Informality and Politics in the Global South: Three Perspectives

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The Politics of Order in Informal Markets: How the State Shapes Private Governance. By Shelby Grossman. New York: Cambridge University Press, 2021. 200p. $99.99 cloth.

Why Informal Workers Organize: Contentious Politics, Enforcement, and the State. By Calla Hummel. Oxford: Oxford University Press, 2022. 224p. $85.00 cloth.

Black Markets and Militants: Informal Networks in the Middle East and Africa. By Khalid Mustafa Medani. Cambridge: Cambridge University Press, 2021. 210p. $99.99 cloth.

Informality is often studied by scholars of urban studies but has received comparatively little attention by political scientists. This is surprising given the fact that large portions of the world's population live, work, or transfer funds informally. The conventional wisdom is that the informal economy—the portion of the economy operating outside the regulatory reach of the state—is not very political because informal sector workers are relatively atomized and find collective action to be costly. The three books reviewed here, however, demonstrate that the informal sector is not only characterized by important forms of political organization but also affects politics within government institutions—and can even contribute to regime downfall. Calla Hummel's *Why Informal Workers Organize* and Shelby Grossman's *Politics of Order in Informal Markets* examine organization among informal sector workers, with Hummel probing the circumstances under which organization occurs and Grossman when such organizations are effective. In *Black Markets and Militants*, Medani takes the opposite perspective, examining how informal financial flows and networks affect state regulatory capacity. These three books marshal significant amounts of original data, pointing to how future research on these important dynamics can be conducted.

Grossman's *The Politics of Order in Informal Markets: How the State Shapes Private Governance* focuses on one form of governance that has gone almost completely unexamined by political scientists: market associations that manage the plazas or squares where informal retailers sell their wares. Grossman argues that these associations are very common: 91% of traders in Lagos, Nigeria, report belonging to one (p. 18). She shows that market associations in Lagos vary considerably in the extent to which they settle disputes between traders and deliver services such as security, dispute resolution, cleaning, and negotiating with government authorities. How can we explain such variation in the efficacy of these institutions? One cannot assume, she argues, that organizations that arise where the state is absent necessarily function effectively—an impression left by case studies of effective self-governing institutions in the private governance literature. She compellingly frames variation in the efficacy of market associations as an instance of a classic question in the political-economy literature: Under what circumstances do rulers choose to protect property rights, rather than exploit or extort from those they rule?

The book presents a novel, parsimonious argument to account for variation in the quality of governance across market associations. First, Grossman argues that market leaders (and by implication the associations they manage) will be more effective and responsive when they face external threats, echoing the literature on state development. Government predation—in the form of threats of eviction or entering markets to resolve disputes or police unregistered products—motivates leaders to get their house in order. Leaders who provide helpful services will be less likely to provide government officials with excuses to enter the markets they oversee and better able to

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mobilize market members to turn out for public displays of political support for or opposition to political incumbents. She contends that the most prevalent state threats faced by markets in Lagos relate to eviction or rent increases—threats she contends are much more credible when markets are located on state-owned land. Leaders' abilities to provide valued services and mobilize members, however, vary with the sectoral diversity of market members. Even though information about bad suppliers or customers helps leaders resolve disputes and govern effectively, retailers in single-sector markets where members compete with one another will be less willing to share such information. Grossman also contends that leaders vary in strength and that only strong leaders will be in a position to govern well—if they choose to do so.

The crown jewel of this book is a survey of retailers across 199 markets that Grossman conducted to assess the explanatory power of her argument and a set of alternative explanations for variation in market governance. As Grossman notes, there are little data on small-scale retailers in low- and middle-income countries. Microenterprise surveys rarely touch on market associations. To address this gap, Grossman designed her own survey, going to extraordinary lengths to assemble a random sample of traders across all the markets in Lagos. The base for her sampling frame was a list of markets from the state trash collection agency, which she then expanded. Research assistants then mapped 52,830 shops within each of the 199 markets she documented. Chapter 3 provides a detailed account of how she supervised and audited the work of her survey enumerators as they conducted face-to-face interviews with traders from each association. Particularly impressive is the way Grossman identified the association to which members belonged, which involved asking multiple questions (because individuals belonging to less effective associations might not respond affirmatively) and making follow-up visits (to reconcile different names for the same association). The chapter is a model of transparency that will serve as an extremely useful guide for future scholarship on the informal economy.

Grossman assesses empirical support for her theoretical claims by estimating models using her individual-level survey data and providing a set of four case studies of market associations. The models show an association between membership in a market association on government land and the market association's quality of representation and accounting. A second set of models including an interaction between location on government land and product diversification suggests that government threats are mainly effective in diversified markets. The expected relationships, however, are not found for two other measures of market efficacy: freedom to complain and dispute resolution. There are, of course, drawbacks related to using this type of survey data to describe market associations' political characteristics. One limitation is relying on the perceptions of just a few traders at a single point in time to characterize each market. However, as noted previously, national statistics agencies collect little reliable data on such associations, and existing surveys overlook them. Grossman's analysis is therefore an extremely illuminating first cut. The brief case studies in the book provide helpful illustrations of variation in the efficacy of market associations within Lagos.

Stepping back, the book raises several questions. First, under what circumstances do leaders amass strength, and under what circumstances are they less likely to do so? If "bad" strong leaders choose not to police suppliers, why wouldn't the state licensing agency intervene and thereby undermine their support? Second, can market leaders sanction unreliable or dishonest suppliers if traders go elsewhere to purchase their wares? As a novel study of an understudied phenomenon, it is also unclear how well the argument travels. Though the book's conclusion reviews extant scholarship on other geographic contexts to suggest that the patterns observed in Lagos are not unique, the relationships between associations, leaders, and retailers that Grossman describes seem less extractive in nature than some examples highlighted in recent scholarship (e.g., Eduardo Moncada, *Resisting Extortion: Victims, Criminals, and States in Latin America* [2021] on gang extraction in markets they "protect" in El Salvador. Hummel's book also depicts numerous cases of collusion). There is clearly an opportunity to build on Grossman's excellent study.

Hummel's *Why Informal Workers Organize: Contentious Politics, Enforcement, and the State* also examines organization among informal sector retailers—although she focuses primarily on street vendors, a somewhat more precarious group than Grossman's market traders. She notes that street vendors represent as many as 4–15% of workers in major cities. Whereas Grossman argues that organization among informal retailors is ubiquitous, Hummel's book seeks to explain why a "growing and politically active minority" of such workers organize while others do not (p. 2). The book presents data showing that whereas 12–15% of informal workers organize in countries such as Argentina, Costa Rica, El Salvador, and Venezuela, 32% organize in Peru and 42% in Bolivia. Why would some informal workers organize, given the many demands on their time and the significant collective action costs required? And why would greater percentages organize in some countries than others? She observes a puzzling pattern: government officials often encourage informal worker organization. Why would public officials encourage organization among workers who routinely violate regulations regarding the use of public space, fail to pay taxes, and skirt labor laws?

In this creative book, Hummel offers city- and individual-level explanations of organization among street vendors. First, public officials face incentives to encourage membership in associations in contexts of weak state capacity. Associations of informal workers, she argues, can require members to maintain certain standards of cleanliness, keep them working within informally approved boundaries, and keep members from blocking public works projects. Public officials who lack the power to police informal workers themselves and face career incentives to keep the streets orderly and clean will find it advantageous to offer inducements to workers to form and join such organizations, because doing so allows them to develop an alternative means of achieving these objectives. Officials can then bargain with these associations over the ways in which their members operate, rather than with myriad individual vendors. Where state capacity is higher and public officials face pressure to maintain order, however, they will be able to police informal workers themselves or in partnership with law enforcement.

The second part of Hummel's argument focuses on individual-level participation in organizations. She argues that informal workers with know-how and resources, including education and time, are more likely to start and join organizations. Hummel formalizes the argument in a model of the strategic interactions between a government official and informal workers, which builds on an n-person public goods game. The model offers a clear, parsimonious summary of the theoretical logic and predicts that public officials will only pay informal workers to organize when it is cheaper than policing informal workers themselves. She differentiates her argument from two alternative accounts: a "grassroots" explanation, in which workers organize independently and demand concessions from the state, and a "clientelism" explanation, in which state officials encourage organization to facilitate vote buying and extracting bribes.

Facing the same lack of data on informal sector worker organization as Grossman, Hummel took an alternative approach. The book combines a creative analysis of existing survey data with comparative ethnography and interviews in four urban centers in Latin America, supplemented by original survey and administrative data. First, Hummel turns to the highest-quality source of survey data for Latin America, the Latin American Public Opinion Project (LAPOP), and to survey data from the Comparative Study of Electoral Systems. The 2006 and 2008 waves from LAPOP contained questions allowing one to identify respondents who were informal workers. Hummel then uses a random forests classifier, an algorithm from the machine learning family, to estimate which of the respondents in later LAPOP survey waves were in fact informal sector workers. (Presumably there were no changes in legal designations for informal sector workers since 2008 that would have affected the accuracy of her prediction algorithm for subsequent years.) This provides Hummel with a large dataset that she can use to describe associational life among informal sector workers throughout Latin America. Hummel employs a variety of modeling strategies to examine the association between state capacity and worker characteristics and rates of participation in an association or union. Although it is difficult to interpret the coefficients precisely because of the structure of the data and drawbacks of each modeling approach, the association between state capacity and worker education, on the one hand, and mobilization, on the other hand, appears to be robust (see pp. 72–77).

Case studies of La Paz and El Alto (Bolivia) and São Paulo's Vila Velha and the peripheral neighborhood Princesa Isabela provide the most compelling evidence in support of her theory. Marshaling a variety of types of evidence, the case studies illuminate the distinctive dynamics of vendor organization in each context. In La Paz, the bureaucracy regulating urban life is weak, and in El Alto, it is virtually nonexistent. Faced with an explosion in the number and political weight of street vendors, both sets of municipal authorities have encouraged vendors to form associations. She finds that in La Paz's established neighborhoods, the bureaucracy limits the number of licenses it awards and delegates the regulation of vendors to associations. Street vending associations, in turn, enforce relevant municipal regulations and arbitrate disputes among vendors. In El Alto, bureaucrats delegate even more—giving associations the right to build and improve infrastructure such as market buildings and access roads (p. 134).

In São Paulo, in contrast, a comparatively robust local government enforces street market regulations vigorously. Here, only 1–2% of street vendors belong to organizations. Hummel brings to life the punitive character of state regulation in the centrally located market area Vila Velha by describing her experiences assisting a local vendor, who had to pack up wares and switch locations frequently to avoid police sanctions. Hummel regularly observed police officers drawing their guns while chasing street vendors, and vendors bore scars from police beatings. In the more peripheral district of Princesa Isabela, however, officials struggling with a crime-ridden local market encouraged hundreds of street vendors to form an association and keep criminal elements out of the market. Hummel's firsthand descriptions of the policing that associations and governments do from her time assisting vendors add texture, richness, and credibility to the case studies. Her interviews with public officials, vendors, and police officers allow her to depict the ways in which these contrasting arrangements emerged over time in the four locales.

Overall, Hummel's book offers a creative and plausible account of patterns of organization among informal workers. The book also admits some important ambiguities related to informal work organizations: some leaders are corrupt and collude with government officials to prey on their members, and very significant levels of mobilization can mean that local governments are held hostage.

The novel data presented in the book also raise a number of questions that suggest productive avenues for research by other scholars. State capacity appears to explain differing levels of worker organization in her cases; however, why are levels of organization so high in Bolivia but extremely low in Central America? In addition, the book focuses on street vendors, a type of informal sector worker for whom the argument seems particularly plausible. Would a similar logic apply for domestic workers, whose activities do not affect public space? Would the same logic explain the even higher rates of organization among agricultural workers? Future work should develop theoretical explanations for the variation she shows among different sectors. Finally, the book hints at variation in the scale or size of worker associations but does not explore the circumstances under which larger federations of smaller associations emerge. Yet such larger federations can clearly come to wield significant political power, as she shows in the Bolivian case.

Khalid Mustafa Medani's *Black Markets and Militants: Informal Networks in the Middle East and Africa* examines a broader set of informal sector activities, including not only informal sector work but also informal financial flows—those that run outside regulated, state-approved channels. Medani's book highlights how large these informal flows can become in Egypt, Somalia, and the Sudan where they eventually comprise the largest source of foreign exchange revenue. In this ambitious book, Medani examines the effect of large informal flows of remittances on the emergence of Islamist movements in those three countries during the 1970s and 1980s. He probes these cases to understand the circumstances under which more militant Islamic movements emerged in the region. The book also examines how the subsequent reduction in these flows and the austerity programs they sparked affected subsequent political developments in each country.

Based on two decades of research, Medani argues that a large increase in informal financial flows led to major political transformations in each country—and especially in the ways in which (and the extent to which) Islam structured political cleavages and mobilization. The oil price hikes of the 1970s, he points out, had important impacts beyond oil-exporting nations in the Arab world. Countries such as Egypt, Somalia, and the Sudan became major labor exporters, meeting demands in oil-exporting nations for labor in construction, domestic service, and so on. Expatriate workers chose to send remittances home via informal channels, because Arab states at the time overvalued their exchange rates. In all three cases, informal networks and ties provided the trust necessary to facilitate unregulated financial transactions; however, Islamic networks and institutions monopolized these informal financial flows to varying degrees in each country. In Egypt, Islamic Investment Companies emerged to manage these illicit flows and channel them into commercial enterprises. This weakened the state's ability to regulate. It also contributed to the growth of an Islamist bourgeoisie that promoted the political profile of the Muslim Brotherhood, eventually increasing its leverage to such an extent that the state allowed the Brotherhood to stand for elections. According to Medani, these flows also financed a major expansion of informal housing in the Cairo metropolitan area, in which more militant forms of Islamist activism later took hold (p. 71). In the Sudan, the Islamist commercial class also came to effectively monopolize informal financial flows. This positioned the Muslim Brotherhood to recruit adherents from important parts of the military establishment and civil society and also exacerbated religious, ethnic, regional, and class schisms. In contrast, in Somalia, Islamist groups never gained monopoly control over remittance flows. Instead, flows were managed by clan-based networks and came to reinforce clan-based, rather than religious, ties.

The second half of the book examines the political changes triggered when the demand for expatriate labor ultimately decreased—and with it, remittances—during the 1980s and 1990s. Egypt, the Sudan, and Somalia were thus prompted to liberalize and reduce state expenditures. As employment by the state and formerly protected manufacturing enterprises fell, the urban informal sector grew dramatically. In Egypt, the state's economic reform program, entailing a liberalization of the exchange rate and the expansion of state financial regulation, was effective. It undercut the financial power of middle-class Islamists who had benefited under the prior model. However, militant Islam grew in a number Cairo's ballooning informal settlements. In the Sudan, the rise of an Islamic bourgeoisie with strong connections to civil society and portions of the military greatly facilitated an Islamist-backed coup in 1989. Having captured state power, Islamists liberalized some sectors but further tightened control over what had been informal financial flows and initially supported radical Islam abroad. Their hold on power became tenuous, however, with the discovery of oil and subsequent conflicts with the southern part of the country over control of resource rents: South Sudan became independent in 2005, and Bashir's regime was ultimately ousted from power in 2019. In Somalia, recession triggered state disintegration and collapse, with violence erupting between warring clans. Islamic militancy grew as a response to interclan violence and the intervention of external actors that entered with aims to stamp out terrorism (p. 16).

Medani's book is ambitious, covering several decades of political and economic history in three countries. The book displays an extremely impressive command of the complex histories of each country—taking the reader from the 1970s to very recent political events, such as the toppling of Bashir's regime. It contains significant detail on informal financial flows, which is, by definition, something that is hard to measure and study given the paucity of state administrative data. The book's convincing examination of the effects of informal financial flows on domestic state capacity, as well as patterns of political mobilization, stands out as its main contribution to the broader field of comparative politics. These are not the only countries that have received such significant flows of illicit finance; overvalued currencies may be less common than during the 1970s, but financial flows related to drug trafficking and other types of illicit activity have arguably increased. Medani could have hammered home more emphatically the need for attention to informal financial flows in our field in the book.

For a nonspecialist in the region, however, the book would have been easier to navigate had it contained a more explicit theoretical framework and research design. Could, for example, one think about the different economic shocks that frame this study through the lens of a critical junctures framework? Which specific observations in the country case studies support the argument, and which observations should lead us to be less certain of the argument? Are there a set of alternative theoretical accounts that one could draw on to explain the difference in outcomes observed across these three cases? If the book had covered a shorter time period—perhaps just through the 1990s—could it have contained a less complex argument? This being said, for specialists on the region and its politics, a less nuanced account would likely be far less satisfying. These are inherent trade-offs when we study complex phenomena in comparative politics.

Taken together, these books underscore the centrality of informal sector politics to our understanding of low- and middle-income countries. Not only does the informal sector comprise sometimes more than half of all employment, half or more of all housing construction, and large fractions of foreign exchange flows into these countries. The books also make clear that informal sector organization affects state strength and stability and can also affect patterns of violent extremism. Clearly, these excellent books have just illuminated the tip of the iceberg; more political science scholarship is needed, particularly scholarship using careful approaches to original data collection, such as those exemplified here. New scholarship could help us understand which types of informal sector organization are more common than others across different economic sectors and political contexts and the extent to which the types of organization observed in the specific sectors and countries examined by these books are common or exceptional.

Moving forward, future scholarship on the informal sector would benefit from greater dialogue with research on the political economy of development. Even though informal traders and retailers comprise important portions of the informal sector, they are not necessarily the types of businesses that contribute most to economic growth. A growing literature in economic geography, urban economics, and development studies examines the circumstances under which geographic clustering between firms operating in certain economic sectors can lead to broader patterns of economic development (see Alison Post [2018], "Cities and Politics in the Developing World," *Annual Review of Political Science* 21). This suggests that it would be particularly productive to ask these questions: What types of informal sector organizations facilitate transitions to more value-added and high-skilled forms of production? What types facilitate the transition from production for domestic markets to exports? What are the circumstances under which such associations form and function effectively?

The relationship between the politics of the informal economy and broader patterns of state development and stability also deserves more attention. Are particular types of informal sector organization more likely to contribute to regime instability than others? Under what conditions are challenges particularly likely to occur? Finally, prominent scholars of urban studies have long observed that the state structures informality, deciding through legislation and patterns of regulatory enforcement what types of activities should be deemed informal in the first place (see Ananya Roy [2005], "Urban Informality: Toward an Epistemology of Planning," *Journal of the American Planning Association.* 71 [2]). Political scientists could contribute to our understanding of these dynamics by investigating the circumstances under which particular regulatory approaches are taken.