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SECOND BEST? TRENDS AND LINKAGES IN THE INFORMAL ECONOMY IN SOUTH AFRICA

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Introduction

In August 2003, President Mbeki in an address to the National Council of Provinces, first introduced the idea of South Africa being characterised by a 'First Economy' and a 'Second Economy' operating side by side. He states:

The second economy (or the marginalised economy) is characterised by underdevelopment, contributes little to GDP, contains a big percentage of our population, incorporates the poorest of our rural and urban poor, is structurally disconnected from both the first and the global economy and is incapable of self generated growth and development.

Since this speech the notion of the 'second economy' has become part of policy rhetoric at all levels of state, including in the recent Accelerated and Shared Growth Initiative in South Africa (Asgisa). In this paper the notion of two economies as articulated by Mbeki and the African National Congress is interrogated. Using Statistics South Africa data we reflect on recent labour market trends. This data supplemented with qualitative research is harnessed to suggest that there are several inaccuracies with the notion of the 'second economy'. We particularly examine linkages between employment in the formal and the informal economy arguing that, contrary to the views of the President and the ANC, there are in fact fairly close linkages between the formal economy and the informal economy.

The Notion of the 'Second Economy'

The governing party elaborated on the notion of a dual economy by characterising the two economies as follows:

The first and second economies in our country are separated from each other by a structural fault. ... what we now have is the reality ... of a "mainly informal, marginalised, unskilled economy, populated by the unemployed and those unemployable in the formal sector". The Second Economy is caught in a "poverty trap". It is therefore unable to generate the internal savings that would enable it to achieve the high rates of investment it needs. Accordingly, on its own, it is unable to attain rates of growth that would ultimately end its condition of underdevelopment.

(ANC Today, Volume 4, No. 47, 26 November—2 December 2004)

In outlining what government will do about transforming the Second Economy, much emphasis has been placed on infrastructure development. In the 2006 State of the Nation Address the President has this to say:

We should move faster to address the challenges of poverty, underdevelopment and marginalisation confronting those caught within the Second Economy, to ensure that the poor in our country share in our growing prosperity.

Later in the speech he states:

The public sector will also accelerate infrastructure investment in the underdeveloped urban and rural areas of our country through the Municipal Infrastructure Grant, Expanded Public Works Programme and other infrastructure funds to improve service delivery in the areas of the Second

Economy ... R372 billion will be provided for both these sets of programmes over the next three years.

From these statements it is clear that included in the notion of the second economy are those working informally (in informal enterprises, domestic work and subsistence agriculture) and those who are unemployed. Further central to the notion of the second economy is that these activities are structurally disconnected from the mainstream of the economy.

Arguments about dualism and the relationship between the mainstream of the economy and the periphery have characterised much of South African historiography. This is most prominently captured in the debates of the early 1970s about the relationship between apartheid and capitalism in South Africa with liberals arguing that capitalism would ultimately undermine apartheid as more and more of the African periphery came to be incorporated into the mainstream of the economy (see Lipton, 1985 and O'Dowd, 1978) and Marxists arguing that there was in fact a close, but exploitative, relationship between the mainstream and the periphery (see Legassick, 1974 and Wolpe, 1972). The re-emergence of a dualist view of the economy is significant not only because it is being articulated by the President but also because it seems to inform much of the policy focus of the ANC. Not having had a definitive statement from the President, we can only speculate on why he chooses to use the term First and Second Economy, rather than formal and informal. Although the President's view of the Second Economy includes the unemployed in this paper we are concerned with those who are active in the labour market.

Definitional Issues

Before exploring the set of issues identified above it is important to clarify what the informal economy, or the informal sector, is composed of. Despite Peattie's (1987) critique of the term 'informal sector' as an 'utterly fuzzy' concept and her suggestion that those interested in policy and analysis of this phenomenon should start by abandoning the concept, the concept continues to be used. Since Keith Hart (1973) first coined the phrase 'informal sector' in the early 1970's to describe the range of subsistence activities of the urban poor, there has been considerable debate about what exactly the term refers to. The most quoted definition is that contained in the International Labour Organisations Kenya Report (1972:6) in which informal activities are defined as 'a way of doing things', characterised by:

- a) ease of entry
- b) reliance of indigenous resources
- c) family ownership of enterprises
- d) small scale of operation
- e) labour intensive and adapted technology
- f) skill acquired outside of the formal school system
- g) unregulated and competitive markets.

Most commonly though, the informal sector is often simply thought of as containing firms that are not registered and are therefore unregulated.

For our purposes, two important points are worth noting. First the term informal sector disguises a significant degree of heterogeneity. Informal activities encompass different types of economic activity (trading, collecting, providing a service and manufacturing), different employment relations (the self employed, paid and unpaid workers and disguised wage workers) and activities with different economic potential (survivalist activities and successful small enterprises). Second, the distinction between the formal and informal 'sectors' suggests that there was a clear line dividing the two. As we will come to see, the two 'sectors' are often integrally linked. With the exception of illegal activities there are few examples of informal operators who are not linked (either through supply or customer networks) into the formal economy. As Peattie (1987:858) points out, 'if we think about the world in terms of a formal and informal sector we will be glossing over the linkages which are critical for a working policy and which constitute the most difficult elements politically in policy development.'

Statistics South Africa (Stats SA), defines the 'informal sector' as follows:

'The informal sector consists of those businesses that are not registered in any way. They are generally small in nature, and are seldom run from business premises. Instead, they are run from homes, street pavements or other informal arrangements.' (2004:xxvii).

The LFS data is derived from a self-classification question in the Labour Force Survey (LFS). Having determined whether or not the respondent is employed (in the last 7 days), the respondent is asked whether the organisation that s/he works in is in the formal or informal sector, where formal sector employment is defined as employment in a registered institution and the informal sector employment as that in an institution that is not registered. The respondent is then asked about the industry that s/he is employed in. Devey et al (2006) highlight two important points about informal employment statistics in South Africa. First, the self-classification question used to distinguish between formal and informal employment leads to inconsistencies in the data. Second, notwithstanding this, the informal employment trend derived from the LFS seems to be plausible.

Statistics South Africa's definition is in line with that of the International Conference of Labour Statisticians (ICLS) which uses the term 'informal sector' to refer to employment and production that takes place in small and/or unregistered enterprises. The 90th session of the International Labour Conference in 2002 focused on decent work and the Informal Economy and a new, more encompassing conceptualisation of informal work was adopted. The term informal economy was used; this referred to 'all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements' (ILO, 2002a). Consequently the 2003 ICLS broadened the definition to include certain types of informal wage employment outside informal enterprises including informal work conducted in formal enterprises (i.e. insecure jobs in formal enterprises without formal contracts, benefits and social protection).

Formal informal linkages – Some Lessons from the International Literature

Although there is a large literature examining the informal economy in developing countries, there is, unfortunately, very little specifically on the linkages between the formal and the informal economy.

The debate about the links between formal and informal sectors is informed largely by the theoretical positions that different ‘schools’ on the informal economy subscribe to. There are three main theoretical views that emerge in the literature. First, the dualist school, informed largely by the early work of the ILO sees the informal economy as a set of marginal activities that provide incomes for the poor who are unable to access employment in the formal economy. Second, structuralists such as Caroline Moser and Alejandro Portes, see the informal economy as a set of subordinated economic units who serve to reduce the input and labour costs of the large, formal enterprises. In this view, growth, or at least growth in profitability in the formal economy is, at least in part, dependent on a growth in informal enterprises. Third, the legalist school most prominently represented by Hernando de Soto, views the informal economy as being made up of a set of entrepreneurs who *choose* to operate in the informal economy thereby reducing their costs of conforming to regulations (that stifle entrepreneurs).

A large portion of the international literature, pioneered by French statistician Jacques Charmes, has sought to examine and improve statistics on informal work in developing countries. The evidence from this is non-agricultural informal employment is a significant and growing phenomenon in developing countries, especially for women. In many cases, informal employment is the major form of employment (see www.wiego.org). This suggests that, irrespective of formal sector growth, there is an international trend toward more insecure and informal forms of employment. Guy Standing and others have written insightfully about these developments.

The little empirical evidence that exists is useful, but is often contradictory. Based largely on the Latin American experience, and informed by the ‘de Soto view’ of the informal economy, Maloney (2004) shows that the earnings of workers that moved from formal sector employment to the informal economy was not consistent with the view that the informal economy was made up of survivalists. If this finding holds, we would expect the informal economy to behave in similar fashion to the formal economy – with employment expanding during growth phases and contracting when the economy moves into recession. The evidence in other settings, primarily Asia and Africa, however suggests that segmentation is a feature of labour markets in developing countries. Notwithstanding these contradictory positions, Chen (2004) highlights three important issues that emerge from the empirical literature.

- First, the statistical data and the analysis thereof suggests that, contrary to earlier notions which saw employment in the informal economy as a short-term transitory phenomenon, informalisation is a feature of contemporary economic growth patterns.
- Second, workers currently classified in informal employment operate in a wide range of economic units and their employment relations falls

somewhere along a continuum between what is considered formal (i.e. regulated and secure) and informal (unregulated and insecure).

- Finally, the term ‘informal sector’ hides a significant degree of heterogeneity in informal enterprises. These include, among others, entrepreneurs operating small micro-enterprises, workers in these enterprises, own-account workers, unpaid family workers, industrial outworkers, homeworkers. There is thus, a wide range of employment relations and linkages to the rest of the economy (see Chen, 2004).

The lesson that seems to emerge most forcefully from the international literature is that the specific relationship between formal and informal economies may depend considerably on context. For example, the informal economy is so large in Brazil partly because many firms seek to avoid extremely onerous regulations and a heavy tax burden. The informal economy in Zimbabwe may have expanded from the implosion of the formal sector. Low income countries have large informal sectors because their formal sectors are relatively undeveloped. South Africa’s informal sector grew partly due to urbanization, the easing of policing behaviour and regulations which historically treated black informal operators as illegal (rather than ‘extra-legal’ as in most other countries), and the lack of employment opportunities in the formal sector.

The Evidence in South Africa

Since Stats SA introduced the six monthly labour force surveys (LFS) in 2000, South Africa has had comparatively good labour market statistics. The statistics presented below are based on analysis of the September Labour Force Surveys for the period 2000 through 2005. Table 1 represents the population by employment status and sector for South Africa.

Table 1: South Africa: Population 15+ by employment status and sector

	2000	2001	2002	2003	2004	2005
Formal agriculture	686,219	678,910	826,343	845,182	639,194	591,772
Formal other	6,865,361	6,927,409	7,075,966	7,512,036	7,739,645	8,075,451
Domestic work	1,215,165	1,070,362	1,053,834	1,204,010	1,085,946	1,080,341
Informal agriculture	1,083,211	412,193	576,781	394,515	474,304	381,087
Informal other	1,802,050	1,797,722	1,590,343	1,779,371	1,800,332	2,340,984
Don't know	110,516	119,032	60,288	39,875	52,488	35,457
Unspecified employed	206,752	28,562	29,123	17,254	19,606	42,422
Unemployed	4,088,846	4,541,111	4,846,492	4,578,243	4,143,553	4,501,277
Not economically active	12,657,110	13,591,432	13,740,966	15,747,509	15,392,429	14,751,856
Total	28,714,426	29,166,734	29,800,137	32,117,995	31,347,498	31,800,646

Source: LFS²

Table 2 presents the same information as the previous table, but this time in terms of percentages, and restricted to the employed.

² These figures are adapted from calculations made by Debbie Budlender.

Table 2: South Africa: Distribution of employed by sector

	2000	2001	2002	2003	2004	2005
Formal agriculture	6	6	7	7	5	5
Formal other	57	63	63	64	66	64
Informal other	15	16	14	15	15	19
Informal agriculture	9	4	5	3	4	3
Domestic	10	10	9	10	9	9
Total	100	100	100	100	100	100

Source: LFS

From these tables it is clear that there are significant numbers of South Africans who are not working in formal jobs. In absolute terms 4 million informal economy workers are recorded at national level in 2000 and 3,7 million in 2005 for the informal economy broadly defined i.e. including those working in informal enterprises, domestic work and informal agriculture.³ This constituted 34% and 31% of the labour force in 2000 and 2005 respectively.

Turning our attention to those employed in informal enterprises although figures fluctuate, this has been an area of employment growth in the post-apartheid period. This is reinforced in Casale, Muller and Posel (2004) who recalculated Stats SA data to ensure comparability of years for the period 1997 to 2003. Using figures from the October Household Survey they calculated that in 1997 there were 1 161 300 people reported to be working in informal enterprises. The comparable figure according to our calculations for 2005 is 2 340 984.

Table 3 below outlines the sex and race composition of formal and informal employment (excluding agriculture) and domestic work.

Table 3: Employment by sex and race, September 2005

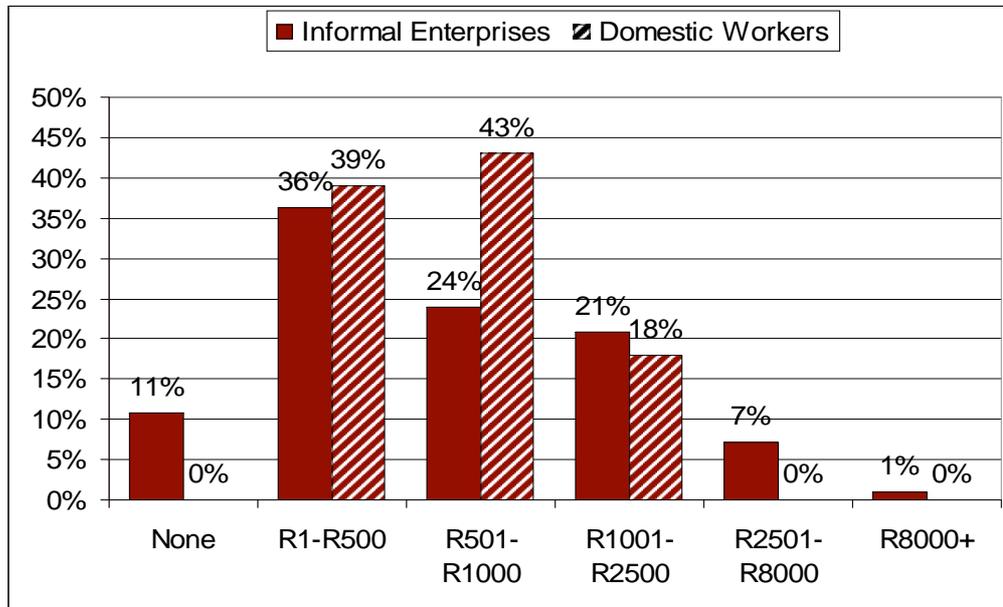
	Formal Emp.	Informal Emp.	Domestic Workers	Total Population
Male	63.1%	56.3%	3.4%	49.2%
Female	36.9%	43.8%	96.6%	50.8%
Black	60.1%	90.7%	91.4%	79.4%
Coloured	13.1%	4.7%	8.6%	8.8%
Indian	4.8%	1.1%	0.0%	2.5%
White	22.0%	3.4%	0.0%	9.3%

From this it is clear that although more men than women work in both the formal and informal enterprises, there are proportionally more women working in the informal than formal economies. Unsurprisingly women dominate domestic work. Black South Africans dominate informal employment – in enterprises and domestic work.

³ There has been considerable debate about the reliability of informal economy statistics (see Devey, Valodia and Skinner, 2006a). It is informative that in the LFS surveys where incentives have been given to fieldworkers to find informal work due to an additional survey being carried out that significantly more informal work has been registered. Whether this suggests that there is overcounting in these surveys or undercounting in other surveys is not at all clear. This should be born in mind when considering these figures.

The statistical work that has been done suggests that, unlike some other developing countries, informal employment is largely of a survivalist nature. Figure 2 below reflect monthly income figures for both those working in informal enterprises and domestic workers.

Figure 1: Monthly income, September 2005



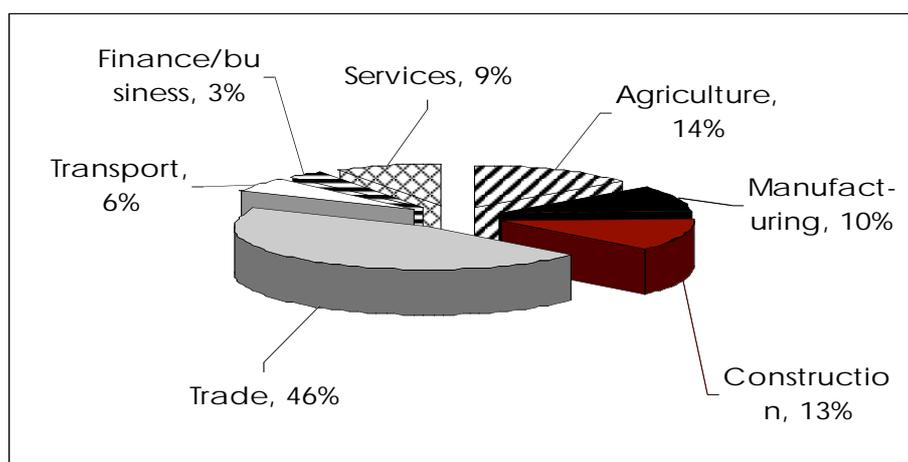
Source: LFS

Sixty nine percent of those working in informal enterprises and 82% of domestic workers reported earning R1000 and below, suggesting as is the case internationally that there is a close correlation between being poor and working informally.⁴ The figures also suggest there is more differentiation of earnings among those working in informal enterprises – with 11% reporting earning nothing and 8% reporting earning more than R2500 a month – while no domestic workers reported earning at these two extremes.

Figure 2 below graphically represents informal enterprises by industry. From this it is clear that nearly half of those working informally are involved in trading and a relatively small number are involved in manufacturing.

⁴ For international evidence of the relationship between poverty and informality see Sethuraman's (1998) review.

Figure 2: Informal enterprises by industry, September 2005



Source: LFS

Table 4 represents the sex breakdown for those working in informal enterprises by sector. From this it is clear that women dominate services, wholesale and retail trade and manufacturing, while unsurprisingly men dominate construction, transport, financial and business services as well as agriculture.

Table 4: Informal Enterprises by sector and sex, September 2005

	% Male	% Female
Agriculture, hunting, forestry and fishing	56.8%	43.2%
Manufacturing	45.9%	54.1%
Construction	92.8%	7.2%
Wholesale and retail trade	40.7%	59.3%
Transport, storage and communication	84.0%	16.0%
Financial and business services	64.9%	35.1%
Services other	41.9%	58.1%

Source: LFS

Although individual incomes in the informal economy are often low, cumulatively this activity contributes significantly to gross domestic product (GDP). Budlender, Buwembo, Chobokoane, and Shabalala (2002) estimated that the informal enterprises contributed between 8 and 10% to South Africa's GDP. In a recent study Lighelm (2006) calculates that country wide total expenditure in the informal economy stood at R51.7 billion in 2004. He goes on to point out, this compares well with two largest chain store groups with turnover figures of R32 billion and R27 billion respectively. He notes that R16.7 billion was spent on food and R15.9 billion on transport (mainly taxis). To put these estimates into some context, final consumption expenditure by households on food and transport is estimated, respectively, at R228.5 billion and R85.6 billion (SARB Quarterly Bulletin, September 2006). This suggests that the contention that the second economy contributes little to economic growth is probably inaccurate.

Evidence of informalisation of the formal economy

Further, as is the case internationally⁵, there is also substantial evidence of a growing informalisation of previously formal jobs. As early as the mid 1990's the International Labour Organisation's report on the South African labour market demonstrated that labour flexibility has been growing. For this research, a survey was conducted with nearly 400 manufacturing firms. Over a quarter (27%) of firms reported using part-time workers and 83 % of all firms had employed temporary or casual labour in the recent past (Standing, Sender and Weeks, 1996). These trends are confirmed in Theron and Godfrey (2000) study in which interviews were conducted with key informants in retail, mining, manufacturing (food, clothing, metal and engineering) catering and accommodation, construction and transport. Not only were firms making use of temporary employment contracts but almost all informants reported an increase in the use of labour brokers and employment agencies (2000:27). These trends are further corroborated in their more recent work tracking the rise in labour brokering (Theron, Godfrey and Lewis, 2005).

This is particularly acute in certain sectors. For example Kenny's (2005) work on formal retail stores finds that on average only 35% of employees have permanent contracts and this figure excludes the subcontracting of non-core activities like cleaning and security. Clarke (2000) found that 70% of workers in one of South Africa's largest formal retail outlets Woolworths were casual.

Budlender et al (2001:14) analysis using Stats SA data show that over 45% of workers employed in the formal sector displays one or more characteristics of informality – do not have a written contract, a permanent position or paid leave. Perhaps the best indicator of the quality of a job is the wage earned. Using the 2004 LFS⁶, Valodia et al (2006) explore the incidence of low-wages work in South Africa. Employing two benchmarks – earnings below R1000 per month and below R2500 per month, they show that, respectively, up to 39% and 65% of the employed workforce in South Africa may be classified as being 'low-waged'. As shown in Table 5, the while informal, subsistence agriculture and domestic work have very high levels of low-waged work, low-waged work is by no means free of these jobs. Based, on the higher benchmark of earnings of R2500 per month a full 44% of jobs may be classified as low-waged.

Table 5: Low Waged Work by Sector, 2004

Sector	% of workers earning <= R2500	% of workers earning <= R1000
Formal	44.4	14.6
Commercial Agriculture	91.4	78.5
Subsistence Agriculture	98.0	95.6
Informal	88.7	69.6
Domestic work	99.1	87.0

Source: Valodia et al, 2006: 100)

⁵ See for example Standing 1999 for a review of international evidence.

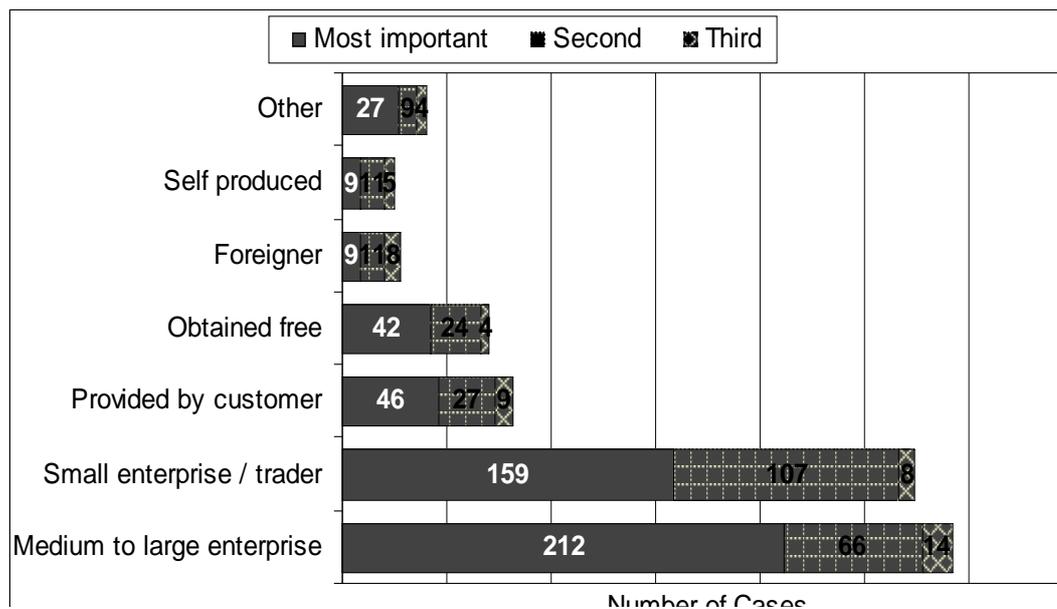
⁶ The March 2004 survey has been used in this case.

Evidence of formal informal linkages

So are the activities in the second economy ‘structurally disconnected’ from the first economy? Case material evidence indicates that there are multiple forward and backward linkages between the formal and informal economies.

Perhaps the most comprehensive survey of informal enterprises is that reported by Skinner (2005), of informal enterprises in the greater Durban area, where some 507 detailed surveys with informal workers were conducted. Skinner’s study provides some useful indicators of forward and backward linkages in the informal economy. Figure 3 below shows sourcing of raw material for informal enterprises in the Durban area. The most frequently cited source of supply is medium to large enterprises, with six in every ten enterprise owners identifying this as a source. This suggests quite strong forward linkages into the formal economy. The second most cited source was a small enterprise or trader, with over five in every ten respondents identifying this as a source. A portion of these are also likely to be in the formal economy. It is interesting to note the role of foreign-linked supply networks in the informal economy. One in twenty respondents stated they sourced their goods from a foreigner.

Figure 3: Sources of supply, n=503



As is to be expected there are sectoral differences in these linkages. Figure 4 below shows that certain informal activities are strongly linked into the formal economy than others. Apparel, spaza shops, shebeens and crèches tended to source their goods in medium and large shops. The responses from those working in traditional medicine indicate that a number of formal shops and foreigners were involved in supply. There are also more formal shops involved in supply of crafts than would be expected from a segment of the economy that is often considered to be entirely informal. With respect to apparel, a group of those interviewed are likely to be dressmakers as their supplies were provided by their customers.

Table 6: Source of supply by % in sector, n=503

	Medium / large shop	Small shop/trader	Provided by the customer	Foreigner	Obtained free	Self produced	Other
Apparel	61%	70%	40%	4%	1%	2%	4%
Craft	43%	73%	1%	9%	13%	5%	5%
Traditional medicine	19%	54%	0%	18%	69%	15%	25%
Spaza shops	79%	48%	0%	0%	0%	2%	2%
Construction	56%	41%	51%	0%	5%	0%	3%
Metal work	79%	37%	30%	2%	0%	0%	5%
Shebeens	85%	46%	0%	0%	0%	2%	0%
Crèches	67%	36%	15%	3%	5%	13%	15%
Hairdressing	66%	51%	22%	5%	0%	0%	7%
	292	274	82	28	70	25	40

(Source: Skinner, 2005)

These linkages are borne out by other studies. Consider, for example, that most informal workers are involved in retail selling basic consumption goods such as fruit and vegetable that is sourced from formal markets. Witt's (2000) work on informal fruit and vegetable distribution demonstrates multiple formal informal linkages. He states in the then Durban Metropolitan Area 'the vast proportion of fruit and high volume vegetables such as potatoes and onions would be sourced either directly or indirectly through the official distribution channels – in other words the municipal markets' (2000:9). Ince's (2003) and Godfrey et al's (2005) work on informal clothing manufacturing in Durban and Cape Town respectively shows extensive forward and backward linkages to formal clothing manufacturing and retailing. Not only do manufacturers source their inputs in the formal economy but the garments often end up in formal retail stores. Khosa (1994, 1991) has documented over time how closely the taxi industry is linked into the formal motor, insurance and petrol industries.

Even the most marginal of those working informally are linked into the formal economy. Consider for example waste collectors. Over 3000 waste collectors supply the 117 waste buy back centres, that the multi-million rand paper company Mondi has established in the country. These centres now accounting for almost 20% of Mondi's total recovered paper purchases. (The Star 29/05/05). A significant proportion of South African Breweries', the South African division of the second largest beer group in the world, products in the domestic market's final retail point are these unlicensed taverns or shebeens. It is estimated that 74% of liquor retailers are unlicensed (Business Day 07/07/05). It is thus clear that many of South Africa's biggest companies rely on informal worker to supply inputs or retail their goods.

Employment linkages between the formal and informal economies

The panel component of the Labour Force Survey allows us to explore dynamics in the labour market. The sampling design of the LFS, which is conducted bi-annually in March and September allows for 80% of the sampling in each wave to remain in the sample. Drawing on Devey et al (2005) we explore these dynamics beginning in February⁷ 2002 for 5 waves of the LFS ending in March 2004. Matching the individuals in these households over the period, we're able to get some indication of the extent to which workers move between employment and unemployment, and when employed between different segments of the economy, such as formal and informal⁸. In total, we're able to match 5587 individuals over the period.

There are a number of reasons why the analysis that we present below needs to be treated with some caution. First, the panel component of the LFS is designed to track *households* not individuals. Second, we have applied a fairly simple filter to decide whether or not individuals in tracked households are in fact the same individual. We have examined the sex and age profiles of workers in these households to confirm that the individuals remain in the panel. We have thus removed from the panel all households where the individuals inside the household may have changed (through, for example, migration). Third, although the panel of 5587 workers is fairly large, based on the number of households surveyed in the LFS we should have a larger panel. Related, and most important, we do not at this stage know if our panel is any way atypical of the universe. Notwithstanding these concerns we believe that, even at this preliminary level, the panel analysis raises some interesting questions about the relationships between formal and informal employment in South Africa.

Table 7 gives a broad overview of how the status of these workers changed over the period. The data shows that there is a surprising level of churning within the labour market, with more than half of the workers status having changed at least once over the period February 2002 to March 2004. As is to be expected, for those workers whose status remained unchanged, most tended to be employed in the formal sector, or remained economically inactive. Only 1.3% of the 5587 workers that remained in the panel continued to work in the informal economy over the period under consideration.

⁷ The LFS used to be conducted in February prior to 2003.

⁸ Note that the panel component of the LFS allows us to track *households* not individuals over the 5 waves of the survey. We have examined the sex and age profiles of workers in these households to confirm that the individuals remain in the panel. We have thus removed from the panel all households where the individuals inside the household may have changed (through, for example, migration).

Table 7: Labour Market Status, Feb. 2002 to Mar. 2004, n=5587

Type of Worker	Frequency	Percent
Remained in the formal economy	1175	21.0
Remained economic inactive	1077	19.3
Remained in commercial agric.	99	1.8
Remained as a domestic worker	89	1.6
Remained unemployed	74	1.3
Remained as informal worker	71	1.3
Worker status changed	3002	53.7
	5587	100

(Source: authors' calculations from various LFSs)

Table 8 below we remove from the panel all workers who did not engage in informal economy activities over the period i.e. we retain only workers who have been engaged in informal economy activities for at least one period. This reduces the number of workers from 5587 to 1009. Again, we see a surprising level of churning occurring, with only 7% of workers remaining as informal workers over the entire period.

Table 8: Labour Market Status of Informal Economy Workers, Feb. 2002 to Mar. 2004, n=1009

Type of Worker	Frequency	Percent
Informal for 5 period	71	7.0
Informal for 4 periods	88	8.7
Informal for 3 period	106	10.5
Informal for 2 periods	202	20.0
Informal for 1 period	542	53.7
	1009	100

(Source: authors' calculations from various LFSs)

Table 9 below shows the movement of workers that were employed in the informal economy in any one period over the panel. As is to be expected, a large number of workers moved between the informal economy and being unemployed or economically inactive. A significant proportion of workers (18.3%) moved between formal and informal employment.

Table 9: Shifts between informal work and other Labour Market Status

Type of Change	Frequency	Percent
Informal and Unemployed and Not Economically Active	191	18.9
Informal and not economically active	190	18.8
Informal and Formal	185	18.3
Informal, Formal and Unemployed	77	7.6
Informal, Formal and not economically active	73	7.2
Remained in Informal	71	7.0
Informal and unemployed	60	5.9
Informal, Formal, Unemployed and not economically active	44	4.4
Other	118	11.7
	1009	100

(Source: authors' calculations from various LFSs)

If we reduce the period under consideration to just active six months, from February 2002 to September 2002, i.e. over a 6 month period, we still find fairly high levels of churning in the labour market. Of individuals recorded as informal workers in March 2003, in September 2003, 44.5% reported working in informal economy, 17.3% reported working in formal economy, 11.4% reported being unemployed and 23.7% reported being not economically. Of individuals recorded as formal workers in March 2003, in September 2003, 3.4% reported working in the informal economy.

We're able to exploit income data in the LFS to explore some of the income dynamics related to movements between the formal and informal sectors. In particular, we explore below the shifts of the 185 movements between formal and informal reported in Table 6 above. Given that we are dealing with a 5-period panel there are a large number of formal and informal movements that are possible. In order to keep the

analysis manageable, we focus only on some movements. Table 10 below summarises the movements that we will explore. The first, FFFFI, which occurs 39 times in the panel, shows workers that reported being in formal jobs over the LFSs, February 2002 to September 2003 (i.e. 4 surveys) and then shifted to an informal job in the last period of the panel, March 2004. Similarly, the second, FFFIF, which occurs 14 times, shows workers in formal jobs over the initial 3 surveys, move into an informal job in the fourth period (September 2003) but then move back into a formal job in March 2004.

Table 10: Movements between formal and informal jobs, 2001-2004

Movements between formal and informal	No of Occurances
FFFFI	39
FFFIF	14
FFIFF	20
IFFFF	19
Other	93
Total	185

Using the LFS income bands⁹, and excluding non-responses, Table 11 shows the incomes of the FFFFI workers over the period of the panel. We see very little change in workers incomes over the 4th and 5th periods of the panel, when the worker shifts from formal to informal employment. Similarly, Table 12, which shows the incomes for IFFFF movements, shows very little change in incomes over the 1st and 2nd periods when the worker moves from informal to a formal employment. Although not reported in the paper, shifts in incomes are relatively minor for the other combinations of formal and informal work over the 5 periods under consideration.

Although these data may have high levels of error¹⁰, both in terms of the formal and informal classification and in terms of the incomes reported, the data suggests two important characteristics of formal-informal linkages. First, at the low end of the labour market, in what we have called low-waged work workers are unlikely to benefit significantly from shifting from informal to formal employment, and vice-versa. Second, unlike the case in Latin America where Maloney (2004) and others have argued that workers *choose* to move into the informal sector to escape onerous legislative requirements.

⁹ The income bands are as follows: 1= None, 2 = R1-R200, 3 = 201-500, 4=501-1000, 5=1001-1500, 6=1501-2500, 7= 2501-3500, 8=3501-4500, 9=4501-6000, 10=6001-8000, 11=8001-11000, 12=11001-16000, 13=16001-30000, 14=30000+.

¹⁰ These will be explored in on-going work

Table 11: FFFFI Workers - Incomes over the Panel, September 2001 to 2003

Sept 01 - F	Mar 02 - F	Sept 02 - F	Mar 03 - F	Sept 03 - I
4	5	5	6	6
	13	13		9
		9	10	9
		9	10	9
8	8	8	8	9
7	6	7	6	6
9	12	9	8	9
	11	10	10	10
4	4	6	6	7
9	9	9	9	9
5	6	7	7	7
9	11	9	9	10
2		3		
3	6	8	6	5
1	3	3	3	3
4	4	4		4
8	7	10	8	
8	8	7	8	5
4	4	3	6	6
2	3	3	4	4
6	4	7	5	5
4	4	7	5	4
9	11			
11	11	12		
9	7	7		
7	9	9	7	7
10	11	10	11	10
10	10	11	11	11
2	5	4	4	4
6	5	7	6	6
6	6	7	11	
5	5	5	5	6
7	4	4	4	5
4	4		6	6
9	7	8	5	9
2	6	6	6	6
3	4	4	4	6
3		6	4	4
4	4	4	4	4

(Source: various LFSs)

Table 12: IFFFF Workers - Incomes over the Panel, September 2001 to 2003

Sept 01 - I	Mar 02 - F	Sept 02 - F	Mar 03 - F	Sept 03 - F
6	5	4	5	5
7		7	8	7
9		7	7	2
6	6	6	7	4
4	4	4	4	4
3	4	4	4	4
4	4	4	4	4
3	3	2	3	3
4	4	4	6	4
5	5	5	5	5
4	5	5	6	6
	10	10		
	5	5		5
6	9	8	8	8
5	6		8	6
	9	8	8	
3	4	4	4	4
5	6	5	6	
5	3	4	4	3

(Source: various LFSs)

Conclusion

The articulation of the First and Second economy conceptualisation of South Africa by the Presidency coincided, we would argue, with a refocusing of economic policy in South Africa. This conceptualisation tacitly acknowledges the failure of the trickle down economic growth policies so central to the post-1996 GEAR era and informs much of government's more recent emphasis on poverty alleviation. However, the dualism suggested by arguments about a 'structural' break between the First and Second economy allow government to argue that its economic policies have been successful for the First Economy and, as a result of these successes, government is now able to address issues of poverty and unemployment in the Second Economy. Yet, for all its claimed successes in stabilising South Africa's macroeconomic situation after 1994, promoting black economic empowerment, and to re-orienting the budget to meet some social objectives, it is accepted, even in government, that its major failing has been its inability to address South Africa's unemployment situation and, related to this, the high levels of poverty among segments of the population.

At the policy level a clear understanding of the linkages between the formal and the informal economy is critical for the development of good policy. At one level, President Mbeki's recent preoccupation with the 'second economy' has undoubtedly raised the profile of the unemployed and those operating in the informal economy. This is a positive development. However, the concept is not useful for understanding the history and current challenges facing the economy. We have provided evidence that the so-called 'first' and second economies are, in fact linked. Further, we have argued that large numbers of workers in South Africa are employed in low-waged

work. While the extent of low waged work is very high in jobs presently classified as informal, large sections of the formal economy are also characterised by low-waged employment. Our analysis of the LFS panel data suggests that there is a surprisingly high level of churning in the labour market, with high levels of movement between formal and informal jobs. The data suggests that these movements occur primarily in the low-waged segment of the labour market, and incomes to do appear to rise or fall as workers move between formal and informal jobs.

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