi, a boy of about nine, surviving in war-torn Angola by selling smuggled cigarettes. Tracing the connections from Okidi to the local smugglers and trade routes through which commodities—legal and illegal—flow to the transnational networks that make it all work, Nordstrom finds "a child selling foreign cigarettes on bomb-cratered roads far from the world's economic centers links into global extra-legal economies that reap trillions of dollars annually" (Nordstrom 2007, 7).

The framework of formal neoclassical analysis is ill-suited to study these uncertain meetings of the local and global, legal and illegal, mundane and monstrous, and interested and disinterested that makes up non-formal economies (Naim 2006, 15-20). Mainstream economics is not equipped with the tools to comprehend exchanges that are either extra-state or extra-legal (Naylor 2005). Neither can it grasp the transnational networks of trust, not contracts, which guide some of these exchanges. As Edward Fullbrook writes, "Theories, scientific and otherwise, do not represent the world as it is but rather by highlighting certain aspects of it while leaving others in the dark" (Fullbrook 2004, 1). In these shadows, the linkages power, crime, and corruption in our contemporary world are being overlooked.

In a sea of economic chaos, where do we cast the net? People give and take, buy and sell, share, hoard, and steal. Laws exist but are not always followed, borders are constructed but not always respected; a world of economic activity flows outside of our

textbook graphs and figures. While the global economy continues to expand, our definition of what is “economic” continues to taper. To being to answer the pressing questions of our time, a complete reframing of our traditional worldview needs to be effected. Most important in this reframing is the need for a new conception of economics—one not disposed to narrow worldviews and dated ideologies. A more inclusive definition of economics is in order, one that does not shed the “social” from its “science.” Edward Fullbrook notes that “in recent decades, this upside down ‘science’—this choosing what one sees in order to justify a theory and its ontology, rather than using theory to understand intransitive realities, became hegemonic” (Fullbrook 2001). Instead of grounding theory in reality, theory was constructed from (formal) fragments of reality.

Economics isn’t just supply and demand; it lingers in all social phenomena, and, above all, conveys the nexus of wealth, power, and ideology in our world. Naim warns us that “the lens through which we interpret world politics and economics need to be adjusted to this change—urgently” (Naim 2006, 13). It is now obvious that real gaps (or gorges) exist between our traditional economic theories and reality. But it is in these gaps that a new theory can develop, bringing to the forefront what had previously only existed on the margins. With a broader scope, the myriad of economic actions and interactions, formal and non-formal, legal and illegal, can be explored, explained, and accounted for.

The contemporary world is marred by financial crises, civil wars, black markets, and development catastrophes. Behind the scenes smuggling, dealing, insider trading, and despotism are a present and critical force in the economy. These, together with the “softer” non-formal activities such as bartering and household production, are shaping our lives in powerful new ways. The world today isn’t the same as it was only a few decades ago: globalization happened. It is now apparent that globalization has brought with it new challenges for both the formal and non-formal aspects of the economy. In turn, this requires new theories and new forms of social analysis. We need to see the non-formal before we can even set out to understand it. As Nordstrom puts it, “if we cannot perceive the true magnitude and dynamic character of both the legal and extra-legal, we are impotent to respond. People can see only what they have the conceptual tools to see” (Nordstrom 2007, 208). War, poverty, death, and deceit are all upheld through the continued ignorance of the non-formal dimensions of political economy. The stakes in the battle for a real-world economics are too high to ignore.

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smallin@nd.edu

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