

The Stealth of Nations: The Global Rise of the Informal Economy by Robert Neuwirth



Review by: Brian Doe

The Stealth of Nations is a look into the workers of the world's informal economy, very relevant to the world of microfinance as most of the markets, traders and service providers described are instantly recognizable as clients served by the Foundation's microfinance partners.

In the book, the author says the informal economy is "where the jobs are" with an estimated half of the world's workers working off the books in the informal economy. In most of the countries where the Foundation is active the informal economy provides the majority of jobs (if not the vast majority, in the case of Africa at least). The informal economy has provided a buffer to those unemployed during the financial crisis, and is growing to supply the world demand for manufactured imports.

The author isn't actually happy with the term "informal economy" and settles on the term *System D*, coming from a French West African notion of *Debrouillards*... or people who are particularly resourceful and ambitious- who can find a way to turn a profit even with a seemingly negligible amount of capital and navigating a lot of risk. So the term is a positive one, but the book also is honest in portraying the difficulties faced by those living in System D.

The messiness and difficulty of life in System D is well represented in the book. The running theme is that *System D* exists in the space where higher level legal business cannot (or finds it wouldn't be profitable to) penetrate - transport systems in places with little security or infrastructure, sale of cheaper forged goods in developing countries (often needing to be smuggled across multiple borders), distributing water and generators into areas where larger scale service providers find it too costly to work- this is where System D takes hold and provides lots of jobs. The main point being that if the economic space of the informal market was "easy" (or legal) then informal businesses would be put out of business by larger, more efficient (and likely less labor intensive) legal enterprises, rather than the highly inefficient business systems that characterize System D.

I found the project of researching and writing this book about the informal economy to be fascinating, I may have a lot of experience in informal markets but exploring the depths of Lagos markets and informal transport systems, and observing the 24-hour vendor cycles in Rio's markets is impressive. Most anecdotes come from his time navigating open markets of Lagos, Rio and the Paraguayan border town of Ciudad del Este; moving through the world of wholesaling in Guangzhou, China where small traders get their goods; and a look into the developed world's System D with some stories from New York City (the U.S. has one of the smallest informal markets by percentage of GDP but one of the largest by dollar amount) as well

as an historical recounting of Britain's informal market in the Middle Ages where traders were maligned as immoral cheats and tricksters.

Some other interesting points from the author's anecdotes:

1) The formal and informal economies are closely connected, often at odds and yet often reliant on each other. The informal economy relies on formal enterprises to invent and manufacture goods that others can copy and forge for cheap sale and distribution around the world at no profit to the original manufacturers. The formal economy, on the other hand, relies on the informal economy to largely handle the lower levels of their supply chain at an affordable enough rate to provide manufactured goods at reasonable prices to buyers in the "regulated world" even if this results in some loss through forged and stolen goods.

2) The informal market is unavoidably in the same space as illicit business and organized crime, which often exploits small traders with fees and artificial taxes (in Nigeria even bridges and roads are co-opted by thugs who demand a fee to pass). This association with the illicit also propagates a bigotry towards the informal sector by wealthy consumers and governments, a phenomenon the author describes as existing throughout history. Literature from Britain in the Middle Ages describes street traders as tricksters and frauds, as well as dens of immorality.

The best part of the book is the first 200 pages or so describing the author's experience in System D and trying to draw some conclusions about its place in the current world economy.

The last 50-60 pages, the author make some pointed "recommendations" to the worlds' governments and large corporations on how to better integrate System D to the benefit of informal workers. These include ideas around quasi-legalization of informal markets through special business licensing, creating associations between traders to help them organize the sector, and setting up special legal systems to provide justice to the informal trading space (even though it is their illegality and riskiness that largely allows them to exist). I have some doubt that legal companies would allow business licenses that legalize informal businesses without seeing them pay taxes. Also while the value of bringing legal protections to the poor are of incredible value (as working in microfinance has shown me), I fear government officials and organized crime would still exploit these new systems given the environment in these countries and the amount of resources available to dedicate to this initiative.

Microfinance is only briefly mentioned in the book, though I see it as a positive way to address many of the author's concerns about supporting the small trader while also seeing informal businesses move into larger economic activities. Microfinance works to engage and support the small entrepreneur in the interim period until higher level economic activities can take hold in the developing world- the sector is increasingly doing more to bridge the spectrum of services to better support those traders ready to move into more advanced businesses as well as those who are risk averse and may just be interested in saving products and small loans. Perhaps there could be more to similarly bridge the space between formal and informal businesses, the Asian manufacturing sector is ready to move operations offshore and replace them with more up-market industries.

The successful companies of the future in the developing world, financial or trade sector, will be those that can harness the power of the informal economy and build-up or start-up large-scale production businesses in these areas- what those look like remain to be seen. Perhaps the social business sector and tailoring new products to the poor can be a new niche for the United States business sector to engage the world's informal sector, and compete with Asia.

The Stealth of Nations is a fairly easy read, and makes the reader think more about the complexity and interconnectedness of the global informal economy to the formal one.