

SAMPLE CHAPTER

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Acronyms

ALMPs	Active Labour Market Policies
CCTs	Conditional Cash Transfers
ECLAC	Economic Commission for Latin America
ENEMDU	National Labour Force Survey <i>(Encuesta de Empleo, Subempleo y Desempleo)</i>
ICLS	International Conference of Labour Statisticians
ILO	International Labour Organisation
INEC	National Department of Statistics of Ecuador <i>(Instituto Ecuatoriano de Estadística y Censos)</i>
OECD	Organisation for Economic Co-operation and Development
PREALC	Regional Employment Programme for Latin America <i>(Programa Regional del Empleo para América Latina y el Caribe)</i>
UNRISD	United Nations Research Institute for Social Development
WB	World Bank
WDR	World Development Report
WIEGO	Women in Informal Employment: Globalizing and Organizing

There has been, in the last few decades, a growing consensus in academic circles on the deepening of informality. The share of workers in the informal economy has either grown or remained constant. Economic growth and global trade have not been accompanied by a proportionate increase in formal job opportunities. Further, a growing proportion of workers in the formal sector are unprotected (Bacchetta, Ernst, and Bustamante, 2009). Informality has thus become the rule rather than the exception (Razavi and Hassim, 2006).

Informality contests welfare provision in particular, and social policies in general. With the increase of informality, more and more people are engaging in unregulated work, receiving little, if any, access to welfare and work-related benefits. Recently, more attention has been given to informal/nonstandard employment, and the accompanied erosion of state-provided welfare benefits (see UNRISD, 2012). 'Extending social protection to all' is the call of the ILO at this time, and this call is truthfully welcomed in the literature (Lund, 2009). The way in which social protection is understood and implemented, and the conditions under which it is made accessible to citizens (or not) are now at the core of the debate.

An important caveat in the study of informality as a theoretical category, as Breman pointed out back in the 1970s, is that its boundaries are unclear: the informal sector cannot be demarcated as a separate economic compartment and/or labour situation. As Brennan argued, interpreting the relationship to the formal sector in a dualistic framework with mutually exclusive characteristics obscures the unity and totality of the productive system (Breman, 1976). An alternative (Phillips 2011) is to think of an economy in which formality and informality structurally blend with one another in complex ways. In this view, processes of formalisation and informalisation proceed simultaneously, with power relations and practices shaping their conditions: '[the] "informal" thus exists within the "formal", not simply alongside it, and vice versa' (2011: 389). Despite these limitations, the use of informality as an analytical category could be used insofar as it problematises the very heart of social policy design: the state ambit of regulation and protection.

Along these lines, informality is seen as contingent to the regulatory framework. That is to say, what is beyond the reach of state regulation and protection is regarded as informal. Furthermore, social protection instruments have been adapted to account for changes in employment structures, namely informalisation. Then, informality has significant repercussions on social protection provision—and vice versa. If more people engage in informal activities, there is an increasing demand for non-contributory social protection, as the constitutive elements of formal and conventional employment relations are basically inexistent in these settings. Hence, as much as informality remains, it is assumed that social protection provision schemes should be adapted to a vast share of workers not contributing to the welfare system in a consistent basis.

Recent studies assessing the impact of social protection on employment outcomes have focussed on incentives. For instance, it is claimed that people opt into informality in order to access social assistance while evading contributions and other fees. Or rather, that with the right incentives, informal workers will upgrade into formal (and more productive) activities. Yet, when recalling more structural perspectives on informality, the interconnectedness between employment and social protection becomes more complicated. Stating that informality is an outcome of individual choice becomes problematic in light of the structural restrictions affecting employment levels. No matter how much work incentives an individual might be exposed to, in the lack of employment opportunities there are not so many options left. In other words, if informality is an outcome of segmented labour markets, social protection alone could not be able to regulate the level of employment—which is the more structural understanding of informality. Thus, it can be seen that drawing on different explanations of the sources of informality would lead to conflicting understandings of policy responses.

However, contemporary discussions on social protection are poorly connected to the literature on informality. To illustrate this point, we can recall the rationale accompanying emerging forms of social protection, such as conditional cash transfers. CCTs have pushed towards a de-linking of social and labour policies, inasmuch as the benefits provided through them are not directly linked to employment status. Rather, workers status in employment is seen as incidental. Yet, it has been suggested these policy instruments, cash transfers in particular, work most effectively when complemented by employment policies (see UNRISD latest work on social policy and employment). Thus, despite approaches that distance social protection from employment, the connections between them remain strong.

Consequently, this chapter sets out to integrate employment back into the discussion around social protection, as highlighted by authors such as Heintz and Lund (2012). By doing so, I set out to address the overarching question: have recent social protection initiatives reinforced processes of labour informality, or simply adapted to them? There is an implicit risk in adapting to informality and remodelling policy instruments to its reality. Social protection might be end up adapting to a context of high informality, instead of incorporating strategies to change and improve workers conditions and employment opportunities. For this reason, it is critical to first understand the various stances on informality in order to better grasp the intentions and limitations of social protection provision.

The chapter begins, in the next section, by laying out the conceptual ground—drawing on a critical review of the main literature touching on informality, showing the relevance of early insights and how the definition changes within the various approaches. These definitions are used, in the next section, to organise the literature on informal employment and social assistance according to their underlying assumptions. These have implications for analyses of the employment promotion policies now being incorporated into Latin American social assistance. Such policies (based on the European experience with active labour market policies) are currently seen by some as the preferred toolkit to correct market obstructions impeding inactive workers being gainfully employed. A critical assessment of the assumptions implicit in the implementation of labour market policies closes the chapter, together with a discussion of their problematic application in highly segmented labour markets.

Scholars have advanced an enormous variety of qualitative distinctions trying to delimitate the formal and informal segments of the economy. Decades of research on informality have evidenced the difficult task of delimitating these segments (Razavi et al 2006). Neither theoretically nor empirically has a line been drawn to neatly separate formal from informal activities. This has been evidenced in the academic debate, which has moved away from the strict categorisations of formal and the informal commenced by Hart in the 1970s, and towards the recognition of an array of employment arrangements in the so-called informal economy (Hussmanns, 2004).

This theoretical move has been organised and classified under three dominant perspectives: dualist, structuralist and legalist (see Chen, Vanek and Carr, 2004; Portes and Haller, 2005; Jütting and Laiglesia, 2009; Phillips, 2011). The dualist label groups the authors and theories that understand the informal sector as marginal and transitory (Lewis, 1954; Harris and Todaro, 1970; Hart 1973). They are regarded as dual because of the theoretical assumption underlying their view of dual labour markets: informal activities are rooted in the lack of modern opportunities to absorb surplus labour (Chen et al., 2004). They believed that informality would gradually disappear as modernisation and expansion of formal markets created formal employment. Yet, as modernisation spread in the 1970s, atypical employment arrangements had actually deepened. What Chen et al (2004) labelled as structuralist perspectives emerged through a strong critique to the optimism that accompanied dualism. Authors like Furtado (1965), Moser (1978), and Portes, Castells and Benton (1989) presented informality not as marginal and transitory but functional to the capitalist system. They suggested that the informal sector should be seen as the set of subordinated economic units and workers that serve to reduce input and labour costs, to the benefit of larger firms. Thus, small and large-scale firms are considered part of an interdependent mode of production (Chen et al., 2004). Thinking along the lines of Li, this small-scale production results from labour that is surplus to capital's requirements (2010: 87), that is to say, by workers which are not gainfully absorbed by the capitalist system—mainly rural people dispossessed of their land. In this way, they are kept within the system, due to their functionality e.g. idle work and low wages. Legalism was the third wave in the study of informality—with its emphasis on illegality and property rights. Legalists attempted to release informality from the rigidities of the structuralist perspectives. Popularised by De Soto (1989), this view interpreted the informal sector as comprised of micro-entrepreneurs, somewhat blocked by excessive regulation. Consequently, proponents of this view advocate for deregulation, alongside formalising property rights. All three perspectives are widely used in the study of the informal economy.

Dualist and legalist categories suffer from what Phillips (2011) identifies as the key limitation of dichotomous labels: the assumption that the informal economy exists as a singular unity that can be described empirically and used as a basis for theory. In my view, structuralist perspectives, as defined above, are also covered by Phillips critique, to the extent that they demarcate informality as a subordinated social stratum. Regardless of the variety of causative factors presented under these three perspectives, they lead to a similar outcome: segmented labour markets.

In practice, formal and informal activities are very intertwined. For instance, assuming that informality is only associated with self-employment and small-scale activities is no longer feasible: the share of global workforce that remains outside the world of full-time, stable and protected employment has not only grown but also emerged in new arrangements and unexpected places—formal wage employment included (Chen et al., 2004). This insight had led to the advancement of an integrated approach, which combines elements of the three views above mentioned, based on the premise of a heterogeneous and multi-segmented labour market (Chen et al., 2004, 2007; and Bacchetta et al., 2009).

My interpretation, I should say at the outset, differs somewhat from that taken in much of the recent literature on informality. Although I find myself in agreement with the structural label designated for authors who stress the interconnectedness between the formal and informal sectors of the economy, I also found that it is being applied to perspectives that are interpreting informality as residual, as a 'leftover' of development or the outcome of a process of marginalisation within development. Because structural accounts continue to insist on a rigid divide between the formal and the informal, I locate this stance within the broader dualist paradigm, emphasising the residualism underlying the structuralist account.

An alternative framework for the analysis of the formal and informal dimensions, with a focus on employment issues, is offered here. After noticing that most of the interpretations of informality adhere to a dualist perspective, that is, the recognition of segmented labour markets, I propose a subdivision into strictly dual and structural views. Hence, under dualism, I grouped those authors who see informality as transitory, as per modernisation theories. Under the residual-structural views I grouped the authors that see labour markets as heavily conditioned by the forces of production and social relations. Along these lines, informality can be perceived as rigid and systemic, emerging from underlying dynamics, either via bifurcation arguments or by drawing on Marxist insights.

Current approaches are more difficult to typify, as they often combine several of the aforementioned views, in particular dualist accounts. An additional third typology synthesises the mainstream view, built upon neoclassical microeconomics. It includes the 'legalist' perspective started by de Soto—which fits into the new institutional economics and its emphasis on property rights, and the voluntary or exit option, which sees informality as a mix of incomplete markets, cost-benefit analysis and parasitic behaviour. Here follows a review of the most representative authors associated to these traditions.

Dualistic interpretations

The dualist perspective groups those interpretations of informality as a segment of the labour market. Implicit in the dual paradigm are two notions. First, informal firms are less efficient. Second, they exist because of the inefficiencies caused by segmented markets.¹ Thus, while informal activities might be 'tolerated' in the short term for lack of better conditions, within this paradigm it is held that they will harm the efficiency of the economic system, so they should upgrade and

¹ Follows the interpretation provided by Fischer (1994) in his review of dualistic approaches, as applied to informal finance.

become formal. In addition, current dual accounts relate informality with perversity and parasitic behaviour. The mainstream argument is that illegal small-scale activities deliver unfair advantages over their formal counterparts (Jütting and Laiglesia, 2009). It also views informal employment as socially inefficient. This questions not only the lack of protection and permanent income among informal workers lack protection and permanent income, but also argues that their labour productivity is lower—with informal labourers often regarded as the residual workforce, the 'underemployed'. Because of informality's association with evasion and illegality, dualists perceive informality as costly, inefficient and harmful for economic growth.

Most dualist authors define a theoretical line to divide the formal and informal sectors of the economy, with a smaller group emphasising sector interconnectedness. Furthermore, authors have their own version of the roots of segmentation. For some, (see Li, 2010) it results from the incomplete transition from rural economies to urbanised ones, which, building on the idea of surplus population, yields a surplus workforce that is absorbed by the informal sector. For others, it is rather intended: informality is seen as the outcome of marginalisation within capitalist production. It is probable that informal employment results from a combination of the above-mentioned factors.

The legacy of modernisation theories

Within dualism, authors that interpret informal activities as an inefficient transitory phenomenon. This view can be situated within studies of modernisation that emerged during the 1950s. Modernisation theories aimed to explain the transition from traditional and backward modes of production towards modern, organised and highly specialised ones (Eisenstadt, 1974).

Lewis work is considered the cornerstone of dualism in economic development, with his classic article '*Economic development with unlimited supplies of labour*' (1954). The author noticed that an unlimited supply of labour can be found in countries² where the population is so large, relative to capital and natural resources, that there are large sectors of the economy where the marginal productivity of labour is negligible. This generates a reservoir segment of the labour force, a subsistence sector.

Numerous scholars working on informality have cited this work, although often without considering Lewis' cautious reflections on employment dynamics in transition economies. To illustrate this point, in dual theories there is a tendency to treat informality as an urban phenomenon, claimed to be rooted in rural-urban migration. However, Lewis had observed that this phenomenon is not confined to the countryside. What he coined as the 'subsistence sector' also applied to casual jobs, petty retail trading, domestic service and wives and daughters in a male-single-earner household (Lewis, 1954: 141, 189). In Lewis' model, the transfer of labour from the subsistence to the capitalist sector was presented as beneficial. He argued that this process facilitates high rates of capital accumulation, as the unlimited supply of labour keeps wages low.

² Lewis built a dualistic model inspired from and based on his work on economic history on the English economy of the nineteenth-century and the transition to industrialisation accompanied by stagnated wages in its early phase.

Drawing on the idea of an incomplete transition towards modernisation, Harris and Todaro (1970) advanced a model explaining rural-urban migration, in which traditional features persist in the labour market. This has been the basis for most of the contemporary dual accounts on economic development. Known as the H-T model, it explained informality as the only option available for surplus labour migrating from rural areas. It was widely assumed then, that capitalist development and industrialisation would transform traditional economies into dynamic and modern ones, fully absorbing the traditional sector. If there will be any petty production, it should be regarded as transitory, related with early stages of economic growth. This notion of incompleteness underpinned the 'creation' of the informal sector as an analytical category, back in the 1970s.

In this regard, it is worth noting a subtle, yet fundamental difference between Lewis and the H-T models: while the H-T model assumed that the urban minimum wage is fixed in terms of the manufactured good (1970: 132), Lewis held that the wage that the expanding capitalist sector has to pay is determined by what people earn outside that sector i.e. in the subsistence sector. Therefore, in Lewis view, the capitalist sector was interested in holding down the productivity of the subsistence workers to ensure greater profits in the capitalist sector. Despite these differences in earlier dualist theories, both models were optimistic concerning industrialisation and its capacity to absorb surplus labour.

In the 1950s and 1960s, common wisdom suggested that the informal sector would not survive the eventual modernisation of the economic system. Yet, by the early 1970s, underemployment was widespread and increasing, refuting the optimism that accompanied previous work (Chen et al., 2004). Regardless of whether modernisation spread or not, petty trade and small-scale production persisted. This 'anomaly' motivated a set of employment missions coordinated by the International Labour Organisation (ILO) in the early 1970s. One of these missions gained particular relevance in the fields of poverty and employment: the 1972 ILO Employment Mission in Ghana.³ Drawing evidence from the study of the migrant population in one Northern Ghanaian Group, the mission coined the terms 'working poor' and 'informal sector' to describe the [lack of] evolution of the traditional sector (Hart, 1973). The mission used the term 'informal sector' to distinguish between wage-employment, when labour is recruited on a permanent and regular basis for fixed rewards; and self-employment, to report for all small-scale and unregistered economic activities (Ibid). Hart postulated a dualist model of income opportunities of the urban labour force, distinguishing between wage earning and self-employment. According to Hart, [I am assuming the author is Hart] the informal sector provided the means of livelihood for new entrants to the urban labour force. The decrease in agricultural employment, seen in the 1960s as a sign of modernisation, led to greater informality, when job elsewhere was insufficient to absorb the new pool of surplus labour coming from rural areas.

Other ILO missions ratified this view, presenting employment, and not unemployment, as the matter in question. For instance, the report *Employment, Incomes and Equality, A Strategy for Increasing Productive Employment in Kenya* (1972) led to the recognition of a structural distortion of the economy, with a minority of highly rewarded employees and a very large amount of working poor. The report stressed the dynamism of self-employment activities. The association of informality to survivalist strategies derived from these employment missions had important implications for labour policies. For instance, it was advocated to generate productive employment for the masses, holding optimism on the possibilities of economic growth built upon the informal

³ Original report presented in 1971.

sector. Hart had portrayed the informal sector as competitive, labour intensive, and able to develop its own skills. Reviewers of Hart's work argue that the dynamism that he identified in the informal sector got lost when the concept was institutionalised within ILO,⁴ and redefined in terms of poverty (Breman, 1976; Portes and Haller, 2005). ILO's interpretation overlapped poverty and informality, arguing that most of the workers in the informal sector lacked access to markets and productive sources. As a result, the dual-residual perspective led to define the informal sector as a site of exclusion and marginalization, the space of the working poor.

Structural views

There were number of theoretical and practical difficulties involved in the use of informal sector as it emerged in the 1970s. Criticism clustered around a key assertion: the informal sector did not work in isolation. Instead, there was a direct, structural connection between the formal and informal economies⁵ (Phillips, 2011). More structuralist accounts on informality developed further this argument. First studies within this tradition can be traced back to the work of Furtado (1965); Weeks (1975); Breman (1976); and Moser (1978). There are two major early influences in this regard: Marxism and the notion of surplus labour, as interpreted by Li (2010), and post-Keynesianism and the idea of disguised unemployment, as advanced by Robinson (1936).

To begin with, I present the notion of surplus population. Within Marxism, the use of 'surplus' accounts for people—mainly rural—displaced by capital-intensive production. Li, in her reading of Marx, notices that he used 'relative surplus population' to highlight the continuous tendency of capital to concentrate labour's productive capacity into labour-displacing technologies (2010: 68). Labour is thus, surplus in relation to its utility for capital. Similarly, Lewis refers to Marx 'reserve army' concept, which accounts not only for displaced workers, but also for the self-employed and petty capitalists who are unable to compete with the large capitalist sector (1954: 144). These early insights have strongly influenced structuralist accounts, as discuss elsewhere in this chapter, in which petty production is seen as intrinsic to state-regulated capitalism and incorporated by it (Harriss-White 2006).

Joan Robinson introduced the concept of disguised unemployment to account for the number of 'inferior' occupations in which dismissed workers take up when employment shrinks. She departs from the premise that full employment is only likely to occur in periods of 'abnormally rapid expansion' (1936: 226). It is thus often the case that declines in the effective demand will lead to a reduction of employment opportunities. This does not lead to complete idleness of the workforce, but rather drives workers into a number of inferior occupations. These occupations

⁴ In Latin America, the concept of the informal sector was adopted by the ILO's Regional Employment Program (PREALC according to its Spanish acronym). In their view, informal enterprises were seen as having a survival logic, tied to little capital use, intensive use of family labour, and activities at the edge of the law (Portes and Schauffler, 1993). This depiction fuelled the dualistic understanding of labour markets, with informality referring to those workers excluded from the modern sector. In addition, PREALC studies introduced informal labour as a synonym with underemployment, in a categorisation that has prevailed up to date.

⁵ Structuralists suggested that the concept of 'informal sector' was unable to capture the interconnected nature of informal and formal activities. They suggested the introduction of the informal economy label, as well as segmented and heterogeneous labour markets (Chen, 2004).

are regarded as inferior because of their low productivity, which is less than in the occupations that they have left (1936: 227). In her view, an increase in employment will take place only if the worker's time is transferred from an inferior occupation i.e. low productive work, towards one where productivity is higher. It should also be noted that along Robinsonian lines, Lewis advanced the concept, adding that disguised unemployment is not confined to the countryside, but also applies to the whole range of casual jobs and petty retailing activities characterised by negligible marginal productivity (1954: 141). Later, in 1982, ILO introduced the concept of 'underemployment' to account for the workers who could not gain entry into the modern economy and remained in low-productivity activities (see Portes 2005).

There are two main contemporary branches: one related to a systemic bifurcation of labour markets, and a second one, which stresses the systematic functionality of segmented labour markets. The first one, advanced by Furtado (1965), states that labour market bifurcation leads to inefficient industrialisation and economic stagnation. A second view, asserts the prevalence and interconnectedness between the formal and informal segments. It presents informality as a mode of production operating for the benefit of capitalist development (Moser, 1978). Both interpretations are discussed in greater detail below.

Informality as bifurcation

An alternative to the Lewis dual model was developed by Furtado (1965) for whom, dualism led to underdevelopment and not to capitalist expansion as proposed by Lewis (1954).⁶ In a somewhat similar logic to Lewis' thesis, Furtado argues that the main distinguishing feature of underdeveloped countries is the existence of a pre-capitalist sector (the equivalent to Lewis' subsistence sector). In his model of industrialisation, there is also a labour reserve (labour surplus, in Lewis terms), which is kept in low wages for the benefit of the capitalist sector. This assertion is important, because of the weak linkages between production and consumption of these two sectors: workers in the capitalist sector are not consuming their output. Instead, their wage goods are being produced by the less productive sector (or being imported). Therefore, the interest in keeping wages low.

Labour productivity is again, the core explanatory variable in the model (Furtado, 1965).⁷ His variant accounts for the particular land tenure structures established under the colonial rule in Latin America. The model deals with an open economy moving from an export growth phase towards a substitutive industrialisation phase, fully integrated to international markets. He introduces a crucial component: for industrialisation to take place, capitalist firms import technology,⁸

⁶ For a brief overview of Furtado's work and a comparative discussion to Lewis model, see Kay (2005).

⁷ A point of caution should also be made when discussing informality and linking it to low productivity. Analysing how 'well' working people fare depends not on their labour productivity, but also on how this productivity translates [or not] into labour earnings. That is, how people's work is valued (Fischer, 2011). Valuation is often only marginally related to productivity. As pointed out by Fischer: 'much of what we are picking up in most conventional measures of productivity actually amounts to price or wage differences, not actual effort or output, especially in economies that are increasingly based on services' (2011: 3).

⁸ This is the core argument of dependency theory, which is not pursued in the present chapter.

in order to increase capital density. Subsequently, capitalist firms move towards capital-intensive production without the corresponding transfer of labour from agriculture to the manufacture sector. That is to say, firms move towards capital-intensive production before surplus labour is exhausted, thereby leading to polarisation.

In his view, the confluence of these factors leads to an inefficient industrial structure. There is greater bifurcation in the labour market: a co-existence of a modern sector with a pre-capitalist society. This structural dualism, the author argues, is related to under-development. If this dualism were eliminated, it would be expected that the gap between the wages paid in the agricultural and manufacture sectors will reduce, as well as the disparity between living standards of these two groups (1965: 166). Inasmuch as he observed, reservoir sector wages remained stable in the region, leading to greater polarisation due to the above-discussed pattern of bifurcation in the labour market. Later, he reframed his model in terms of a context of growth, rather than stagnation. In his analysis of the Brazilian situation in the 1970s, he points that the economy has been unable to generate the kind of development to fully utilise its productive capacity—despite high rates of capitalist profit. Hence, polarisation as harmful for economic development: value added by labour is not translated into increased consumption in the low-income sector. Instead, it benefits the owners of capital, causing further income concentration. And given the structure of markets, ‘nothing will press them to transfer the fruits of increased productivity to the consumers, the modernised minority (Furtado, 1973: 125). The problem is thus rooted on the starting point of high polarisation, and hence the respective markets that emerging industrialisation chooses to supply (or not).

Informality as a mode of production

A second group of structuralist authors stresses the functionality of segmented labour markets for the expansion of the capitalist system. Back to Lewis’ work, it can be seen that the assertion of a marginalised and subordinated sector surrounded the analysis of labour markets from a Marxist vein, long before dual models. In his reading of Marx, Lewis sees the ‘reserve army’ accounting not only for those workers displaced by capitalist-intensive production, but also for the self-employed and petty capitalists who cannot compete with larger capitalist of increasing size, and are therefore, find themselves restricted from the benefits of economies of scale (Lewis, 1954: 144). However, he dismissed this argument arguing that in the past, the effect of capital accumulation has been to reduce the size of the reserve army, and not to increase it (Ibid).

However, structuralist criticisms to dual theories have clustered around a major contention: the evolution of markets is unlikely to eliminate informal production. On the contrary, the informal sector prevailed subordinated to the formal sector, to the extent that flexible labour saved production costs, increasing competitiveness and productivity for large firms (Moser, 1978). One of the first authors to publish work along these lines was Weeks (1975). The author developed an analytical framework to study the interaction between what he called, the enumerated and unenumerated segments of the economy—parallel to the formal/informal labels. Using as background material the dual-residual labour market models he observed that the informal sector produced a significant portion of the consumer goods for low-income groups—as noted earlier, in Furtado’s model. Weeks also identified an inherent dynamism in informal activities. But contrary to dual-residual accounts, he argued for an expansion of the informal sector, as it could have a positive, income rising, effect on economic change.

Moser (1978) presented a less optimistic perspective, built upon Week's findings and a detailed revision of ILO's country missions and city studies. She agreed with Week's interpretation of the considerable advantages in having an evolving low-wage informal sector: accumulation is higher, it can produce consumer goods for the lowest income strata, and it could be shifted towards a more labour-using form of industrialisation, ensuring a more efficient utilisation of capital (Moser, 1978). She focussed on the relationship between the wage and small-scale sector of the economy, which in her view, delivered clear advantages to the capitalist system. The informal sector had the function of providing goods and services considered unprofitable by large-scale capital. On that account, the author argued for fundamental changes in the political and economic structure in as much as capitalist production, on its own, will not be interested with the provision of quality employment, but simply the extraction of profit (Ibid).

By understanding informality as a constitutive part of capitalist production⁹, these authors set the field to change the focus towards informal employment. Literature along these lines integrated the 'atypical' employment arrangements that occur both in the formal and informal sectors. They associated formal workers not with a particular sector but with contractual employment and explicit rights and duties at work. Meanwhile, informal workers were part of relationships of production not protected by labour legislation, and their rights at work could be easily disregarded. In this connection, it is worth noting the work of Harriss-White (2002), who highlights the centrality of social institutions¹⁰ in assembling and regulating the different factors of production, employment included. From her field research in India, the author identifies the various social structures, derived from identity,¹¹ that create and perpetuate the loss of workers' control within the work relationship. From these insights, she argues for a re-regulation of labour, since the practice of social regulation, left alone in informal settings, is of an exclusive and discriminatory nature (Harriss-White, 2002 and 2006). This view could be labelled as a power-based segmentation of labour, as these forms of regulation are effective at the cost of being exclusive, arbitrary, localised and incomplete (2006: 126).

Regarding the rural bases of the informal economy, structuralist authors had a different reading than the one provided in classic dual models. For instance, Breman (1996) stated that the

⁹ Most of the definitions assume that informality is a product of the present times. It is argued that informal activities exist regardless of the mode of production. The informal sector thus, consists of any production, distribution, or consumption activities that occur outside the constraints accepted by the members of any society as proper, right, accountable and legitimate (Uzzell, 1980; Smith, 1989). More recently, Phillips (2009) cited Polanyi's work to state that informality has been the hallmark of economic activity for many centuries. The modern transition to capitalist markets, organised around legally enforced private property rights is thus, historically recent and exceptional (2011: 381). Informality has thus been and is capable of responding to the specific needs of pre-capitalist and modern economies, as shown elsewhere.

¹⁰ Drawing on the work of Gordon (1982) and Kotz (1994), authors labelled as part of the 'social structures of accumulation' (SSA) school, Harriss-White challenges the orthodox notion of economics as independent of the regulative environment in which production and distribution take place. She highlights the centrality of social institutions in assembling and regulating the different factors of production. The state is perceived as one of the many institutions that performs this role, 'as it regulates capital and labour, transfers resources between different social groups, shapes political space and reinforces ideology' (Harriss-White, 2002 :15).

¹¹ Religions, caste, space, classes and the state.

transition from rural labour towards wage labour had indeed enabled more occupational mobility and choices, along with migration, but with very low vertical mobility for the groups of unskilled workers in the informal sector. Based on extended fieldwork in southern India, he suggested that labour markets are not geographically segmented as dualist stated in the H-T interpretation of Lewis. Instead, informality was seen as a continuum extending from the rural economy to urban areas.¹²

Similarly, Portes and Schauffler (1993), building on empirical evidence from Latin America, presented rural-to-urban migration as something more complex than just the survival of the poor. Inflows to the city supported modern capitalist accumulation by the creation of new niches in the labour market. Consequently, urban informality existed within and for the benefit of the formal or modern economy, in a structural articulation of formal central enclaves and self-regulation on the periphery. On this last point, Phillips (2011) argues that a distinction between a formal 'core' and an informal 'periphery' could be misleading when taken at a global scale. He argues that such distinction does not capture the reach of informality and informalization across all societies and economies, which has extended and deepened in the main urban centres, contrary to Portes' argument.

Another important contribution of this structuralist branch highlighted the internal heterogeneity of the informal sector. From a range of direct subsistence activities, subordinated to production and traded in the formal sector; up to autonomous informal enterprises with modern technology and capacity for capital accumulation (Portes and Schauffler, 1993), the informal sector became more than just small-scale activities. This perspective on informality, seen as a heterogeneous phenomenon, has been echoed by Phillips (2011). He added that informalisation is both, a 'top-down'¹³ and a 'bottom-up' process, integrating then the concept of adverse incorporation, as applied to global production networks analysis.

Mainstream interpretations: rational choice

The majority of contemporary authors adhere to microeconomic foundations to explain the drivers of informality. The dominant approach, as initiated by De Soto (1989), sees obstruction to market mechanisms as the main force towards informalisation. Rooted in new institutional economics, it emphasises the excess of regulation as the main root of informal operations. This approach tends to be critical of the 'obstruction' caused by regulatory regimes.

A second rationale advanced in contemporary studies argues that informality is a voluntary and individual choice. The informal economy is the arena in which workers (and firms) choose to operate. Rational choice assertions seem to be taken for granted in these approaches. Implicit in this notion is the informal sector dynamism: workers or firms opt for the informal sector, be-

¹² Albeit, this was remarked by Lewis in 1954.

¹³ He argues that the focus has remained in the processes of informalisation driven from above: by capital (as per Harriss-White, 2002; Moser, 1978), by firms (Portes, 1983; Portes et al., 1989), or even states (Moser, 1978; Portes, 1983). These perspective associate informality with poverty and marginalisation, and according to the author, present a mechanised view of the processes of subordination.

cause of the benefits that it delivers to them. Firms do not have to pay registration fees or taxes; workers can switch between occupations and do not have to contribute to social security, which is wasteful anyway. One could think of this informality as the consequence of overly weak regulation, in contrast to the above described.

A considerable amount of work has been done on the voluntary nature of informality, providing it of a 'parasitic' meaning. This position stresses the illegal component of small-scale activities, which might be optimal for their owners but is claimed to deliver unfair advantages over their formal counterparts (Jütting and Laiglesia, 2009). More recent generations have carried on this last tradition.

De Soto's legacy

De Soto's rolled out the debate along the lines of property rights in the late 1980s. His interpretation of informality as an outcome of incomplete markets, builds on the assumption that informal firms only exist due to the inefficiencies caused by insufficient property rights in less-developed countries. The author, who epitomised a legalist approach, reformulated Hart's original theme in his work 'The Other Path' (Soto 1989). He provided informality a celebratory meaning: it constituted the popular response to the overblown state, inefficient bureaucracy and bad laws (Ibid). Thus, informal enterprises represented the irruption of 'real market' forces in those economies suffocated by state regulation. The urban poor were identified as actively entrepreneurial rather than passive and parasitic. In his assessment of informality in Peru and Latin America, he prescribed simplification of laws, decentralisation of the state, and deregulation of the economic activity. It is worth to mention that de Soto's publication was riding in the back of rational choice theory, which focussed on incentives, rather than structures, to shape behaviour.

While de Soto's work soon became very influential, widely cited in publications and adopted by mainstream international organisations¹⁴, dissenters contend that his study lacked academic rigour: from presenting insufficient data to support his statements, up to leading to empirical and theoretical contradictions (Portes and Schauffler, 1993). To illustrate this last point, Portes and Schauffler recall that De Soto attributed the origins of informality not to the excess of labour supply but to the excessive regulation of the economy. But if this were the case, they argue, other highly regulated economies would have vast informal sectors, but they have not. Despite this and other negative appraisals, de Soto's ideas settled in and brought about a renewed interest in the informal sector, on this occasion full of optimism about its claimed potential to lift people out of poverty. For instance, see the frequent references to de Soto's work in the latest *World Development Report: Jobs* (World Bank, 2012).

Although De Soto's legacy has been labelled as 'legalist'¹⁵ (see Chen, 2005, Vanek and Carr, 2004; Portes and Haller, 2005; Jütting and Laiglesia, 2009; and Phillips, 2011), this label might be missing important distinctions and variations within the specialised literature. Mainstream inves-

¹⁴ Many of De Soto's ideas were in the structural adjustment type of reforms introduced in the 1980s in Latin America (Bromley, 1990).

¹⁵ Suggesting legalization of de facto informal property rights, without mention at the sources of their incompleteness.

tigators adhere to thesis of the informal sector's dynamism and argue that labour markets should be let alone, for self-regulation to balance the field. In this sense, this logic could be better described as a 'market obstruction' approach—which is not about choice, but intrusive regulation.

The policy implications deriving from this orthodox understanding should be treated with caution. Removing all state regulation of economic activity might not be the desirable solution. Early development thinkers recognised that modern markets are indeed highly regulated institutions (Polanyi, 1957 as found in Portes and Schauffler 1993). Eliminating state regulation would lead to a disarticulation of the orderly economic activity, as the informal sector workers are closely intertwined and dependent on firms within the regulated sector. Not even to mention that the claimed voluntarism is circumscribed to rather rigid labour choices, as constantly emphasised in the more structuralist accounts.

As noted by Harris-White, state retrenchment leads to other forms of social regulation to take prominence, even though many of these e.g. trade associations, ethnicity, religion and gender; might well be at the origins of inequality and exclusion (2006: 1242). This is especially the case in Latin America, with high degrees of polarisation inherited since the start of the industrialisation process that, if left unregulated, will continue on being reproduced and can be exacerbated. Indeed, this is supported by the recent reduction in inequality in many Latin American countries, which have arguably been supported by more, not less regulatory interventions in labour markets e.g. increase of minimum wages and formalisation of labour in Brazil, much more than what has been attributed to targeted social protection (Fischer, 2012: 20).

Building on the rhetoric that excessive regulation is the cause of informality, most economies have pushed in the recent decades to greater labour market flexibility (Cook and Razavi, 2012). The rationale has been followed De Soto's thesis: to remove regulative market obstructions. In theory, deregulation has attempted to reduce the barriers to formal employment. However, this has not benefited informal workers. Instead, it has meant greater freedom for business from organised labour with the consequent erosion of protective and pro-collective labour regulations (2012: 6). Deregulation has thus, being translated in lower wages and inadequate (and even completely absent) provision of social security at work.

The exit choice: opting out for informality

A counterargument to the earlier dual accounts on informality, which presented it as a place of exclusion and marginality, states that workers themselves 'exit' the formal sector. Workers, dissatisfied with the performance of the state opt into informality. This argument departs from the notion that informal sector is itself a multi-segmented sector. Within it, when workers opt for informality, they face a second choice: to survive or to grow. This theoretical assumption can be traced back to the work of Fields (1990). Based on his research in urban Costa Rica and Malaysia, Fields suggested that the informal sector was conformed by two qualitative distinctive branches: a lower-tier, characterised by easy-entry and low-wage unorganised and unprotected work—as described in most of the residual and structural perspectives; and a new category composed of by the upper-tier segment of the labour market, with restricted-entry to self-employment activities. He claimed that the rationales of these two sectors differ: people in lower-tier activities seek to get out them, aspiring to engage in the upper-tier segment of self-employed. The upper-tier segment has potential. They just need an extra push to increase their size and generate more em-

ployment. Arguably, the logic of informality in this segment is largely related to tax and regulatory evasion. Hence, the idea of voluntary informal employment is clearly manifested in this work, although Field remarks 'given the constrained choices available to them, a great many of informal sector workers are in that sector voluntarily' (1990: 65).

In line with Fields arguments, Maloney (2004) draws on empirical evidence from Latin America to suggest that the informal sector in the region should be understood as the analogue of the voluntary entrepreneurial small-scale sector found in advanced countries. He continued the notion of dynamism by rejecting the idea of a disadvantaged and residual segment in the labour market. Instead, he presented informal employment as a rational option, taken after analysing the entire package of benefits and opportunities offered by various jobs—in a cost-benefit type of analysis. Derived from this logic, his proposition is to reduce the incentives to drop formal employment—he considered that formal workers have little to lose, as they perceive social benefits to be inefficient anyway—and to increase the size and productivity of the formal sector. In the meantime, employment in the informal sector could provide workers the dignity that formal employment does not provide, he reasoned.

More recently, Perry et al. (2007) continued the discussion on the exit or voluntary nature of informality. This approach brings together incomplete markets and parasitic behaviour: the first one is along the lines of informality as an exclusionary process—the formal market cannot absorb all workers; and, the latter when stating that workers opt out for informality—again, as a result of a cost-benefit analysis of the options available to them. Perry, in his study of informality in Latin America, stated that informality could be considered a manifestation of the contradictory relationships between economic agents preferences and a state that has failed to correct for market failures, as opposed to 'over-regulated' labour markets. The same point has been argued elsewhere, notably in the last WDR (World Bank, 2012). The report draws on Perry's findings to state that in the Latin American region, entrants into self-employment tend to be workers who have already accumulated physical capital while working for a wage or a salary—that is to say, workers that have opted out for informality leaving behind their formal occupations. The argument continues indicating 'those [workers] who achieve higher productivity levels are more likely to stay in business, grow, and create job opportunities for others' (2012: 110).

The renewed interest on productivity is clearly evident in the last WDR report. In this regard, a distinction is made within the informal sector, into a group of innovative or transformative entrepreneurs, and a second one of replicative or subsistence entrepreneurs.¹⁶ Thus, they suggest that to achieving more impact on employment generation is necessary to identify the 'constrained gazelles' (as coined by Grimm et al., 2012, work referenced in the WDR), in order to unlock their potential and support them to become successful entrepreneurs.¹⁷ This response is inspired by the 'missing ingredient assumption' (Berner et al., 2012): once provided the ingredient, entrepreneurs can start climbing to success. The report suggests that training, access to basic infrastruc-

¹⁶ Further references that deserve citing in this distinction are Jütting and Laiglesia, (2009), who collect the view of OECD on informal employment varieties and its policy implications; and Berner, Gomez and Knorrinda, (2012), who conducted an extensive literature review on the two rationalities found among entrepreneurs and pointed out to the reduced attention given to the survivalist type of entrepreneurs.

¹⁷ Where a successful entrepreneur is being defined in this report as someone who employs others and is not living in poverty (World Bank, 2012).

ture, financial resources and compliance with a good investment climate will remove the obstacles for firms' growth. However, these promotion interventions continue the already controversial focus on growth-oriented entrepreneurs only. Separate protection interventions are suggested to address the need of informal workers and self-employed survivalist, oriented towards supporting their income. These interventions often consist of targeted modalities of social protection, even though the report advises caution in its provision because of the possible disincentives for formal work. I will return to this last point with greater detail in the forthcoming section.

Informalisation: what does it entail?

To return to an earlier point, it should be noted that most authors agree that informality has intensified, albeit they argue different reasons driving this process. The deepening of informality has two important implications. First, an increasing number of people engage in informal employment, getting very limited access to welfare and work related benefits. This posits a challenge in the design of welfare provision, provided that there is any interest in increasing the coverage to informal workers—current trends indicate that there is. Second, and while informality remains, it is assumed that welfare provision would have to adapt to a vast share of the population not contributing to the welfare system in a consistent way. This second implication brings into the debate the widespread claim that non-contributory welfare is counterproductive: it disincentives formalisation of employment. To put it simply, if informal workers access benefits that they have not paid for—via taxes or direct contributions—they will have the perverse incentive to remain in informality.

Besides, the current emphasis on targeted social assistance, particularly CCTs, has not overcome the historical bifurcation between social insurance and social assistance. What is more, to reduce attractiveness to the non-needy population—and sanction idleness, social assistance benefits are often set at a very low level. In fact, most of the new agenda for social protection brings active labour market policies to facilitate the transition from assistance to work (Cook and Razavi, 2012). These policies (based on the European experience with active labour market policies) are currently seen by some as the preferred toolkit to address market obstructions impeding inactive workers being gainfully employed in Latin America. A critical assessment of the assumptions implicit in the implementation of labour market policies is advanced in the following, together with a discussion of their potentially problematic implementation in highly informal settings.

2

The interweaving of informality and social protection

Before turning to explore the relationship between social protection and informality, I present my interpretation of social protection. As a subset of social policy,¹⁸ social protection has been commonly divided into three categories: social insurance, social assistance and labour regulations (Barrientos and Hulme, 2010; Fischer, 2012; Heintz and Lund, 2012). Social insurance is often linked to contributory social security, therefore bound to employment status. Social assistance deals with the ‘needy population’ i.e. those in poverty, disabled, and elderly; most using targeted modalities e.g. cash transfers. Lastly, labour regulation has a straightforward role: to protect and guarantee workers rights. Current emphasis in the social protection advocacy and literature has tended to focus on the second category, social assistance.

Within social protection, a targeted mode of social assistance, conditional cash transfers (CCTs), has become the tool of choice in poverty-reduction throughout Latin America (Cecchini and Madariaga, 2011). Originated in Brazil in the mid-1990s, the basic arrangement of CCTs entails the transfer of monetary resources to families with young children, living in poverty, on condition that they fulfil specific commitments aimed at improving their human capacities (Cecchini and Madariaga, 2011; and Sandberg, 2012). These programmes, which have been claimed to be successful in increasing schooling and infants’ nutrition, have started to integrate labour market participation actions. This shift follows the widespread understanding that cash transfers alone are neither sufficient nor sustainable tools to support people’s livelihoods (Ibid). ECLAC’s report on cash transfers (2011) cites two tools that have been used so far to integrate CCTs to employment outcomes. First, tools aimed at improving the employability of working-age recipients e.g. training. Second, tools aimed at activating labour demand and labour market matching, such as: support for own-account work, labour-market intermediation services, and direct and indirect job creation programmes.

The 2010 UNRISD flagship report reflects the current reassertion that social assistance programmes, e.g. cash transfers, have limited impact on employment outcomes unless they are complemented by broader interventions that address the structural conditions keeping people in poverty (UNRISD, 2010). The report lays out a range of policies intended to tackle these structural constraints, clustered around promoting of human capabilities, sustainable livelihoods and redistribution. Focused on employment—defined not just as wage employment but also to include the work of the self-employed, it ascertains the pressing need to incorporate employment more centrally in social and economic policy. It is stated that the link between employment and poverty runs both ways. Poverty increases total household employment, mostly in marginal activities

¹⁸ I find myself in agreement with Fischer, who presents social policy as the range of collectively provided, funded and/or regulated services and interventions in a society, which influence the distribution of and access to goods and resources (Fischer, 2012). Within this policy space, this chapter focuses on social protection only.

among the vulnerable segments: women and children. However, additional wages earned in this way might decrease the incidence of poverty. Therefore, the report makes a case to adapt social protection to the particular needs of employment structures.

However, this reconnection can be problematic. The goals pursued through labour market policies differ greatly. Most of them try to correct the ‘market obstructions’ that are impeding inactive workers being gainfully employed e.g. matching job seekers and vacancies, removing any barrier that prevents this matching (including placement services and job-search programmes), increasing the flow of information between labour demand and supply, securing existing jobs and providing funds for the unemployed in the case of a job loss (Lechner and Wiehler, 2013: 3). Unemployment insurance and income support (corresponding to the last two components described by Lechner and Wiehler) are regarded as ‘passive’ labour market policies. The rest, which are more focused on getting unemployed and welfare recipients ‘back-to-work’, are regarded as active labour market policies (ALMPs). Building on some arguably successful European experiences, less-developed countries are increasingly considering these policies (or rather, these policies are being diffused by international organisations). They are widely assumed to be the second-best alternative to aggregate demand management, as they are expected to reduce unemployment without fostering inflation (Marshall, 2004). However, ALMPs are built upon quite problematic assumptions, as explored in greater detail in the following section.

Active labour market policies

Active labour market policies (ALMPs) belong within the group of supply-side policies, aimed at promote employment (Rueda, 2006). Although the term can be used in different ways, it roughly refers to improving the functioning of the labour market, by providing from income support and wage subsidies; up to job-search assistance, job-related skills and direct job creation (Martin, 1998; Bonoli, 2010; and Kluge, 2010). The ‘active’ component combines placement services with stronger work incentives, time limits on reciprocity, benefit reductions, and the use of sanctions—which has been coined under the ‘workfare’¹⁹ label.

Most definitions of ALMPs underscore employment promotion rather than just providing income support, among those with low skills or little work experience—the bunk of unemployed and welfare recipients (Heckman et. al., 1999; Kluge, 2010; and Rueda, 2006). However, these policies differ on the relative emphasis on each type of service, the target population, the total resources spent on them, how resources are and the range of employment and training integration within other programmes e.g. social assistance (Heckman et. al., 1999: 1872).

Active labour market policies have a long trajectory. Most authors agree that ALMPs were born in the 1950s with the so-called Rehn-Meidner model implemented in Sweden in a context of labour shortage (Bonoli, 2010). Originally conceived to achieve a tripartite objective: equality in wage distribution, sustainable full employment, and the modernisation of industry; labour market policies were applied with the objective of improving the match between demand and supply of labour in the context of a rapidly evolving economy (2010: 440). The basic instrument

¹⁹ Understood ‘[a]s the subordination of social policy to economic demands for greater labour-market flexibility and lower public social expenditure’ (Torfing, 1999: 23).

consisted of financing extensive vocational training programmes to deal with the unemployed workers.²⁰ Italy, France and Germany followed a fairly similar track to reinforce the active dimension of unemployment protection. The rationale was to retrain jobless people so they could provide the labour needed by expanding industries in the post-war years. These were by no means 'passive' policies, as argued by the author. On the contrary, during the post-war years the goal was to reinforce the active dimension of unemployment protection, essentially through vocational training, as required by the expanding industries.

Over the past two decades, ALMPs have spread across OECD countries, but the context changed dramatically after the oil crisis of the 1970s. Mass unemployment challenged the effectiveness of these policies. An emphasis in occupation, that is, keeping jobless people busy, could be seen in this period (Bonoli, 2010: 446). During the post crisis years, occupation remained an important function of ALMPs, but with an ideological switch²¹ towards workfare type policies—as re-emerged in the UK and the US in the 1980s (Torfing, 1999: 17). The increasing reference to the term 'activation' led to the development of a new role for ALMPs, which emphasized stronger work incentives, employment assistance, and reduction of unemployment benefits (Bonoli, 2010).

Several typologies have been advanced to further distinguish the labour 'activation' component in ALMPs, ranging from human capital investments up to sanctions or negative incentives to move people away from social assistance into employment. Bonoli offers an appealing framework to categorise ALMPs, based on the degree of compliance with labour market objectives and the level of investment in human capital. Using these criteria, he specifies four typologies: occupation, incentive reinforcement, employment assistance and vocational training i.e. 'upskilling' (2010: 442). This categorisation is based on a previous differentiation between active/passive policies, advanced by OECD (Martin, 1998), which laid out the debate away from passive income support towards more active measures designed to get the unemployed back into work—for Bonoli, the more pro-market kind of policies. Another taxonomy divides active labour market policies between those that are about improving human capital and those that use essentially negative incentives to move people away from social assistance into employment. An example of this can be found in Torfing (1999), who differentiates between offensive and defensive workfare. Offensive describes the Danish variant of activation, which relies on improving skills and empowerment, and the defensive variant, found in the US and UK, refers to neoliberal type of policies focused on sanctions and benefit reduction.

OECD analysis of the effectiveness of ALMPs 'is not terribly encouraging' (Martin, 1998: 28). European experiences with these policies are highly controversial. It has been held that they undermine competition and wage moderation (Marshall, 2004). Yet, the problem has been considered to be in the policy design itself. Working-for-the-sake-of-working (Torfing, 1999) might not

²⁰ In Sweden, the imposed wage levels pushed less competitive companies out of the market, as they were not able to cope with higher labour costs. Labour market policies emerged as a strategy to deal with the workers that were made redundant when these companies were pushed out of the market (Bonoli, 2010).

²¹ Partisan effects on ALMP spending are also at the core of the debate, as they can favour (or not) labour parties. See Rueda (2006) and Bonoli (2010).

be the best way to lead people out of poverty²². Many workers find no particular reward for hard work if there are no prospects of promotion or if the work that they are performing is not considered a 'real job'. Regarding more human capital building type of ALMPs, it is worth to notice that training courses are by no means substitute of proper access to education. And other instruments like job search and intermediation only work if there are firms creating jobs, which are accessible to the workers. To sum up, ALMPs might not solve, and could even exacerbate, the ill-functioning of labour dynamics.

The World Bank, in its last WDR, advocates for ALMPs. It is argued that these policies can fill the gap when employers or workers underinvest in training and that they can mitigate economic risk by providing workers with temporary employment or creating incentives for employers to hire (World Bank, 2012: 267). After an exploration of various experiences, they conclude that ALMPs effectiveness is dependent on the country's institutional capacity. It becomes a problem of policy design in which labour policies should be aligned to the needs of labour market, and address market imperfections only. Exploring the rationale underpinning ALMPs, it can be seen that it fits within the voluntary or exit argument widely used to explain informality. The logic follows the same pattern: it assumes that unemployment is a result of both, market failure (e.g. skills mismatching) and disincentives to work. Active labour programmes are thus, expected to increase employability and encourage jobless workers to abandon their unemployment status, alleged to be their voluntary option (Marshall, 2004).

The argument to bring ALMPs to less-developed countries has also been pushed by ILO. In an earlier work (2006), ALMPs were presented as a priority in circumstances where the proportion of wage employment is declining. Grouped under the labelling of 'productive insertion', the renewed set of ALMPs proposed by ILO includes: training and raising skills for work, technical assistance, access to credit, support for commercialisation, support for co-operativism and various other forms of economic solidarity (ILO and STEP, 2006). Barrientos (2006) advances this rationale further, along the lines of human capital formation. He notes that the current trend in social assistance programmes, cash transfers in particular, is to 'unlock' the potential of poor households by increasing human capital and skills formation. The ultimate objective is, then, contributing to greater labour productivity.²³ In his view, conditional cash transfers and active labour market policies share a similar aim: to improve the working of the labour market. The variant is that cash transfers are specifically targeting the poorest, which in his view will lead to increased productivity among the poor. The mechanism works as follows: gains in skills translate in increased labour productivity. As schooling is negatively correlated with informality, social assistance improves labour market outcomes (Ibid).

²² These set of policies need to be contrasted with earlier (and current) Keynesian proposals of guaranteed employment. See Torfing (1999) for a brief account of Keynesian and Schumpeterian approaches to welfare provision. Covering that analysis will exceed the scope of this chapter.

²³ The underlying proposition is that labour is a 'produced mean of production', that is, not biologically or exogenously determined. It is rather a socially constructed capacity resulting from deliberate investment in human capital. (Mkandawire, 2004 and 2007). Cash transfers proponents build on the financial limitations of the poor to regard these policies as human capital investments, although disruptive changes in education have been rooted on state investment to ensure universal access (which is closer to Makandawire's proposition), rather than on the increased liquidity of the poor.

Standberg (2012) presents two main obstacles to the operation of the aforementioned. First, age-based exit rules, considered in most of the CCTs schemes, cause that many beneficiaries continue to enter the labour market with limited qualifications, without having completed secondary education. Hence, basic education alone has little effect on mobility or formality. Second, investments in business productivity will most likely require significantly larger amounts than those being transferred (2012: 1354). In sum, coveted formal jobs, which require higher levels of education and capital, continue to be dominated by the more privileged which have already access to these elements and already perform well up.

Considering that the basic idea of ALMPs consists of putting people back into the labour market, one can ask about the applicability of ALMPs in Latin America, a region with highly segmented and restricted formal labour demand. It is not unemployment, but informality, what is regarded as the principal concern for labour policies in the region. A diffusion of ALMPs to Latin America has then, the implicit assumption that the informal workers are economically inactive. Activating them into formal employment would assume that there would be proper matching and absorbing capacity in the formal sector. Nevertheless, supply-side interventions might regulate who is to be employed i.e. increase employability but not the level of employment. Cecchini and Madariaga (2011) have presented evidence on the structural limitations in labour markets in Latin America. If the root causes of unemployment and/or informal employment are not deal with, no matter how much human capital has been formed (specially if it refers to primary/basic education levels only), there will be no proper matching.

Finally, while ALMPs might sound pioneering, they fall into the longstanding rhetoric of workfare programmes that have accompanied poverty relief for centuries. Conditional rights linked to work obligations have their own history, with a particularly famous episode in the English Poor Law history. The law was designed to protect the [rural] poor while maintaining work incentives. In the market liberal narrative, the help provided to the able-bodied led to negative dynamics: perverse incentives, by substituting perverse incentives in place of market mechanisms, ultimately harming recipients. Block and Somers (2003) advanced an alternative narrative of the Speenhamland policies—completely valid in the present-day swing in social protection. In their view, poor relief did not hurt the poor. Instead, it helped to protect them from structural changes in the economy, which had negatively affected the sources of meaningful work and family income in rural areas. Motivated by the latter, the next section discusses the perverse incentives rhetoric contended in current debates.

A matter of incentives?

All over the map of social and labour policies, the idea of 'perverse incentives' lingers. Either to explain the drop out to informality or the misuse of social policies, incentives are used as the ultimate variable explaining [lack of] development outcomes. The perversity argument is closely tied to the idea of self-regulating markets: any public policy aiming at change market outcomes automatically becomes noxious interference with beneficent equilibrating processes (Hirschman, 1991: 27).

Following this rationale, there is a significant pressure to decouple social protection from employment (Lund, 2009). Orthodox scholars, concerned about the drop in formal employment, have pushed for an agenda centred on productivity enhancing instruments—although at the risk of being turned into a powerful ethos for disciplining the workforce (Fischer, 2011: 525)—and the reduction of disincentives for labour formalisation. This means, better targeting of social risk management (for the lower-tier of the informal sector only) aligned with objectives of higher productivity and growth (directed to the upper-tier of growth oriented micro-entrepreneurs)²⁴. In addition, the World Bank, the Inter American Development Bank and organisations alike, have suggested the 'delinking' of social security from formal work altogether, positing that the state must provide just a minimal social provision for the rest, tied to citizenship claims instead (Lund, 2009).

Levy (2008) better represents the current view on the perverse effects of social policy²⁵. He argues that social benefits segment the labour market. He draws on the assumption that formal workers are the ones contributing to social security while social protection is covering informal workers. Therefore, informality not only results from the existence of barriers to entering the formal sector but chiefly as an outcome of the perverse incentives presented to individuals by social policies. The author, architect of CCTs in Mexico, considers that the combination of social policies, despite *Progres-a-Oportunidades*, contributes to trapping the poor in poverty, as they self-select into informality. Summarising his review of social policy in Mexico: social protection distorts the labour market. It creates a formal/informal dichotomy in which the state subsidises the latter.

Yet, the evidence of informal employment within the formal sector is vast.²⁶ It cannot be stated that employment in the formal sector is any guarantee of social protection and observance of labour regulations in general. Therefore, Levy's understanding of an informal sector squeezing benefits from their formal counterparts overlooks the dynamics of employment that transcend the formal/informal divide. Following such arguments might deliver clear advantages to the state, as its regulative and welfare responsibilities towards labour, formal or informal, could be shed in light of the voluntary informality (Harriss-White, 2010).

²⁴ See Perry et al. (2007) and the critique advanced by Lund, 2009.

²⁵ This argument is analogous to that found in the unemployment insurance literature, which suggests that individuals (particularly, working-age adults) getting a sum-lump transfer are induced to consume more physical goods and more leisure. Thereby, the labour supplied falls. See Meyer (1990), and Katz and Meyer (1990) seminal work on UI.

²⁶ See the *Statistical update on employment in the informal economy*, by ILO (2012).

Barrientos (2006), supporter of targeted modalities of social assistance, offers an alternative narrative about incentives created by social policy. In his analysis of the links between social assistance and social employment outcomes, he departs from the usual distinction of social protection: a component of social assistance which is tax financed, targeted to whom are economically inactive i.e. informal; and, one of social insurance, understood as the employment-based benefits for formal workers. Based on the premise that growing informalisation leads to an increased demand for social assistance, because of the reduction in social insurance coverage to the 'formal' labour force, he makes a case to maintain targeted social assistance, as it might be the only protection that informal workers have access to. He finds a positive effect from social assistance in labour outcomes, as it is helping reduce the labour supply of children and older people. The explanation relies on theoretical insights, where an increase in unearned income leads to a reduction in the labour supply of children and older people, where education subsidies or pensions target these groups specifically (2006: 175).

At first sight, this seems a sound finding. Common wisdom states that reducing child labour and elderly participation is good for development. Yet, the question remains: who compensates for that loss in labour supply? Standing (2008) points out that poor communities usually rely on the work input of children, who then risk of injuries and illness picked up from early labour experiences. Is social assistance reimbursing for the loss of these income sources? Standing argues that income support e.g. cash transfers, and associated incentives will at least ensure that children continue attending the school. Yet, and as argued elsewhere, such policies will be dealing with the symptoms, and not the causative factors of economic insecurity and precarious work. Conversely, there is a perverse rhetoric argument operating against social assistance, arguing that women will be encouraged to have more babies (see Block and Somers, 2003).

As seen above, the rationale for conditional benefits assumes that individuals have a proper choice that could be affected with the proper incentives (as per CCTs) or sanctioned with the right policies and minimal intervention (as per pro-market ALMPs). But in light of the structural constraints faced by individuals, the perverse incentives rhetoric might not hold much water. On the contrary, it should be recognised that labour markets are part of the broader economic system. As suggested by Standing, there is a pressing need to deal with poverty and income inequality rather than expect that labour markets will deal with these fundamental features of a market economy (2008: 38). Citing Block and Somers: 'it is time to reject the ideological claim that the best way to fight poverty is by imposing increasingly stringent conditions on ever shrinking transfer payments to poor households' (2003: 314).

4

Concluding remarks

Social policy interventions are often regarded as having a transformative role: they are not just responding to poverty but building the human capital of the future (Lund, 2009). It is argued that they can set the foundation for a virtuous circle of less poverty, increased human capital and economic growth. Yet, this association needs to be re-evaluated in the light of widespread informality. Analysis of human capital formation should be taken with caution in informal economies. In a context of dual labour markets and income inequality, increased human capital does not necessarily translate into increased labour productivity. The prevalence of small-scale and pauperised labour evidences the lack of decent job opportunities.

However, most mainstream accounts are not worried about this. In fact, they perceive the informal sector as a convenient solution, due to its capacity for absorbing low-skilled workers. If by engaging in informal sector, workers end up in poverty, it is attributed to their individual condition of unskilled workers.²⁷ Thus, the 'right policy' is to invest in human capital formation, due to its benefits over the long term, increased labour productivity in particular. In the short run, informality is presented as a dignifying alternative, provider of an autonomous option for those unskilled workers.

A reduced number of authors disagree with this view. For instance, Mkandawire (2007) noted that if social policy does not actively respond to the retrenchment of labour resulting from increased informalisation, gained skills would devaluate. Thus, reducing informality may raise the time horizon of workers, who will not be accepting precarious job conditions anymore, opting instead for planning and commitment for their long run benefit. Social policy can help an economy to advance towards a better stage, by stimulating the demand for skilled labour and by insuring workers against the implicit risks of moving up the skill chain (Ibid). Nevertheless, this proposition needs to be complemented with demand-side tools that ensure a proper 'matching' for the newly qualified workforce. In other words, without appropriate job opportunities, there is no actual choice left for workers.

Besides, there is a high risk in embracing informality and remodelling institutions to it. Social policy design might be simply reduced to adapting to this reality, instead of incorporating strategies to change and improve workers conditions and employment opportunities. It is often unclear who is responsible for the fate of informal workers. The common trend is to make individuals responsible of their own fate. For instance, micro-credit schemes require poor people to

²⁷ A proponent of this view is (Maloney, 2004). The author claims that the poverty observed among informal workers is a function of their low human capital. With low human capital, neither job, formal or informal, will guarantee and exit from poverty. In his view, their status at work is mainly incidental (Maloney 2004): 1173.

supply their own employment as entrepreneurs. Sadly, this solution works only for those already prosperous, as noted elsewhere (Li, 2010; and Berner, et. al., 2012).

I join the prerogative for the re-linking of social and labour issues, in an interdependent way, as proposed by Heintz and Lund (2012). Still, while I understand that labour and social policies can work together in order to frame solutions to promote employment, I would argue that the type of policies matters. Differences between instruments and priorities advanced through active labour market policies should be treated with caution. Building the transition from targeted assistance i.e. CCTs, to work, needs a careful recognition of the structural elements that have reproduced the segmentation of labour markets in the very first place. The possibility of improving the working of the labour markets depends on the broader economic environment in which jobs are created (Cook and Razavi, 2012). And the quality of jobs definitely matters—considerably more than the number of jobs, as shown by the increase in informal employment together with the degradation of working conditions. Differences between formal employment, self-employment, and non-standard employment, represent the key change in a worker's life chances.



Appendices

Appendix 1

Keeping track of the current debate: ILO's changing recommendations

Although the concept of informal sector has been waned since its 'inception', most scholars agree that it is relevant insofar as the reality that tries to capture: unprotected employment. This is the shift that in the last couple of decades, the ILO has tried to incorporate, developing a more holistic understanding of the informal economy, away from firm-based definition and centred into employment relations. Within this process, Women in Informal Employment Globalising and Organising (WIEGO) has played a critical role, by locating the debate around informal workers, women in particular, on account of the large share of the global workforce and production that remains outside the world of full-time, stable and protected employment.

This was the main motive underlying the change of focus towards the work-dimension of informality, as it happened in the 2000s. In 1993, the 15th International Conference of Labour Statisticians (ICLS) defined employment in the informal sector as comprising all jobs in informal sector enterprises, or all persons who, during a given reference period, were employed in at least one informal sector enterprise (Husmanns, 2004). This definition did not consider workers' status in employment or whether it was their main or a secondary job. In 2003, the 17th ICLS established the links between the concepts of employment in the informal sector, informal employment and informal economy. The 17th ICLS was also clear on defining parallel notions, as the one of the non-observed economy. It specified that the informal economy should not be used interchangeably with the illegal/criminal and/or underground economy concepts. Illegal production involves activities that are forbidden by law--represent a contravention of the criminal code. Underground production, on the other hand, is defined as activities that are legal but deliberately concealed from public authorities (Husmanns, 2004). The reproductive or care economy²⁸ was not included as part of the informal economy as defined by ILO, as it is regarded as taking place outside the market economy (Ibid).

In accordance to ICLS recommendations, the informal economy should be defined as encompassing 'all economic activities by workers and economic units that are—in law or in practice—not covered or insufficiently covered by formal arrangements' (Husmanns, 2004). The attention moved away from a firm-based definition of the informal sector towards informal

²⁸ Note that it depends on the definition of care economy.

employment,²⁹ defined as the total number of informal jobs, whether carried out in formal and informal sector enterprises, or households (Ibid). The table below presents the different job categories by status in employment, as recommended by ILO. Informal employment corresponds to the cells 1 to 6 and 8 to 10, a greater segment of the informal economy, when compared to the previous definition: employment in the informal sector. ILO, arguing that they present different aspects of informalisation, measures both categories.

Table 1 Job categories by status in employment

Job by status in employment										
Production units by type	Own-account workers		Employers		Contributing family workers	Employees			Members of producers' cooperatives	
	<i>Informal</i>	<i>Formal</i>	<i>Informal</i>	<i>Formal</i>	<i>Informal</i>	<i>Informal</i>	<i>Formal</i>	<i>Informal</i>	<i>Formal</i>	
Formal sector enterprises					1	2				
Informal sector enterprises	3		4		5	6	7	8		
Households	9					10				

Notes:

Cell shaded in light grey refer to formal jobs; un-shaded cell represent the various types of informal jobs; and cell shaded in dark grey refers to jobs, which, by definition, do not exist in the type of production unit in question.

Source: Hussmanns (2004)

As far as the notion of the informal sector is concerned, confusion about its definition and measurement accompanied its use in academic circles, not even to mention the changing position of ILO on the appropriate policy stance towards it (Standing, 2008). Informal employment, as above defined, has much more potential to explain current employment dynamics. Yet, the concept of informal employment did not settle down with the same weight as employment in the informal sector did. As a way of illustration, find in the Appendix 2 ILO estimates for informal employment and employment in the informal sector in Ecuador. Discrepancies in the inclusion of secondary and tertiary occupations, seasonality, inclusion of the agricultural sector, among many, affect the reliability of the calculations. See Appendix 3 for a detailed review of these diverging definitions and measurements for the Ecuadorian case.

²⁹ Due to the overall concern of precarious conditions at work, not fully captured by the formal/informal dichotomy, ILO also incorporated the concept of vulnerable employment. It comprises the sum of own-account and contributing family workers. These groups are regarded as vulnerable because they are less likely to have formal work arrangements, lack decent work conditions, and adequate security. It plays a marginal role in the debate, which is clustered around the employment in the informal sector per se.

Appendix 2
Estimates for informal employment and employment
in the informal sector in Ecuador

Official data on informality in Ecuador is obtained from labour force surveys. Although INEC calculations follow ILO recommendations (based on the 17th ICLS figures for employment in the informal sector are slightly different. Only ILO estimates the share of informal employment.

Table 2
Employment in the informal sector and informal employment: Ecuador (2009)

Ecuador (2009 IV Qtr.)						
Source	Persons in informal employment		Persons employed in the informal sector		Persons in informal employment outside the informal sector	
	Thousands	% of non-agricultural employment	Thousands	% of non-agricultural employment	Thousands	% of non-agricultural employment
ILO/WIEGO	2,691	60.9	1,646	37.3	1,062	24.0
INEC/SIISE	n/a	n/a	1,924	43.8	n/a	n/a

Notes:

2009 was chosen because is the only year for which informality estimates are produced by the three selected institutions
Compiled by the author.

Retrieved from: http://www.ilo.org/global/statistics-and-databases/WCMS_179795/lang--en/index.htm
<http://www.siise.gob.ec/siiseweb/>

This first survey of available measurements ratifies the difficult task involved in quantifying informality. What is more, it has uncovered several conceptual dimensions that can be explored in greater detail in later stages of my research. The next appendix presents some work advanced in this regard, exploring the different theoretical assumptions underpinning current conceptualisations and measurements of informality in use in Ecuador.

Appendix 3

Definitions, methods and actual measurements of informality in Ecuador

The heterogeneity of views on the informal economy is mirrored in the variety of methods that are put forward to estimate the size and characteristics of it. Informality is often defined at both, the level of economic units or at the level of workers. Estimates emphasise the status of activities (registered or not), the size of economic units (mostly small scale) or workers status in employment and access to social coverage. Most of the estimates cover only urban areas and do not include the agricultural sector, which may give a partial perspective of the informal economy in the country.

The informal sector in Ecuador: official definition

The National Department of Statistics in Ecuador (INEC) defines informality using enterprise-based criteria, on account of their size and their registration status. Under this definition, all persons who work in small-unregistered enterprises (both employers and employees) as well as self-employed persons or those engaged in family business, are part of the informal sector. In specific, the informal sector is defined by INEC as comprising (1) all own-account enterprises (as defined in the 15th ICLS conference); (2) non-registered own-account enterprises; (3) enterprises owned/administrated by informal employers with less than 11 employees; (4) enterprises of informal employers which are not registered; (5) enterprises of informal employers whose employees are not registered; and (6) households with paid domestic employees--not part of domestic service.

Method

The labour force survey of Ecuador, ENEMDU (Acronym for its Spanish name: *Encuesta Nacional de Empleo, Desempleo y Subempleo Urbano*) uses a filtering approach to ask the conceptual questions aimed at identifying persons employed in the informal sector. It uses questions on status in employment and size of the establishment as filters for informality. Data on informal employment could also be obtained from this survey, but it is not estimated by INEC. ILO uses the information gathered by ENEMDU surveys on social protection coverage to characterise the qualitative aspects related to decent work conditions, as presented elsewhere.

Measurement

ENEMDU is based on a sample of 9,180 households in urban areas of Ecuador, with the exception of the Galapagos Islands. With quarterly periodicity of data collection in the months of: March, June, September and December, it covers the usual residents present and the usual residents temporarily absent. The sub-annual surveys results are not adjusted for seasonal variations. The labour related questions of the survey relate to the population of 10 years old and over (and 5 years old and over for the child labour module). The table below presents the estimates for employment in the informal sector that are comparable, that is, the surveys were conducted under

the same methodological guidelines. Changes in labour force surveys methods and coverage have affected the observed trends in informality, with an important breakpoint after 2007 that makes of time-series comparison a difficult task.

Table 3
Employment in the informal sector: Ecuador (various years)

Share of persons employed in the informal sector (above 10 years old)

Area	2007	2008	2009	2010	2011
National	50.29	50.77	51.13	52.53	52.37
Rural	65.92	65.27	66.29	68.17	65.64
Urban	42.08	43.64	43.41	44.63	45.83

Notes:

Years: 2007 - 2011

Compiled by the author.

Retrieved from: <http://www.siise.gob.ec/siiseweb/>

Employment in the informal sector has been also measured by other organisations besides ILO, compiling direct and/or indirect methods. For instance, ECLAC defines employment in the informal sector as the urban population employed in low productivity sectors of the labour market: enterprises employing up to five persons, domestic services, or own-account non-qualified workers. Other institutions deal with informality from other entry points. OECD uses self-employment as a proxy for informal employment. The World Bank has attempted to measure the size of the informal economy. It has done it via estimating the weight of informal activities in the GNP, and using firm surveys to collect data from business owners and top managers.

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