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Bureaucratic form and the informal economy

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Introduction

Most readers of this book live substantially inside what we may call the formal economy. This is a world of salaries or fees paid on time, regular mortgage payments, clean credit ratings, fear of the tax authorities, regular meals, moderate use of stimulants, good health cover, pension contributions, school fees, driving the car to the commuter station, summer holidays by the sea. Of course households suffer economic crises from time to time and some people feel permanently vulnerable. But what makes this lifestyle 'formal' is the regularity of its order, a predictable rhythm and sense of control that we often take for granted. I only discovered how much of this had become natural to me when I went to live in a West African city slum forty years ago.

I would ask questions that just didn't make sense to my informants, for example concerning household budgets. How much do you spend on food a week? Households were in any case often unbounded and transient. Assuming that someone had a regular wage (which many didn't), it was pitifully small; the wage-earner might live it up for a day or two and then was broke, relying on credit and help from family and friends or not eating at all. A married man might use his wage to buy a sack of rice and pay the rent, knowing that he would have to hustle outside work until the next paycheck. In the street economy people were moving everything from marijuana to refrigerators in deals marked

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more by flux than stable income. After completing a doctorate, I went to work in a development studies institute. There I saw my main task as trying to get this ethnographic experience across to development economists. My use of the conceptual pair formal/informal came out of those conversations. Now we have been brought together to examine how the poles might be linked more effectively in the context of 'development'.

The formal and informal aspects of society are already linked of course, since the idea of an 'informal economy' is entailed by the institutional effort to organize society along formal lines. 'Form' is *the rule*, an idea of what ought to be universal in social life; and for most of the twentieth century the dominant forms have been those of bureaucracy, particularly of national bureaucracy, since society has become identified to a large extent with nation-states. This identity may now be weakening in the face of the neo-liberal world economy and a digital revolution in communications (Hart 2001a). Any initiatives combining public bureaucracy with informal popular practices need to be put in this historical context.

The formal and informal appear to be separate entities because of the use of the term 'sector'. This gives the impression that the two are located in different places, like agriculture and manufacturing, whereas both the bureaucracy and its antithesis contain the formal/informal dialectic within themselves as well as between them. The need to link the sectors arises from a widespread perception that their relationship consists at present of a class war between the bureaucracy and the people. It was not supposed to be like this. Modern bureaucracy was invented as part of a democratic political project to give citizens equal access to what was theirs as a right (Weber 1978). It still has the ability to co-ordinate public services on a scale that is beyond the reach of individuals and most groups. So it is disheartening that bureaucracy ('the power of public office') should normally be seen now as the negation of democracy ('the power of the people') rather than as its natural ally.

Forms are necessarily abstract and a lot of social life is left out as a result. This can lead to an attempt to reduce the gap by creating new abstractions that incorporate the informal practices of people into the formal model. Naming these practices as an 'informal sector' is one such devise. They appear to be informal because their forms are largely invisible to the bureaucratic gaze. Mobilizing the informal economy will require a

pluralistic approach based on at least acknowledgement of those forms. Equally, the formal sphere of society is not just abstract, but consists also of the people who staff bureaucracies and their informal practices. Somehow the human potential of both has to be unlocked together.

The remainder of this chapter has three parts. The first reviews the concept of an 'informal economy/sector' from its origin in discussions of the Third World urban poor to its present status as a universal feature of economy. The second part asks how we might conceive of combining the formal/informal pair with a view to promoting development. In short concluding remarks I suggest how partnerships between bureaucracy and the people might be made more equal.

The informal economy in retrospect

In the twentieth century, capitalism took the specific form of being organized through the nation-state. 'National capitalism' was the attempt to manage markets and money through central bureaucracy (Hart 2001a). Its antithesis is the 'informal economy', a term that originated in the early 1970s. Beginning as a way of conceptualizing the unregulated activities of the marginal poor in Third World cities, 'the informal sector' has become recognized as a universal feature of the modern economy. Independence from the state's rules unites practices as diverse as home improvement, street trade, squatter settlements, open source software, the illegal drugs traffic, political corruption and offshore banking. The issue of 'informal economy' is thus intimately tied up with the question of how long national capitalism can continue as the world's dominant economic form.

Welfare-state democracy was sustained by 'macro-economics', a term associated with Maynard Keynes (1936). Only the state could regenerate a damaged market economy, mainly by spending money it did not have to boost consumer demand. The economic boom of the 1950s and 60s depended on the coordinated efforts of the leading industrial states to expand their public sectors. It all began to unravel in the 'stagflation' of the 1970s. The neo-conservative liberals who have dominated politics in the last quarter-century sought to counter inflation with 'sound money' and to release the potential of the market by getting the state off its back. But their policies often combined 'privatization' with a strengthening of state power. In the process they began to dismantle

twentieth-century social democracy.

The idea of an 'informal economy' has run as a submerged commentary on these developments. It came out of the lives of Third World city-dwellers, whose lack of money makes them about as conventionally poor as it is possible to be. By the 1970s it was becoming clear that development was a pipe-dream for Third World countries. Populations had exploded; cities were growing rapidly; mechanization was weak; productivity in predominantly agricultural economies remained low; and the gap between rich and poor was widening. The consensus was that the only institution capable of mobilizing economic resources was the state. Marxists and Keynesians agreed on this; free-market liberals had no effective voice at this time. The malaise was conceived of as 'urban unemployment'. Third World economies were supposed to deliver jobs, but, in the absence of machine-based industry, employment creation was left largely to the only economic agent of any significance, public bureaucracy. The number of corporate firms offering jobs was embarrassingly small. What then could all the other new inhabitants of the major cities be up to? They must be unemployed. Figures of 50% unemployment and more were conjured up by economists. The spectre of the 1930s - broken men huddling on street corners ('Buddy, can you spare a dime?') dominated development discourse.

Anyone who visited, not to mention lived in, these sprawling cities would get a rather different picture. Their streets were teeming with life, a constantly shifting crowd of hawkers, porters, taxi-drivers, beggars, pimps, pickpockets, hustlers – all of them getting by without the benefit of a 'real job'. There was no shortage of names for this kind of early-modern street economy. Terms like 'underground', 'unregulated', 'hidden', 'black' and 'second' economies abounded. The best account was Clifford Geertz's of the contrasting face of Indonesian entrepreneurship and especially of the *suq* or bazaar (1963).b The majority of a Javanese town's inhabitants were occupied in a street economy that he labeled 'bazaar-type'. The 'firm-type' economy consisted largely of western corporations who benefited from the protection of state law. These had *form* in Weber's (1981) sense of 'rational enterprise', being based on calculation and the avoidance of risk. National bureaucracy lent these firms a measure of protection from competition, thereby allowing the systematic accumulation of capital. The 'bazaar' on the other hand was individualistic and competitive, so that accumulation was well-nigh

impossible. Geertz identified a group of Reform Moslem entrepreneurs who were rational and calculating enough; but they were denied the institutional protection of state bureaucracy granted to the existing corporations.

Here and in his later work on the Moroccan *suq* (Geertz, Geertz and Rosen 1979), Geertz pointed out that modern economics uses the bazaar model to study the decisions of individuals in competitive markets, while treating as anomalous the dominant monopolies protected by state bureaucracy. The discipline found this model in the late nineteenth century, just when a bureaucratic revolution was transforming mass production and consumption along corporate lines. At the same time the more powerful states awarded new privileges to capitalist corporations and society took its centralized form as national bureaucracy. Perhaps because he was poking fun at the economists, Geertz's analytical vocabulary was not taken up by them. The antithesis of the state-made modern economy had not yet found its academic name. This came about through a paper I presented at a Sussex conference on 'Urban employment in Africa' in 1971.

The main message of the paper (Hart 1973) was that Accra's poor were not 'unemployed'. They worked, often casually, for erratic and generally low returns; but they were definitely working. What distinguished these self-employed earnings from wage employment was the degree of rationalization of working conditions. Following Weber (1981), I argued that the ability to stabilize economic activity within a bureaucratic form made returns more calculable and regular for the workers as well as their bosses. That stability was in turn guaranteed by the state's laws, which only extended so far into the depths of Ghana's economy. 'Formal' incomes came from regulated economic activities and 'informal' incomes, both legal and illegal, lay beyond the scope of regulation. I did not identify the informal economy with a place or a class or even whole persons. Everyone in Accra, but especially the inhabitants of the slum where I lived, tried to combine the two sources of income. Informal opportunities ranged from market gardening and brewing through every kind of trade to gambling, theft and political corruption. My analysis had its roots in what people generate out of the circumstances of their everyday lives. The laws and offices of state bureaucracy only made their search for self-preservation and improvement more difficult.

I hoped to interest economists by presenting my ethnography in a language they

were familiar with. The idea of an 'informal sector' was taken up quickly by some of them, so quickly indeed that a report by the International Labor Office (ILO 1972) applying the concept to Kenya came out before my own article had been published. The ILO report suggested that self-employed or 'informal' incomes might reduce the gap between those with and without jobs and so could contribute to a more equitable income distribution. Following the 'growth or bust' policies of the 1960s, they advocated 'growth with redistribution', that is, helping the poor out of the proceeds of economic expansion. This reflected a shift in World Bank policy announced by its president, Robert McNamara, in Nairobi a year later. By now the Bretton Woods institutions were worried about potential social explosions; and they felt that more attention should be paid to peasants and the urban poor. A vogue for promoting the 'informal sector' as a device for employment creation fitted in with this shift.

Most economists saw it in quantitative terms as a sector of small-scale, low-productivity, low-income activities without benefit of advanced machines; whereas I stressed the reliability of income streams, the presence or absence of bureaucratic *form*. When the bureaucracy tried to promote the informal sector – by providing credit, government buildings or new technologies, for example – it killed off the informality of the enterprises concerned and moreover exposed participants to taxation. The association of the idea with the sprawling slums of Third World cities was strong; but the 'commanding heights' of the informal economy lay at the centres of political power itself, in the corrupt fortunes of public office-holders who often owned the taxis or the rented accommodation operated by the small fry.

The 1980s saw another major shift in world economy following the lead of Reagan and Thatcher. Now the state was no longer seen as the great provider. Rather 'the market', freed of as many encumbrances as possible, was the only engine of growth. The informal economy took on a new lease of life as a zone of free commerce, competitive because unregulated. This coincided with the imposition of 'structural adjustment' policies that reduced public expenditures and threw responsibility onto the invisible self-help schemes of the people themselves. By now, the rhetoric and reality of development had been effectively abandoned as the Third World suffered the largest income drain in its history, in the form of repayment of debts incurred during the wild banking boom of

the 1970s (George 1990).

So is it possible to assess the informal economy's role in Third World development? There has been an urban revolution there since 1945 with state economic power concentrated in a few cities. Rural—urban migration has vastly exceeded the growth of bureaucratic employment. Even those who have jobs often must supplement them with outside earnings. The growth of cities has not stimulated exchange between local agriculture and industry, since the subsidized farmers of the rich countries supply food imports and cheap manufactures are available from Asia (Hart 2004). This has only encouraged more of a stagnating peasantry to leave home for the city. The informal economy has in some cases been a source of economic dynamism, even capital accumulation. At the very least, it has allowed people to maintain themselves in the urban areas.

The world economy has become increasingly informal in recent decades. Illegal drugs are the most valuable commodity traded internationally. Finance has been slipping its political shackles, by relocating offshore where money transactions can hardly be monitored or taxed. The armaments industry is a sea of corruption reaching the core of western governments. 'Grey markets' for goods imitating well-known brands and unlicensed reproductions (especially videos, CDs and tapes) have been labeled as 'piracy' (Hart 2005). The irrational borders of nation-states are riddled with smuggling. The informal economy is now considered to be a feature of the industrial countries, ranging from domestic do-it-yourself to the more criminalized economy of disaffected youth (Pahl 1984). Even before the collapse of Stalinist bureaucracy in the Soviet Union and its satellites, it was clear that the command economy had spawned a flourishing 'black market', antecedent of the criminal mafias and 'oligarchs' who now dominate the Russian economy. In Europe, the dissident left has long had a slogan: 'Think red, work black, vote green.'

Meanwhile, the collapse of the state in many Third World countries has led to the whole economy becoming informal. President Mobutu and his successors have reduced the Congo region to a shambles where soldiers loot at will and politicians fill foreign bank accounts (MacGaffey 1991). Mobutu boasted of being one of the richest men in the world and once hired a train for a lavish party in New York. Or take Jamaica, which in

the 1970s was a model 'middle-income' developing economy. At one point the value of illegal marijuana sales (ganja) was higher than the country's three leading legitimate industries (tourism, bauxite, garments) taken together. No wonder politics was carried out by armed gangsters and youths left school early to learn hustling on the street. When most of the economy is 'informal', the usefulness of the category becomes questionable.

The term's original context was the stand-off of the Cold War (Hart 1992). The conflict between state socialism and the free market was frozen by the unthinkable prospect of a nuclear resolution. By the early 1970s national capitalism had taken on a timeless quality as a universal social form. The activities of little people in the cracks of a state-regulated economy were seen as at best a defensive reaction and aid to survival, surely not as a basis for any serious alternative. It seemed unlikely then that the formal/informal pair contained much potential for movement; but now we know better.

The label 'informal' may be popular because it is both positive and negative. To act informally is to be free and flexible; but the term also says what people are not doing — not wearing conventional dress, not being regulated by the state. The informal sector allowed academics and bureaucrats to incorporate the teeming street life of exotic cities into their abstract models without having to confront the specificity of what people were really up to. To some extent, I sacrificed my own ethnographic encounter with real persons to the generalizing jargon of development economics. The 'velvet revolution' of Eastern Europe and the Soviet Union demonstrated that ordinary people could get rid of the most awesome bureaucratic states with remarkably little violence. Who can now think of the state as eternal when Stalin's successors were dispensed with so completely? And then, if the informal economy is a little people's alternative, would we want to live in a Moscow run by gangsters and the KGB?

West Africa's former colonies were among the last admitted to national capitalism and the first to leave. Ghana was already in an advanced state of political and economic decay in the mid 1960s. Seen in that light, my fieldwork may be thought of as a harbinger of national capitalism's decline. After much of the Third World dropped out of the movement of the world economy, the communist bloc followed suit, leaving America, Western Europe and a resurgent Asia to contemplate the consequences for their own societies. The informal economy was the self-organized energies of people excluded

from participating in the benefits guaranteed by state rule. The question remains if those energies could be harnessed more effectively in partnership with bureaucracy.

Combining the formal and informal 'sectors'

'Form' is an idea whose origin lies in the mind. Form is the rule, the invariant in the variable. It is predictable and easily recognized. For example, in a birdwatcher's guide, it would not do to illustrate each species with a photograph of a particular bird. It might be looking the wrong way or be missing a leg... So instead a caricature shows the distinctive beak, the wing markings and so on. That is why idealist philosophers from Plato onwards thought the general idea of something was more real than the thing itself. Words are forms, of course. In his *Science of Logic*, Hegel shows the error of taking the idea for reality (James 1980). We all know the word 'house' and might think there is nothing more to owning one than saying 'my house'. But before long the roof will leak, the paint will peel and we are forced to acknowledge that the house is a material thing, a process that requires attention. The 'formal sector' is likewise an idea, a collection of people, things and activities; but we should not mistake the category for the reality it identifies.

What makes something 'formal' is its conformity with such an idea or rule. Thus formal dress in some societies means that the men will come dressed like penguins, but the women are free to wear something extravagant that suits them personally – they come as variegated butterflies. The men are supposed to look the same and so they adopt a 'uniform' that cancels out their individuality. Formality endows a class of people with universal qualities, with being the same and equal. What makes dress 'informal' is therefore the absence of such a shared code. But any observer of an informally dressed crowd will notice that the clothing styles are not random. We might ask what these informal forms are and how to account for them. The world's ruling elite is identified as 'the men in suits', because they choose to wear a style invented in the 1920s as an informal alternative to formal evening dress. The dialectic is infinitely recursive. No wonder that some economists find the conceptual dichotomy confusing and impossible to measure (Sindzingre 2004).

There is a hierarchy of forms and this hierarchy is not fixed for ever. The twentieth century saw a general experiment in impersonal society whose forms were

anchored in national bureaucracy, in centralized states and laws carrying the threat of punishment. The dominant economic forms were also bureaucratic and closely linked to the state as the source of universal law. Conventionally these were divided according to principles of ownership into 'public' and 'private' sectors. This uneasy alliance of governments and corporations is now sometimes classified as 'the formal sector'. What they share, at least on the surface, is conformity to the rule of law at the national and increasingly international levels. How then might non-conformist economic activities, 'the informal economy', relate to this formal order? They may be related in any of four ways: as *division*, as *content*, as *negation* and as *residue*. This conceptualization should inform actions designed to improve the linkages between the two.

The moral economy of capitalist societies is based on an attempt to keep separate impersonal and personal spheres of social life (Hart 2001a, 2005). The establishment of a formal public sphere entailed another based on domestic privacy (Elias 1982). The latter was built up to constitute with the former complementary halves of a single whole. Most people, traditionally men more than women, divide themselves every day between production and consumption, paid and unpaid work, submission to impersonal rules in the office and the free play of personality at home. Money is the means whereby the two sides are brought together, so that their interaction is an endless process of separation and integration that I call 'division'. The division of the sexes into male and female is the master metaphor for this dialectic of complementary unity. In Hegel's terms (James 1980), when the lines between the pair become blurred, we enter a phase of 'negative dialectic', from which a new idea may eventually emerge. Focusing on the informal practices that constitute a bureaucracy implies such a blurring at the expense of maintaining what was always only a utopian ideal.

For any rule to be translated into human action, something else must be brought into play, such as personal judgment. So informality is built into bureaucratic forms as unspecified 'content'. This is no trivial matter. Workable solutions to problems of administration invariably contain processes that are invisible to the formal order. For example, workers sometimes 'work-to-rule' (Scott 1998). They follow their job descriptions to the letter (the formal abstraction of what they actually do) without any of the informal practices that allow these abstractions to function. Everything grinds to a

halt as a result. Or take a chain of commodities from their production by a transnational corporation to their final consumption in an African city. At several points invisible actors fill the gaps that the bureaucracy cannot handle directly, from the factories to the docks to the supermarkets and street traders who supply the cigarettes to smokers. Informal processes are indispensable to the trade, as variable content to the general form.

Of course, some of these activities may break the law, through a breach of health and safety regulations, tax evasion, smuggling, the use of child labour, selling without a licence etc. The third way that informal activities relate to formal organization is thus as its 'negation'. Rule-breaking takes place both within bureaucracy and outside it; and so the informal is often illegal. This compromises attempts to promote the informal sector as a legitimate sphere of the economy, since it is hard to draw a line between colourful women selling oranges on the street and the gangsters who exact tribute from them. When the rule of law is weak, the forms that emerge in its place are often criminal in character. A good part of modern society consists in protecting the public image of bureaucratic processes from a reality that mixes formal order with corruption and criminality. We watch movies about cops and robbers, but we detach these fictions from the idea of the rule of law that helps us to sleep at night.

The fourth category is not so obviously related to the formal order as the rest. Some 'informal' activities exist in parallel, as 'residue'. They are just separate from the bureaucracy. It would be stretching the logic of the formal/informal pair to include peasant economy, traditional institutions and much else within the rubric of the 'informal'. Yet the social forms endemic to these often shape informal economic practices and *vice versa*. What is at stake here is whether society is just one thing – one state with its rule of law – or can tolerate a measure of legal pluralism, leaving some institutions to their own devices (Comaroff & Comaroff 2004). Communities exist to the extent that their members understand each other for practical purposes; and so they operate through culture. They use implicit rules (customs) rather than state-made laws and usually regulate their members informally, relying on the sanction of exclusion rather than punishment. European empires, faced with a shortage of administrative resources, turned to 'indirect rule' as a way of incorporating subject peoples into their systems of government on a semi-autonomous basis. This legal pluralism delegated supervision of

indigenous customary forms to appointed chiefs and headmen, reserving the key levers of power to the colonial regime. Anthropologists played their part in documenting how this might work out (Asad 1973). Any serious attempt to link the formal and the informal today requires a similar openness to plurality of form.

Take the case of South Africa (Marais 1998; Hart and Padayachee 2000). Even before the ANC took power, they formulated an economic policy that would harness the energies of the black majority. It was called the Reconstruction and Development Programme (RDP), Redistribution from the white beneficiaries of apartheid could never meet the needs of 30 million poor Africans for income, jobs, education, health, housing, transport etc. The government must contribute funds and coordination to self-help development projects mobilizing the labour contained in local communities. Two years after gaining power, the ANC replaced the RDP with GEAR (Growth, Employment and Redistribution). Instead of helping communities to build their own houses, the government relied on foreign loans, imported materials and development bureaucracy (Nustad 2004). The 'Rainbow Nation' joined the neo-liberal world economy with escalating economic inequality as the inevitable result. Why? Mobilizing communities sounds fine, but it is incompatible with running a strong state. The central bureaucracy found that it could not control projects at the periphery. Even worse, they were often empowering the ruling party's political opponents. GEAR recognized that, if the government could not enter partnership directly with the people, it would have to rely on international agencies and capital. So South Africa repeated the continent's post-colonial path towards dependence on outsiders. Co-operation with informal actors may require the central power to give up more than it is willing to.

A study of decentralized development in Scotland and three other European countries drew similar conclusions (Bryden and Hart 2004, Hart 2001b). Here too the aim was devolution from central government in the interest of self-organized rural development. Northern Scotland has been the target of regional development initiatives over a longer period than almost anywhere. Yet we found that central government offered to release power to communities only to hold onto it subsequently, often frustrating any sense of local autonomy. They preferred government-appointed NGOs to elected bodies with popular legitimacy. Over and over again, local initiatives were thwarted by some fiat

of a remote bureaucracy. The British government genuinely wanted to offload part of the tax burden by getting people to do some things themselves. They just could not give up control. Even the creation of a new Scottish parliament was hamstrung by the retention of most economic power by the UK Treasury.

Might the multilateral agencies take the lead in establishing genuine partnership with individuals and groups located outside the bureaucracy? The World Bank has promoted the informal sector ever since it was coined. As the institution responsible for alleviating world poverty, the Bank is acutely aware that it is a top-heavy bureaucracy remote from the people it would like to help. 'The informal sector' stands for the people in some way, as does 'social capital', another of the concepts much in vogue there (McNeill 2004). How can the Bank promote these ideas without killing them off? Would people be better off left alone by the bureaucracy? The excluded urban masses of the poor countries must play their own part in 'development'; but a lasting solution should draw on the institutional resources locked up international bureaucracies.

Conclusion

General Forms have their vitality in Particulars, and every Particular is a Man.

William Blake

The 'informal economy' has had a brilliant success over more than three decades. It lends the appearance of conceptual unity to whatever goes on outside the bureaucracy. Now, perhaps fearing its own isolation in a 'planet of slums' (Davis 2004), the bureaucracy is offering partnership to 'the informals'. The formal-informal dialectic is intrinsic to both the bureaucracy and the informal economy, as well as between them. We need to know how formal bureaucracy works in practice and, even more important, what social forms have emerged to organize the informal economy. If I once sought to translate my own ethnographic experience into 'economese', it is now time to reverse the process and examine the institutional particulars sustaining whatever takes place beyond the law.

The historians of comparative jurisprudence (Maine 1906, Maitland 1957) emphasized the concrete particularity of the customary legal institutions they studied in Medieval England or Victorian India. For all their imperialist vision, they refused to

sacrifice detail for the sake of generalization. Modern ethnographers have likewise documented in immense detail the kinship institutions and religious practices of local groups in Africa and the Pacific. This is no longer fashionable: anthropologists today are funded to study ethnicity, gender, AIDS and, of course, the informal economy. In my own research I focused on specific individuals and was obliged to study the contractual forms of their enterprises, their kinship ties and family organization, their friendship networks and voluntary associations, their religious affiliations, their relationship to criminal gangs and corrupt officials, their patronage systems and political ties (Hart 1988). Only later did I join the rush to generalize about the population explosion of Third World cities. The issue of criminal organization inside and outside the formal bureaucracy cannot be wished away. Unlocking human potential by improving links between the 'formal and informal sectors' rests on confronting the cultural specificity of economic activities that cross the great divide.

Any attempt to divide an economy into complementary halves requires a massive cultural effort of both separation and integration. This idea of interdependent, but separate halves of a social whole is a powerful undercurrent in development discourse and should be subjected to criticism. The idea of informality as the content of abstract forms favours leaving more to people's imagination and accepting the legitimacy of most informal practices. When the informal is illegal, the obvious response is to crack down on rule-breakers; but such moves are often merely cosmetic -- the biggest offenders escape and the law is made to appear an ass. The number of legal offences could often profitably be reduced. Finally, governments might adopt a genuinely hands-off approach towards semi-autonomous communities within their jurisdiction. If all of these modes of formal/informal linkage were considered, there might be some prospect of bureaucracy and the people entering a new partnership for development.

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