Piecing together the puzzle: The informal economy in South Africa

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"The more I studied economic science, the smaller appeared my knowledge which I had of it, in proportion to the knowledge that I needed" Alfred Marshall

"Economists have not yet earned the right to be listened to attentively" John Maynard Keynes

1. Introduction

The 1950s and 1960s was a time when many scholars of the modernization theory school of development believed that that traditional labour practices and production would wane as a result of economic progress in developing countries (Lewis, 1959; Williams, 2015). Time proved this optimism to be unfounded. Far from being an anachronistic employment relation, the sector had not only persisted, but it in fact expanded in developed and developing countries (Williams and Lansky, 2013; Williams, 2015).

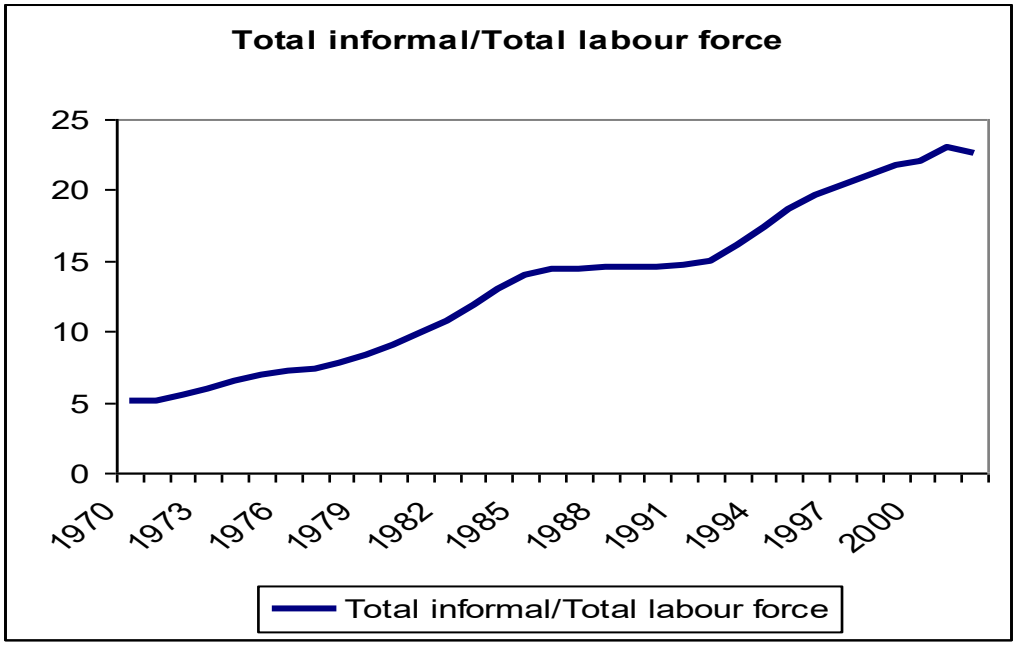
In accepting the persistent nature at these forms of production, scholars began using the term informal sector. British anthropologist Keith Hart is credited with the original use of the term at a conference on "Urban Unemployment in Africa" held by the Institute of Development Studies at the University of Sussex in September 1971. His paper was entitled "Informal Income Opportunities and Urban Employment in Ghana" (Hart, 1973: 61). The term was also coined by the International Labour Organization in an extensively cited study on Kenya in 1972 (ILO, 1972; Sinha and Adam, 2006: 31). This report played a seminal role in forming the concept of the informal sector. In the second half of the 1990s many scholars have started to consciously use the term "informal economy" instead of "informal sector" (Masud, 2009). Using the term informal „economy" rather than informal „sector" implies a greater range of activities that includes enterprises as well as employment in developing, transition, and advanced industrialized economies. If both formal and informal activities are seen as part of the economy one can identify the linkages between the two (Skinner, 2005).

Today the majority of the poor in developing countries still very much depend on the informal economy in order to survive materially. Its persistence and growth over time and across countries prove that the informal economy is not a transitionary occurrence in the development process, waiting to be absorbed by the formal sector of the economy (Williams and Lansky, 2013). On the contrary, it is now accepted that formal and informal sectors will co-exist, and are very much interlinked in subtle and intricate ways (Wan and Zhu, 2006: 73; Guha-Khasnobis and Kanbur, 2006: 1).

The relative expansion of the informal sector is a hallmark of countries in transition (Guha-Khasnobis and Kanbur, 2006: 3). This sector has seen significant growth in Africa and other developing countries over the past decades (Mulinge and Munyae, 1998: 41). International studies suggest that on average in developed countries the size of the informal economy was in the vicinity of 14 and 16 per cent of Gross Domestic Product (GDP). The corresponding figure for countries in transition was between 22 and 30 per cent and for developing countries as high as between 35 and 44 per cent (Saunders, 2005: 95). Ample evidence exists in the literature of an increase in informal employment after episodes of adjustment and liberalisation (Sinha and Adam, 2006: 31). The question is very this applies to South Africa as well?

Figure 1 illustrates informal employment as a percentage of the total labour force in the South African economy from 1970 to 2002.

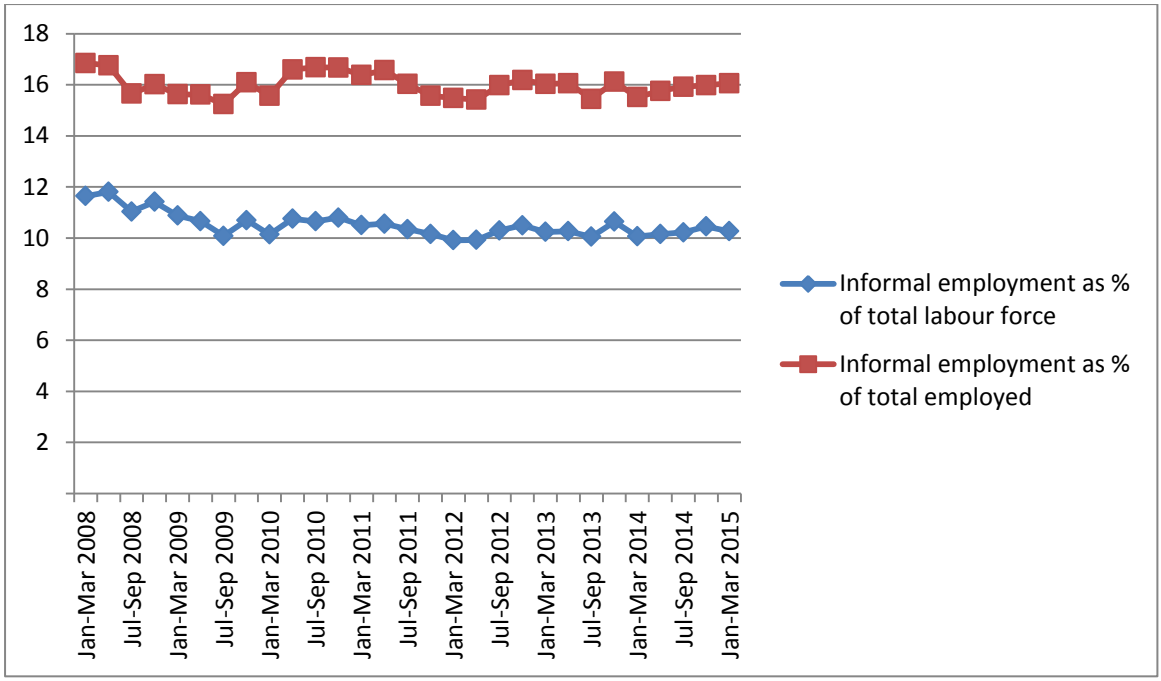
Figure 1: Total informal employment as a percentage of the total labour force in South Africa 1970–2002



Source: United Nations Development Programme (UNDP), 2003

A unique feature of South Africa‟s informal economy is that it relatively small in proportion to total employment, compared to peer-group countries, (Kingdon and Knight, 2001a; 2001b; 2004). Moreover, it appears to have been shrinking in the past decade from almost 20 per cent in 2000 to roughly 16 per cent in 2015 (Burger and Fourie, 2015). They furthermore note that, *"...since 2007 the informal sector has not absorbed the additional people in the labour force who did not find employment in the formal sector. Informal sector employment numbers have not even increased proportionally to the growth in the labour force*" (Burger and Fourie, 2015: 4; Statistics South Africa, 2015). It seems as if the trend has been stable since 2009 (Statistics South Africa, 2015). See Figure 2.

Figure 2: Total informal employment as a percentage of the total labour force and formal employment in South Africa 2008 - 2015



Source: Statistics South Africa 2015 and author"s calculations

The relative stability observed in the percentages masks important underlining dynamics in the South Africa"s informal economy. The persistence and expansion of informal employment phenomena such as day labouring in both advanced and emerging economies calls into question many of the prevailing analyses of the persistence and progress of informalised occupations (Theodore, Blaauw, Schenck, Valenzuela Jr., Schoeman and Meléndez, 2015). The relationship between causualised employment and wider patterns of labour market restructuring must be reconceptualised, and it accentuates the urgent need for research to document and analyse the vulnerabilities workers face in the informal economy (Theodore et al., 2015).

This article attempts to contextualise this need within the current state of research on the informal economy in South Africa. The aim of the article is to provide a synopsis of the converged view of the informal economy and to identify the gaps in our knowledge to provide direction for further research to be able to understand this ever changing puzzle in the broader South African economy.

The article proceeds with a theoretical framework within which the informal economy in South Africa can be analysed. The international and South African characteristics

of the informal economy is presented and compared followed by an analysis of the current state of research and the key elements still missing in our knowledge. The way forward in terms of a research agenda forms the concluding part of the paper.

2. Theoretical framework and approaches towards studying the informal economy

Researchers who focus their research on the source, dynamics, and persistence of the informal economy pursue this endeavour using a number of different theoretical approaches (Wilson, 2011). Most scholars distinguish three broad approaches (Chen, Vanek and Heintz, 2006; Wilson, 2011). These include the dualist, the structuralist (sometimes known as the neo-Marxist approach) and the legalist (sometimes known as the neoliberal approach) (Wilson, 2011).

The dualist approach resonates with the work of the International Labour Organization (ILO) and its allied Regional Employment Program in Latin America and the Caribbean entitled PREALC (*Programa Regional para Empleo en América Latina y El Caribe*) (Wilson, 2011). Researchers in this approach viewed the informal economy as autonomous from the modern capitalist sector. It was regarded as a safety net for low-skilled rural-to-urban migrants seeking to earn a living any way they could. It came into being because of a lack of adequate economic development (Wilson, 2011).

It is however important to recognise that the dualistic models that were developed over time disregarded other relevant aspects of the informal economy (Mehrotra and Biggeri, 2007: 3). Specifically, dualistic models identified the function of the traditional (informal) economy in the economic system merely as a passive one. The labour force was seen as a reserve army or reservoir from which the expanding modern sector draws labour. The informal economy was depicted as a homogeneous entity, ignoring the peculiarities and dynamics within it. This oversight contributed to inappropriate analyses and incorrect policy planning and implementation (Mehrotra and Biggeri, 2007: 3–4). Growing appreciation of the *"… numerous overlaps, ambiguities, and functional interdependencies based on sub-contracting, franchising, disguised wage labour and dependent working …*", which

existed between the informal and formal sector led to the development of alternative approaches to the informal sector such as the structuralist approach (Bromley, 1990: 337).

The structuralist approach stressed the linkages which exist between the formal and informal economy and emphasize that the latter is subsumed and exploited by the former (Guha-Khasnobis and Kanbur, 2006: 1; Saunders, 2005; Wilson, 2011). Researchers tend to focus on informal wage workers whose employers circumvent labour legislation. These wage workers are often subcontracted or otherwise hired informally by formal businesses. Alejandro Portes is one of the main proponents of this approach (Wilson, 2011). Policy recommendations flowing from this view then tend to target the institutional framework and political context in which the formal economy operates (Saunders, 2005: 45).

The legalist approach is most closely connected with Hernando de Soto and his associates in the Peruvian Institute for Liberty and Democracy (ILD, *Instituto Libertad y Democracía*) (Wilson, 2011). The Legalist School views the informal economy as a rational response to over-regulation in the formal economy (De Soto, 1989; Saunders, 2005). Wilson (2011: 206) summarise it as follows: *"They see the informal economy as a hotbed of emerging entrepreneurs, constrained only by unnecessary, slanted, and superfluous legislation*". Going back in economic history this approach was in vogue and successful in drawing attention to two major phenomena of tax avoidance in Europe. As a matter of fact the informal or "underground" economy is sometimes synonymous with tax avoidance (Strydom, 2014).

Each of the above theoretical approaches gives rise to different definitions of the informal economy. There is however certain key characteristics of the informal economy that emerge from the international literature, irrespective of the approach followed in defining it.

3. Characteristics of the informal economy emerging from the international literature

A key attribute is the fact that the informal economy thrives mainly in the proximity of its formal counterpart. As a result the informal economy internally is largely an urban phenomenon (Dimova, Gang and Landon-Lane, 2006: 103).

A fundamental policy question that emerged from the literature is whether informal labour markets should be formalised (Guha-Khasnobis and Kanbur, 2006: 6). The National Economic Development and Labour Council (NEDLAC) in South Africa wanted economic activities in the informal economy to be subject to the same regulatory framework as formal-sector activities as far as workers‟ rights are concerned (Saunders, 2005: 3). However, the evidence from the available literature suggests that it is quite impossible to answer this question with a simple yes or a no, as there are several positive characteristics associated with informal labour markets in that:

- they play an important role in transitional and developing countries in facilitating successful adjustment to the forces of globalisation and structural reforms;
- they provide a means of survival to the vast majority of poor and extremely poor workers in a society, and
- they can play a role in the unlocking of entrepreneurial potential which could become lost in a mesh of formality (Guha-Khasnobis and Kanbur, 2006: 6).

However, there are also several concerns at the same time. These include:

- that informal workers are not protected by law and therefore exposed to certain forms of abuse and exploitation, and
- being mostly an urban phenomenon, the expansion of the informal sector can potentially exacerbate problems connected with slums, congestion, health and the environment (Guha-Khasnobis and Kanbur, 2006: 6).

Although the South African informal economy evinces a lot of the above in broad terms, it is still prudent to study the country-specific literature on the topic in order to determine the unique features of the informal economy in South Africa.

4. The nature of the informal economy in South Africa

The South African informal sector has received more and more attention from researchers over the last three decades. Examples include the work of Rogerson and Beavon (1980), Krige (1988), Loots (1991), Nattrass (2000), Muller (2003), Kingdon and Knight (2001a), Devey, Skinner and Valodia (2003), Martins (2004), Ligthelm (2004; 2006), Saunders (2005), Heintz and Posel (2008), Blaauw (2010) and Viljoen (2014).

The available literature on the informal sector in South Africa tends to specialise in particular aspects of the informal economy. There seems to be little agreement on the definition and use of informal economy estimates in economic analysis and policy formulation. The informal economy means very different things to labour economists, criminologists, macroeconomists, and national income accountants (Saunders, 2005: 2). However, a synthesis of the body of literature on the informal economy in South Africa, as presented above, presents the following important summary characteristics.

4.1 South Africa's informal economy is relatively small, yet long term in nature

Saunders (2005) provides a thorough exposition for the various options available to measure the informal economy. Most of the studies on the size of the informal economy concentrate their efforts on the size of the informal economy as a percentage of Gross Domestic Product (GDP), the number of participants in the informal economy, or the number of informal enterprises in operation (Saunders, 2005: 118). Table 1 provides selected examples of a number of estimates of the size of South Africa"s informal economy that have been put forward over the years[1].

Table 1: Selected estimates of the size of South Africa's informal economy

Author(s) & date	Results in terms of size

[1] Saunders (2005: 184–185, 195) and McKeever (2007: 79) provide excellent summaries of three fairly differentiated trends from 1951 to 1991 in terms of the size of the informal economy in South Africa, which fall outside the scope of this paper.

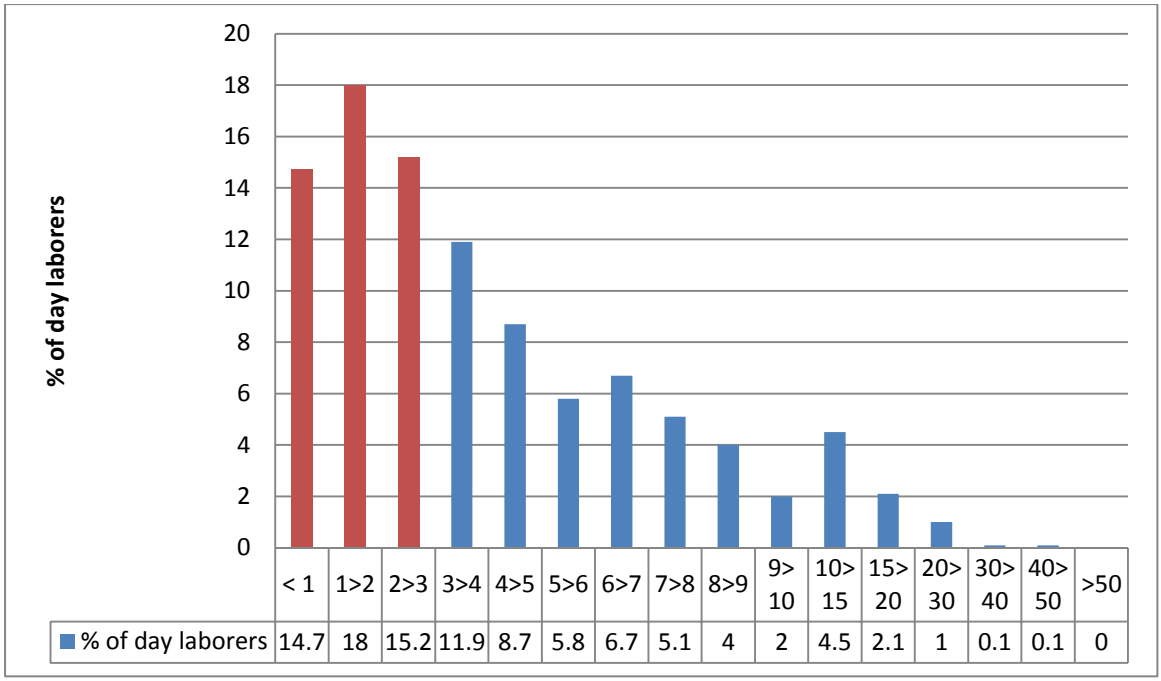
Loots (1991)	12% of GDP in 1989
Schneider (2002)	28.4% of GDP for the years 1999/2000
Saunders (2005)	7% of GDP in 1999 Averaged 9.5% of GDP from 1966 to 1993
Braude (2005)	Between 7 and 12% of the total economy
South African LED Network (2012)	28% of GDP in 2012

Source: Author"s compilation

Muller (2003: 14) reaches a key conclusion in spite of possible improvements data-gathering process, informal employment would still be underestimated due to the inherent difficulties involved in capturing information on illegal activities (Muller, 2003). Irrespective of the absolute numbers in terms of the actual size of the informal sector in South Africa, the trend remains that the informal sector absorbs only a very small proportion of the workforce by developing-country standards (Kingdon and Knight, 2001b: 5; Saunders, 2005: 187).

Although relatively small, the informal economy in South Africa is distinctly long-term in nature. Between 1951 and 1991 the average length of an informal-sector job was as long as ten and a half years (McKeever, 2007: 82). South African research on various informal activities confirms this (Blaauw, 2010; Theodore at al., 2015). Figure 3 shows the number of years that day labourers in South Africa were involved in searching for informal employment.

Figure 3: Number of years searching for day labour work, South Africa 2007 / 2008



Source: Theodore et al., 2015

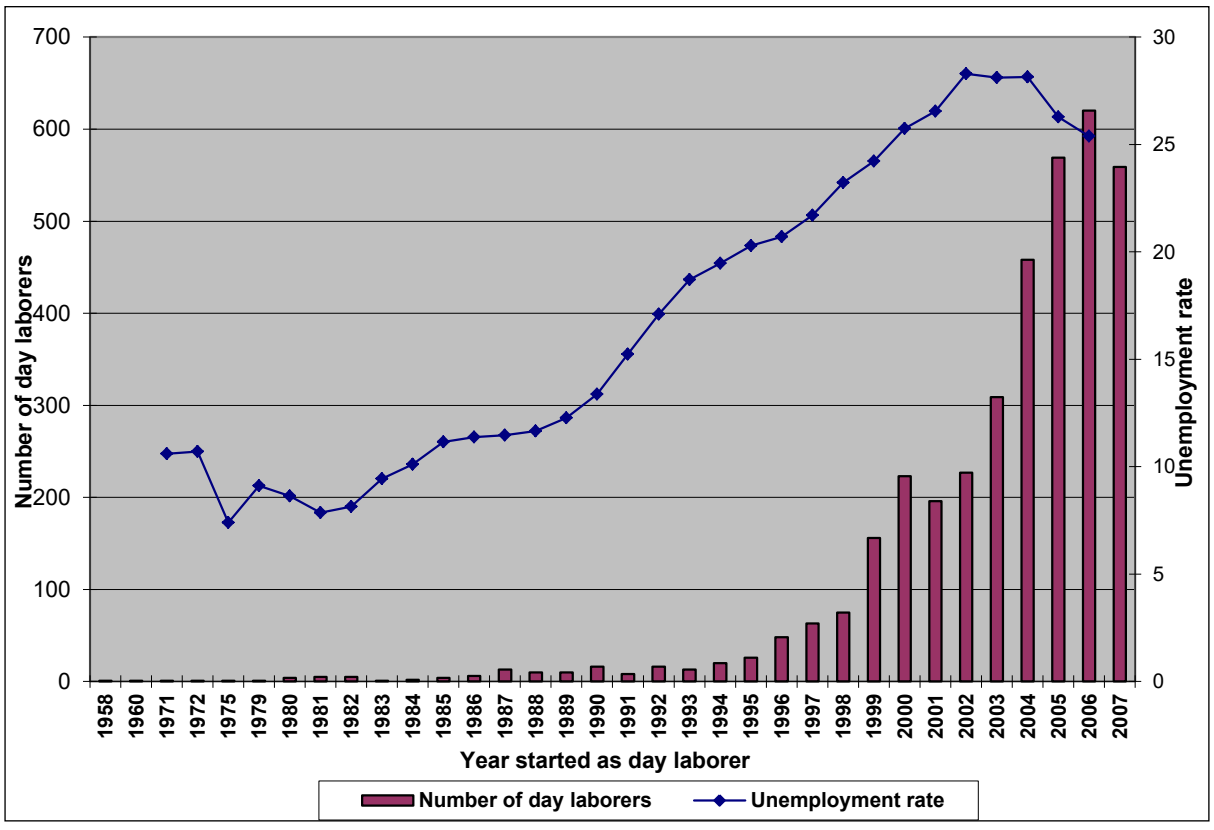
Theodore et al. (2015) reflects that day labourers in South Africa forms part of the informal economy for significantly longer as their American counterparts. Some of the day labourers in South Africa have been doing this their entire life. A study by Viljoen (2014) among 914 street waste pickers in South Africa suggests that the longest-working street waste picker has been in this occupation for 37 years. The long term nature of the informal economy in South Africa furthermore casts doubt on the supposed shock absorber function of the informal economy in South Africa. Investigating the employment history of many participants in South Africa‟s formal economy confirms this.

4.2 Employment history of participants in South Africa's informal economy and the duality within the informal economy

Authors such as Blaauw (2010), and Viljoen (2014) attempted to further explore the employment trajectories of participants in lower tier activities in South Africa‟s informal economy. Using an adjusted stock-flow model to illustrate the entry into the sector within the day labour market, it was established that 50.2 per cent of the more than 3000 day labourers interviewed in the Blaauw (2010) study held a job in the formal sector before becoming day labourers. From a total number of 893 street

waste pickers interviewed in the Viljoen (2014) study, 52.4 per cent indicated that they previously had a full-time job with benefits. In both cases, for those exiting the formal sector, layoffs accounted for the overwhelming majority of those exits. In contrast to what Theodore et al. (2015) described as the day-labour market"s shock-absorber function in the USA, South Africa"s lower tier informal economy activities such as day-labouring appears to operate as a reservoir of underemployed workers. Data from the study of Blaauw (2010) illustrates this relationship between macroeconomic conditions and the size of the day-labour workforce in South Africa. See Figure 4 below.

Figure 4: The year in which workers began day labouring and unemployment in South Africa 2007/2008



Source: Blaauw (2010); Theodore et al. (2015)

When the year that day labourers in South Africa resorted to this activity is correlated with the unemployment rate of two years earlier, the correlation coefficient of 0.84 is statistically significant at the 0.05 level of confidence. This lagged correlation and the long term nature of the informal economy supports the contention that those in

lower-status jobs in the informal economy are not likely to use the informal sector as a springboard to formal employment (Theodore et al., 2015).

The informal economy in South Africa therefore does not conform to the temporary nature as originally proposed by the dualist perspective. The same principle applies to the absence of entry barriers, which also does not hold for the informal economy in South Africa (Heintz and Posel, 2008:28). Barriers to entry and mobility that are similar to the dualistic nature of the labour market, which divide the labour market into a formal and informal labour market, are also observed within the informal economy (Heintz and Posel, 2008:41) and even within the same informal economy activity (Uys and Blaauw, 2006). Uys and Blaauw (2006), using a micro-approach, did a case study of car guards in Bloemfontein in this regard. Differences in the income earned and the limited possibility of mobility between the formal and informal car guards confirm the presence of such a dualism even within the same informal activity.

Apart from the segmentation of the informal economy into lower-tier and upper-tier informal economy activities, the ease of entry into the lower-tier activities also differs (Viljoen, 2014). Table 2 shows the entry requirements and barriers to entry of some of the informal economy"s lower-tier income-earning opportunities as summarised by Viljoen (2014).

Table 2: Entry requirements and barriers to enter "lower-tier" informal economy activities

Activities (entry relatively easy)	**Barriers to entry**	
Small manufacturing industries	Cost, Capital	High capital and property costs, complicated licensing requirements, expensive machinery
	Education, skills	Unskilled or semi-skilled work
	Employer, buyer	Self-employed or employees depend on buyers
Small retail stores	Cost, Capital	Some set-up costs, high rental fees, licenses
	Education, skills	Generally unskilled work
	Employer, buyer	Self-employed or employees depend on buyers
Backyard industries	Cost, Capital	Small amounts of capital costs, rental fees are minimal, few manual tools required
	Education, skills	Unskilled or semi-skilled work
	Employer, buyer	Self-employed or employees depend on buyers
Domestic workers	Cost, Capital	No capital needed
	Education, skills	Housekeeping skills, language proficiency to communicate with an employer
	Employer, buyer	Depend on an employer
Street traders	Cost, Capital	Relatively low start-up and working capital
	Education, skills	Natural talent for selling goods, reading, writing and arithmetic skills
	Employer, buyer	Strong competition for buyers
Day labourers	Cost, Capital	No capital investment
	Education, skills	Skills such as building and painting skills, basic skills to do general tasks around the house and language proficiency to communicate with an employer
	Employer, buyer	Depend on an employer
Waste pickers	Cost, Capital	No capital needed
	Education, skills	Low or no educational skills needed, need physical ability to collect waste
	Employer, buyer	Self-employed with guaranteed buyer

Source: Viljoen (2014)

The presence of definite entry and mobility barriers is particular important in the South African context because the incidence of an array of barriers[2] is fundamental to the results of labour market and development literature on unemployment and employment in South Africa (Burger and Fourie, 2015). Entry and mobility barriers

[2] "*These include skills mismatches, geographical-spatial factors such as transport costs, lack of work experience, household culture with respect to work experience, work ethic and search; lack of information about jobs and jobs environment, lack of labour market networks, lack of resources to support search.*" Burger and Fourie (2015: 8).

imply the supply of labour supply is more than just a function of wages. Any job search activity implies a balancing of the risks, expectations and costs (Burger and Fourie, 2015). This applies as much to the formal as the informal economy.

4.3 Other features of the South African informal economy

The literature on the informal economy has more or less reached consensus on the following characteristics of the broader informal economy in South Africa:

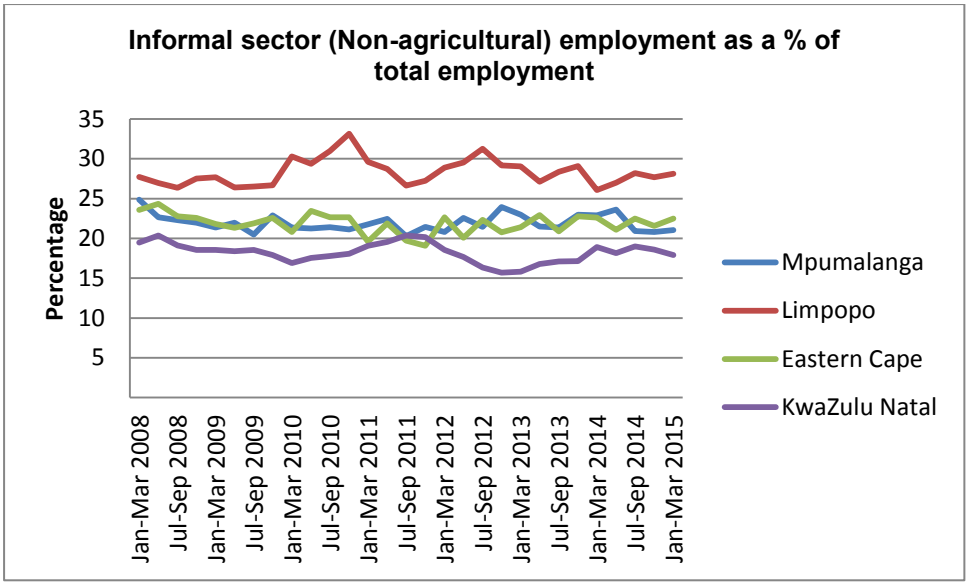
- The participants in the informal economy achieved a much lower level of educational attainment on the whole. This inhibits their ability to make some sort of transition into the formal economy and is one of the explanations for the long-term nature of the informal economy (Heintz and Posel, 2008).

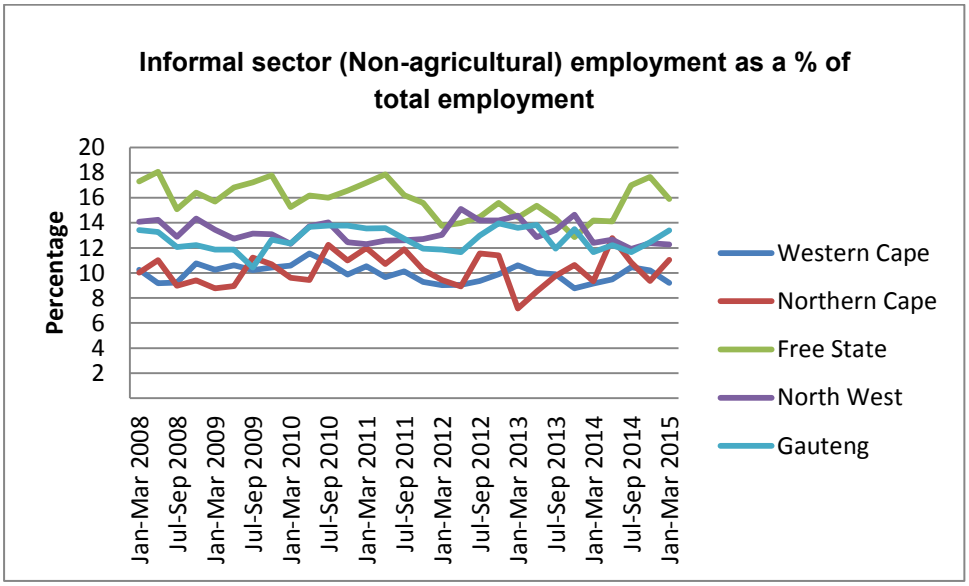
- The informal economy is located in markedly different industries from the formal economy. The informal economy is weighted towards trade-based economic activity as well as private households. The formal economy is located more in the service industries (Saunders, 2005).

- Race is another critical distinguishing factor in understanding the characteristics of South Africa"s informal economy. Whites tend to view the informal economy as a temporary or fall-back option, as opposed to Africans who are generally forced to remain in the informal economy for much longer (Saunders, 2005: 130; McKeever, 2007).

- The activities in the informal economy are not equally distributed among the provinces of South Africa (Saunders, 2005). Figure 5 illustrates the relative contribution of Informal sector employment to total employment in each of the nine provinces between 2008 and 2015.

  Figure 5: The relative contribution of Informal sector employment per province in South Africa 2008 - 2015



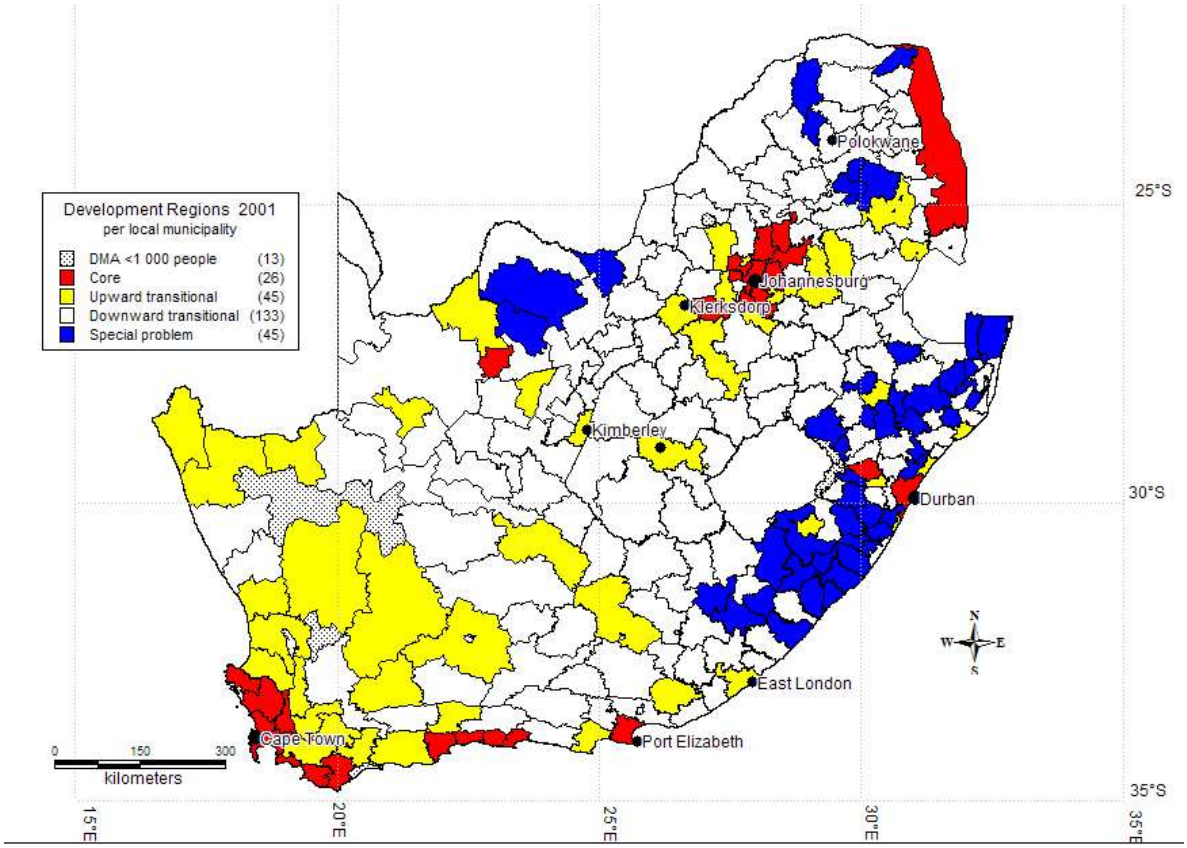


Source: Statistics South Africa (2015)

The provinces where the informal economy at a macro-level tends to be more prevalent over time are those where the local municipalities were regarded as "downward transitional" or "special problem areas" as well as where unemployment is higher according to previous censuses[3]. Figures 6 and 7 illustrate this.

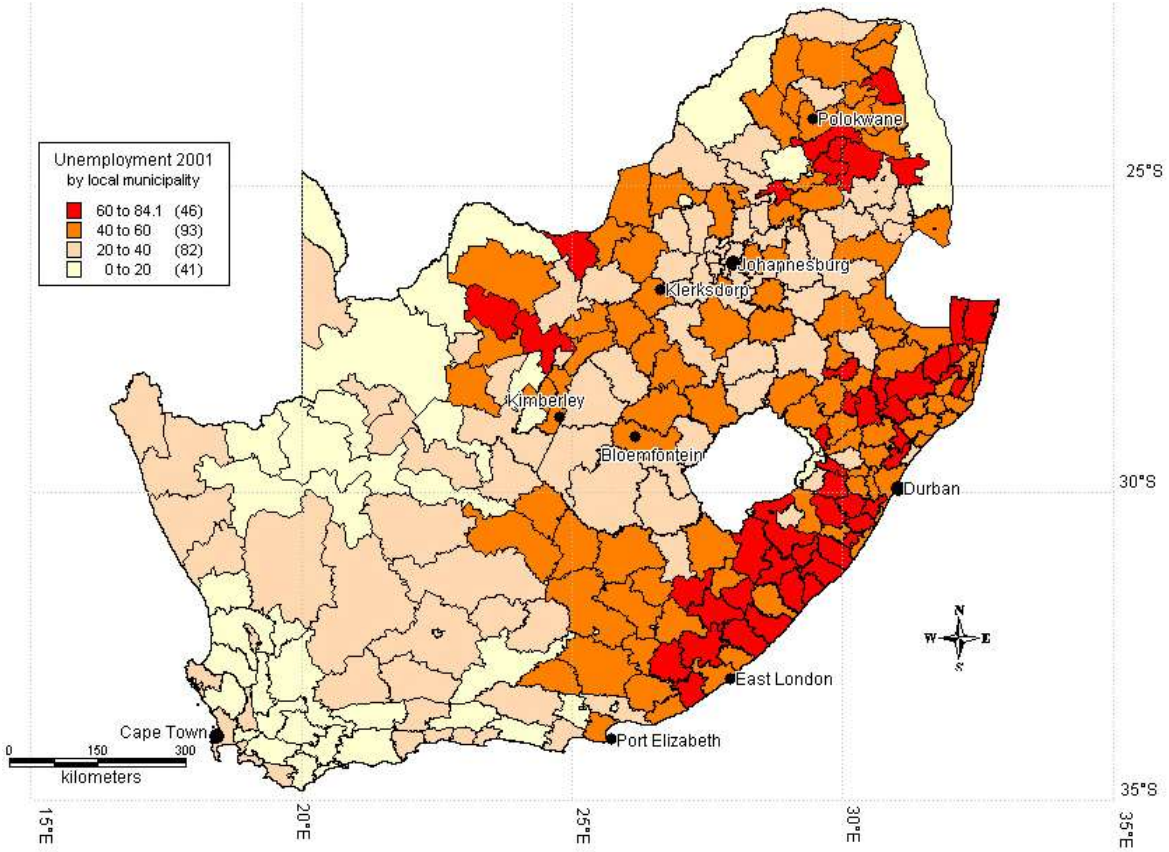
Figure 6: Development regions in the South African space-economy

[3] See Harmse et al. (2009) for a detailed comparison and analysis in this regard.



Source: Harmse, Blaauw and Schenck (2009)

Figure 7: Spatial pattern of unemployment in South Africa



Source: Harmse et al. (2009)

- Monthly income between the formal and informal economies in South Africa is highly unequal in favour of the formal economy. Various studies conclude that many activities in the informal economy yield income that renders the recipient virtually incapable of supporting his/her family (Torres, Bhorat, Leibbrandt and Cassim, 2000; Blaauw and Bothma, 2003; Blaauw, Louw and Schenck, 2006; Louw, 2007). The earnings in the informal economy also tend to drop as one move nearer to the subsistence activities (Heintz and Posel, 2008: 36).

  Many forms of informal employment do not provide skills or increase productivity levels and therefore contribute very little towards uplifting the poor. This explains why the informal economy in South Africa for the most part is considered to be a second-best alternative to formal employment. Some refer to it as merely a form of hidden unemployment.

- The impact of the HIV/AIDS pandemic on the informal sector is a topic that was and still is under-researched and warrants urgent attention from researchers (Saunders, 2005).

The characteristics of the informal economy, as identified above, can be synthesised into the following hypothesis: The long-term nature, lack of mobility to the formal economy, low levels of educational attainment, low and uncertain levels of income earned and the racial bias of the informal economy in South Africa renders it for the most part unsuitable to act as a sustainable viable alternative to formal employment. In this light it would seemingly be unwise to rely on the expansion of the informal economy as the best policy for job creation (McKeever, 2007: 85).

Maybe this is the reason why the informal economy is largely ignored in the National Development Plan (NDP). Yet the long term nature suggests it is here to stay. People are surviving in the second economy and therefore it is imperative to focus attention on the underlying dynamics and pieces of the puzzles we do not understand yet as to how it fits and operate in the broader economy. This is the focus for the rest of the paper.

5. Missing pieces in South Africa's informal economy

5.1 The expanding role of migrants – What happened to the Mozambicans?

Figure 2 gives the impression of a largely stable informal economy in South Africa for the last 8 years. This masks the constant stocks and flows of immigrants participating in some of the lower tier informal economic activities. Day labouring is pertinent example. Since 2004, three day labour surveys have been completed in Pretoria. These are the 2004 study of Blaauw et al (2006), the 2007/08 study by Blaauw (2010) and the latest one by Blaauw et al. (2015a) in 2015. The surveys covered the same geographical are and the same basic survey instrument was used. The results present an informal activity that is constantly in a state of change and adjustment.

Table 3: Country of origin of day labourers in Pretoria, 2004 - 2015[4]

Country	2004		2007/08		2015	
	Number	%	Number	%	Number	%
South Africa	213	88	125	38	137	45.1
Zimbabwe	17	7	111	33	138	45.4
Namibia	0	0	0	0	0	0
Swaziland	0	0	1	0.3	0	0
Mozambique	7	2.7	73	22	4	1.3
Botswana	0	0	0	0	0	0
Lesotho	0	0	18	5	10	3.3
Other	0	0	3	0.9	7	2.3
Missing / refused to answer	5	2.3	4	1	8	2.6
	242	**100**	**335**	**100**	**304**	**100**

Source: Blaauw et al. (2006); Blaauw (2010); Blaauw et al., (2015a)

Table 3 shows an important trend and raises important questions. The percentage foreign born day labourers in Pretoria increased exponentially within 12 years. From around 12 per cent in 2004 the number went up to more than half in 2015, peaking at 60 per cent in 2007. One of the South African day labourers was quoted saying that "*„… these makwerekweres are spoiling the employers by charging R20 ($2) per day when we charge R100.00 ($10) …*" (Schenck, Xipu and Blaauw, 2012). The general view, prevailing at the time of the survey, was that foreign day labourers were willing to work for much less than the South African day labourers. Although Blaauw, Pretorius, Schoeman and Schenck (2012) showed that this was in fact not the case for the South Africa as a whole, this may well be applicable to individual urban areas such as Pretoria. This piece of the puzzle is still missing and needs further research.

What is known however is that the level of competition in the informal economy's lower tier activities such as day labouring and waste picking is increasing along with the continued influx of migrants in the urban space economy of South Africa. Viljoen (2014) quotes several respondents in her study on this issue:

"Lots of competition".

[4] Totals for percentages may not add up to exactly 100% due to rounding.

“There is huge competition in the work”.

“More and more people from Zimbabwe coming into the country doing our work”.

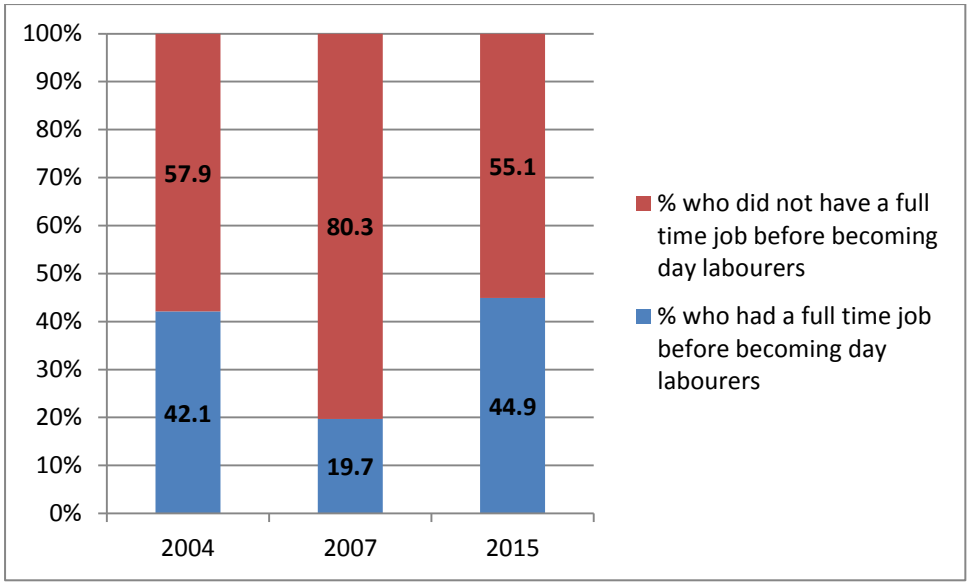
Table 3 also lay bare another empty space in the puzzle and that is what has happened to the significant portion of Mozambican day labourers that was in Pretoria in 2007 (22 per cent)? This figure not only reversed dramatically, but at 1.3 per cent is half of the percentage is was in 2004. Where they specifically targeted as part of the xenophobic violence at the time perhaps? Furthermore, what happened to the South African day labourers that are seemingly no longer part of this activity? Have they made the transition to other informal activities such as waste picking, where there are few fewer migrants involved as Viljoen (2014) determined? Fact is, we simply do not know but we need to find out if we want to see the complete picture of the labour market transitions taking place underneath the surface of the macro-economic totals forthcoming from Statistics South Africa‟s Labour Force surveys.

What focussed micro-studies such as the day labour research in Pretoria also tell us is that the stock of human capital in the form of work experience within the lower tier is quite volatile.

5.2 The seemingly volatile levels of work experience in lower tier informal economy activities.

The three studies among day labourers in Pretoria reveal an almost astonishing 360 degree turnaround in the percentage of day labourers who had a full-time job before becoming day labourers. See Figure 8.

Figure 8: Previous full-time work experience among day labourers in Pretoria, 2004 - 2015



Source: Blaauw et al. (2006); Blaauw (2010); Blaauw et al. (2015a)

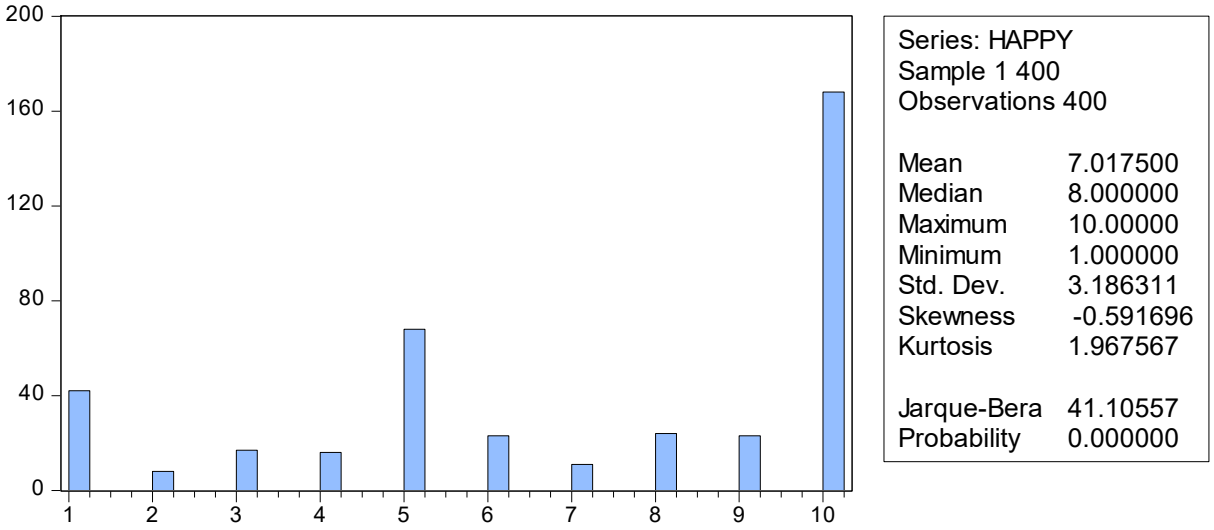
The marked decrease and subsequent recovery in the proportion of day labourers in Pretoria between 2004 and 2015, who had previous full-time job experience, warrants focussed investigation. Looking at Figure 8 and Table 2 together one may be tempted to deduce that this stems from the influx of Zimbabwean and Mozambican migrants between 2004 and 2007 (Blaauw et al., 2012).

One part of this puzzling question was solved by Blaauw et al. (2015b), who determined that the almost one in every time Zimbabwean who arrived in South Africa prior to 2007 had previous full-time job experience, confirming the role played by the economic meltdown in Zimbabwe in the seemingly exponential increase in the number of Zimbabwean day labourers in South Africa since 2003. These people even included teachers and nurses amongst them (Blaauw et al., 2015b). The possible answer therefore lies within the puzzling issue of the immigrants from Mozambique who appeared en masse on the day labour seen between 2004 and 2007, but seemed to have disappeared by 2015. This issue is high on the research agenda of the research team responsible for the 2015 Pretoria study along with other seemingly enigmatic findings from previous studies in the informal economy of South Africa, such as high levels of subjective well-being.

5.3 Surprisingly high levels of Subjective well-being (SWB) in South Africa's informal economy

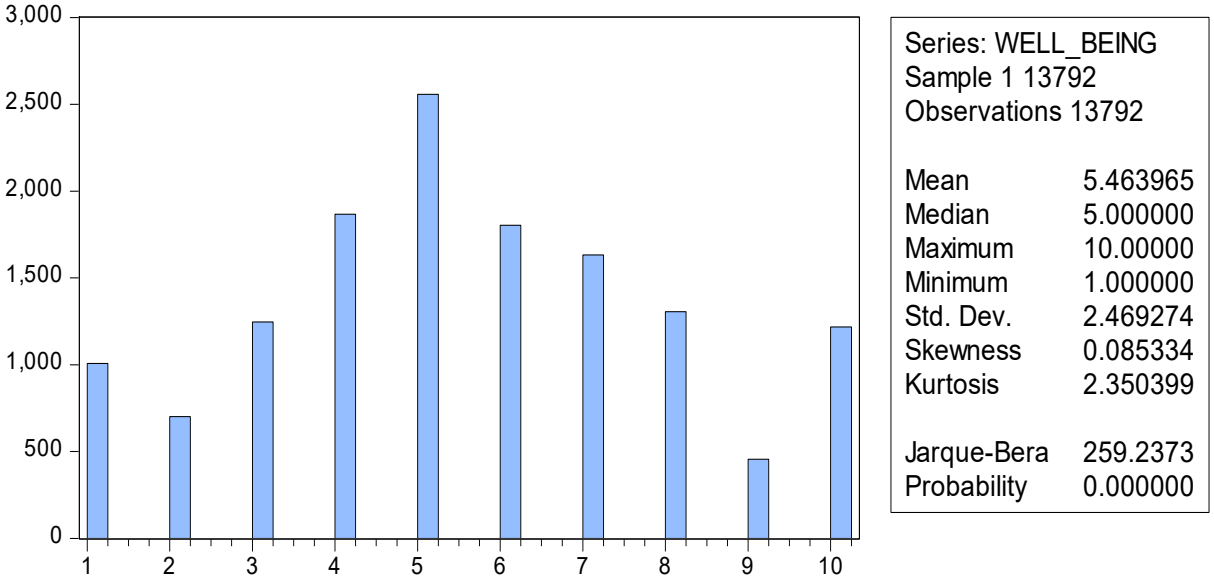
Life in South Africa"s informal economy and especially in its lower tier activities can be harsh at the best of times. Yet, in a surprising finding, not all participants are filled with despair and low levels of self-reported well-being (Blaauw et al., 2015c). Figure 9 presents the findings of a recent study by Blaauw et al. (2015c) on the subjective well-being of landfill waste-pickers in the Free State province. This is then contrasted to overall SWB of South Africans in Figure 10.

Figure 9: Distribution of Life-satisfaction among waste pickers on landfill sites in the Free State, 2012



Source: Blaauw et al. (2015c).

Figure 10: Distribution of Life-satisfaction in South Africa, 2008



Source: Blaauw et al. (2015c).

The mean score of seven indicates a surprisingly high level of life satisfaction in spite the daily struggles of life on the landfill sites of the Free State. Blaauw et al. (2015c) could not establish that living with family increased SWB of waste pickers. They did found that those not living with family, but who are able to visit at least once a month are significantly happier. Furthermore, unlike the informal activity of day labouring – belonging to a group is not valued amongst Landfill Waste Pickers. The words of one the waste pickers resonates here: ”*I want to work alone*” (Blaauw et al. 2015c). There are clear indications of a spirit of entrepreneurship and individuality in some sections of the informal economy in South Africa and the when, who and why of this must be pieced together as well in future research.

Far away in India Biswas-Diener and Diener (2001) also expected people, living in abject poverty, in the slums of Calcutta to be “miserable”. They also discovered this not to be necessarily true. Their results points towards the theory of adaptation, where people are indeed making the best of what they have. Social relationships and basic needs turned out to be important predictors of self-reported happiness and this may apply in some sections of the South Africa informal economy as well.

Blaauw, Botha, Schenck and Schoeman (2013) suggest that the role of social relationships in the well-being of day labourers and other vulnerable groups in the informal economy requires further focused qualitative research. Pertinent research questions that remain to be answered in terms of South Africa‟s informal economy and the issue of SWB include possible geographical differences. The same applies to the rural/urban divide. The recent xenophobic attacks on foreign workers in South Africa have raised the question of whether the subjective well-being of South Africans in the informal economy, and that of foreigners differ significantly, and, if so, what the reasons for this are.

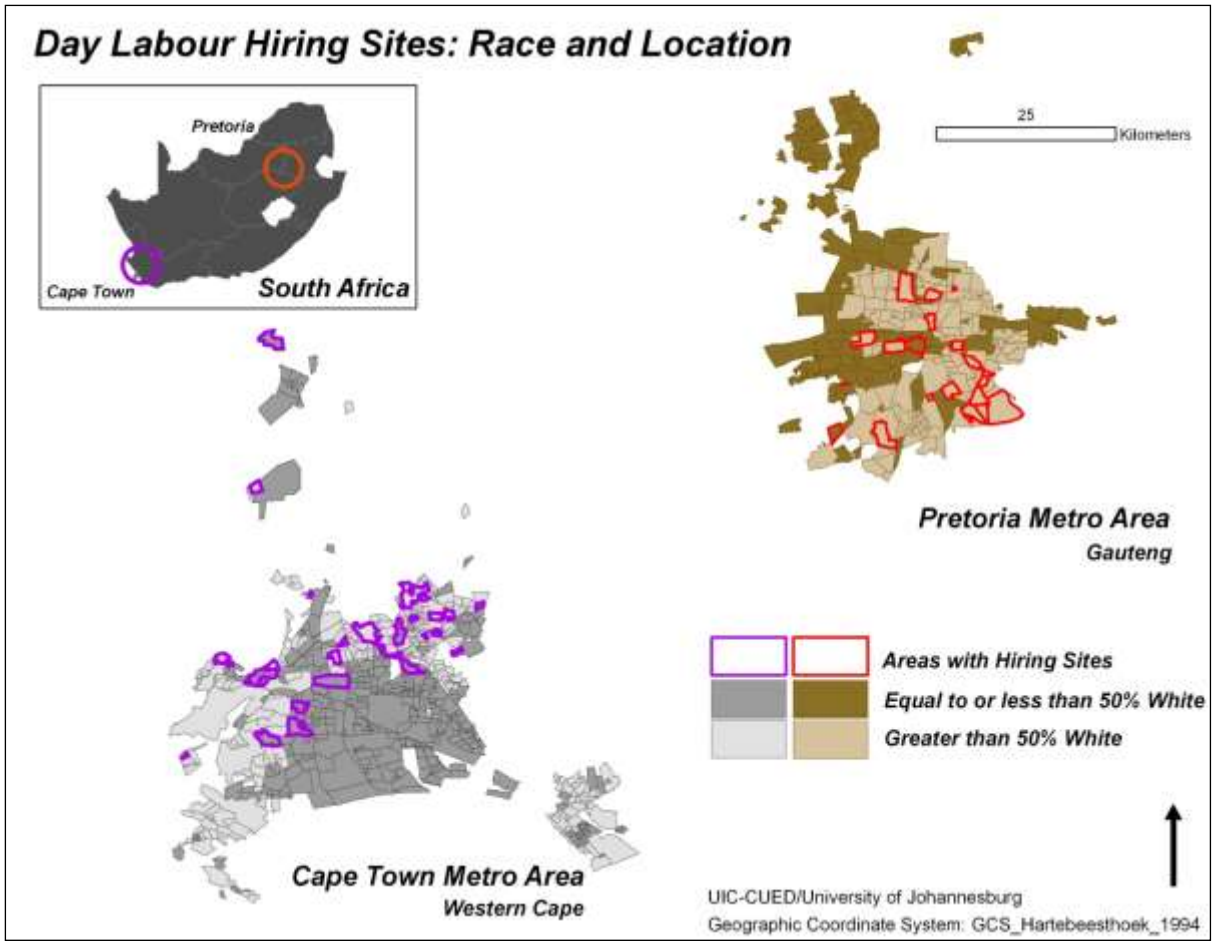
The varying spatial characteristics of South Africa‟s informal economy, especially in the lower tier activities, form another puzzle that we have not completed yet.

5.3 Varying spatial characteristics of South Africa’s informal economy

On a macro-level the provincial distribution of South Africa"s informal employment has remained fairly stable over the last decade (Statistics South Africa, 2015). The same does not apply to many lower tier activities of which day labouring is a pertinent example. Research has shown that hiring sites along roads and on street corners can be extremely fluid (Blaauw et al., 2006). We do not yet fully comprehend all the possible factors determining the location of this activity.

We do know that the spatial distribution of day labourers in South Africa is closely correlated with the population density of the country (Blaauw, 2010). As expected, the densely populated metropolitan areas contain the vast majority of day labourers in absolute terms. Within a specific metropolitan area such as Cape Town or Pretoria, it was found that many of the informal hiring sites, located in residential areas, are to be found in areas where whites traditionally formed the majority of the residents. This is illustrated in Figure 11.

Figure 11: The distribution of day labourers in Cape Town and Pretoria, 2005/2006



Source: Blaauw (2010).

The dynamics at each hiring site is still a puzzle section that is incomplete. Most of the day labourers at a particular site will also have a single prominent language group present at that particular site and organise themselves informally (Harmse et al., 2009). How this is done will require a deepened level of engagement than can be provided by a survey. We do know that the nationality of day labourers at the various sites is usually mutually exclusive, with clear-cut divisions between foreigners and local day labourers (Xipu, 2009: 79).

Apart from the above other elusive parts of the puzzle is the survival strategies of people in the informal economy who sometimes face a poverty gap of up to 71 per cent (Blaauw et al., 2006). People in the South African informal economy like waste pickers, day labourers, car guards and part-time domestic workers face the constant pressure of earnings instability and insecurity. This reflect workers‟ daily struggle to hedge against the risks of unemployment that are endemic to the lower tier activities

in the informal economy (Theodore et al., 2015). This is aptly described by a respondent in the Viljoen (2014) study: *"I have to work even when I am not fine".*

Any unfavourable event, such as an injury or illness, a reduction in employer demand, or even a spell of inclement weather, will directly and immediately reduce their earnings (Theodore at al., 2015). Yet, these types of idiosyncratic shocks are a familiar characteristic of daily life. Shocks that impact negatively on earnings can also influence the supply of labour, education and occupational choices, job search and several other economic choices (Guiso, Jappelli and Pistaferri, 2002). Even the small costs, small barriers and the little mistakes that most people will not even think about, may have a negative multiplier effect on the lives of people involved in the lower tier of the informal economy (Banerjee and Duflo, 2011).

In spite of the above reality workers in the informal economy manage to somehow survive albeit barely in some cases. Their strategies in this regard deserve investigation. One possible strategy that is observed in the literature is that it is common for informal economy participants to engage in more than one income generating activity (Hart, 1973: 69; Suharto, 2002: 123; Altman, 2007: 12). One reason for this phenomenon is that the incomes earned in many informal economy activities are insufficient to sustain livelihoods (Viljoen, 2014).

A multidisciplinary approach is the only feasible way of achieving this, using methodologies similar to that of Banerjee and Duflo (2011). Given all the gaps and questions in our understanding of the informal economy the current state of research on the informal economy requires an adjustment of its course to address the diminishing intellectual returns currently in evidence (Strydom, 2014).

6. The way forward: Addressing informal economy research's diminishing intellectual returns.

Strydom (2014) compared a recent PhD-proposal with two previous studies on the informal economy in South Africa. The studies in question are that of Schneider and Enste (2000) and Saunders (2005). Strydom (2014) described the similarities (although 14 years apart) of the two studies and proposal intriguing, confirming his

view that the informal economy research is potentially suffering from diminishing intellectual returns.

Strydom (2014: 1) explains that his "...*understanding of this diminishing returns phenomenon is because of the rising interest in institutional economics. This field has seen interesting developments, particularly owing to two major publications. The first is Helpman, E. (ed) Institutions and Economic Performance, 2008. The second is Acemoglu, D. and Robinson, A. Why Nations Fail: The Origins of Power, Prosperity and Poverty, 2012. These publications have extended the development of institutional economics beyond its Veblen background while building on the well-known work of Douglas North. The outcome of this is that we have a new intellectual framework to analyse problems that were previously associated with the informal sector analysis. Today we tend to bring this under the heading of institutional failure. Instead of trying to analyse and estimate the size of the informal economy we apply the new tools in analysing institutional failure*."

The good news is that there is movement in the right direction. Recently, there has been a noticeable move in the South African literature towards the study of institutional failure in South Africa, particularly in respect of the labour market. Two interesting studies came to the fore (Strydom 2014). Both were doctorate studies in the field of labour economics. The first one is the work of Vermaak (2011): The Working Poor in South Africa, 2000-2007. Secondly was the study by Blaauw (2010) entitled: The Socio-Economic Aspects of Day Labouring in South Africa (Strydom 2014).

The latest study known to the author in this field is that of Viljoen (2014) entitled Economic and Social Aspects of Street Waste Pickers in South Africa. The richness in the data obtained in this type of interdisciplinary micro-economic analysis is what we need to achieve momentum going forward in researching the informal economy. Combining quantitative and qualitative techniques in a mixed method approach can add significant value in our understanding of the ever changing picture of the puzzle we are attempting to build. It is indeed encouraging to see the attempt by Burger and Fourie (2015) to provide an alternative macro-economic model incorporating the

informal economy in order to have a more nuanced analysis of the labour market in South Africa.

Apart from advances in the available framework to analyse the informal economy the current state of macroeconomic literature work on unemployment in South Africa also necessitate the movement towards interdisciplinary micro-analysis under the framework of institutional failure. Research on unemployment mostly deals with the formal sector only (Burger and Fourie, 2015). This is the case, in spite of the fact that evidence from unemployment research in the fields of labour and development economics point toward substantial segmentation in the South African economy (Burger and Fourie, 2015).

At the same time, labour market barriers exist that prevent people from improving their employment and earnings situation in the informal economy as well (Viljoen, Blaauw and Schenck, 2015). Many such barriers affect the poor in particular, and form the basis of much marginalisation, inequality and continued poverty (Burger and Fourie, 2015). These barriers have their own duality. They do not only put many of the informally employed in an environment that is not economically sustainable, but also keep them trapped in that environment (Viljoen, 2014).

The duality in the informal economy reveals itself on another, very personal, level. This is the piece of the puzzle we find the hardest to complete as it reveals a certain uncomfortable truth if you wish. The informal economy compels us to do in depth self-reflection. Is it not us who are feeling a sense of guilt when we see people and even children making a living on the streets as day labourers or as informal recyclers on the South Africa‟s landfill sites? Is it not us who feel uncomfortable and view their existence as inhumane and something we must change at all cost? The research shows that life on the margins of South Africa‟s informal economy is indeed hard. However, it is here to stay as long as the formal economy is unable to provide meaningful alternatives. There is no sign that this is happening anytime soon. Until then we must refrain from deciding for people in the informal economy what is best for them. We need to do more than have empathy. We need to enter their world and ask them why they are there, what they are doing and support them in their world and not try to change their world if change is neither possible nor sustainable.

Prof Rinie Schenck (2015) asks this exact same question when sharing her reflections on a recent research and fieldwork visit to the Oudtshoorn landfill site. It is by spending time and entering the world of the people there in a meaningful way that one can appreciate what is going on there on a human and social level. Yes, there is the glue that is sniffed there. But, there is other form of action and activities. Instead of being bored at home with nothing to do, there is a real sense of excitement on the landfill site. They can get food; there are adults who give them attention, physical activities like jumping on and off stationary trucks. In the afternoons more people arrive. The informal economy is a micro-cosmos of activity just like life in the formal economy.

How can we decide just to ban people from the landfill site without any meaningful alternative? Such a policy intervention can be excessive and due to the desire of governments to reclaim urban space (Adama, 2014). Does such a decision constitute inclusive policy, hearing the voice of those whose fundamental human needs will be affected by any hastily conceived policy action? The determination of informal workers to maintain access in order to ensure their survival will constitute a clash of rationalities: the rationality of governing versus that of survival (Adama, 2014).

That is where the challenge for future research is. We must first understand the puzzle before we can have any idea as to how to change the picture for these people. By engaging in the informal economy, people are taking responsibility for themselves and others. What must the rest of us do? We must go beyond feelings of guilt and or empathy and actively remove barriers making it difficult for these people to take their lives forward and engage, even in a limited way, with the formal economy. Let the informal economy and its participants build the puzzle of their own lives and then change it in a way to fulfil their fundamental human needs and enhance their capabilities as Max-Neef (1991; 1992) and Sen (1999) suggested decades ago.

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