



INSTITUTE OF ECONOMICS
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The Informal Economy

A Veblenian Perspective

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Introduction: On strikes and the informal economy

The strikes of Unite Here have given us a first-hand feel of the social impact of the informal economy, and that workers deserve compassion and attention.

They don't want to strike, they just want a job that makes ends meet.



Definition and characteristics of the informal economy

Keith Hart's definition of the informal economy

- The informal economy as a means of survival

Hart (1970) defines the informal economy as a new term, describing the informal, unpredictable and unstable working conditions.

- The informal economy cannot be observed in the mainstream economics

The informal economy is something that is not directly included in the world designed by mainstream economists, and is a way of life that behaves "singularly" in contrast to traditional economic theories.

Sometimes informal economy is like dark matter in the universe, without which the universe cannot maintain its status , but it cannot be directly detected by current means of observation.

Veblen's research approach

The certainty of industrial production vs. the uncertainty of profits

The machine process of the industrial system is certain, while the profit production is uncertain, and the enterprise transfers the uncertainty of profit to the industry, leading to the economic cycles. (Veblen, 1904)

The evolution of capitalism and the embeddedness of the market

The shift from laissez-faire capitalism to monopoly capitalism, and the market from disembodied to embedded, gave rise to an informal economy that heralded the emergence of power. (Polanyi, 1944)

The Great Divergence and Convergence of Ownership and Authority

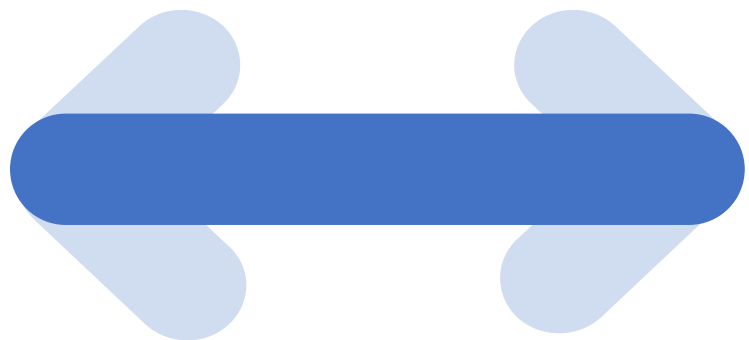
Legitimacy guarantee of ownership and authority

When discussing the formation of the leisure class, Veblen (1899) explored the convergence of ownership and authority. The emergence of ownership relies on the protection of ceremonial values to confirm its legitimacy.

A relative anthropology research

Malinowski's (1921) study of the Trobriands indicated that nearly all production activities, including gathering and shipbuilding, relying on witchcraft. Witchcraft was pivotal, if not the most decisive, in ensuring the success of there activities. Even with identical shipbuilding techniques yielding varying results, success was attributed solely to witchcraft, validating the significance of ceremonial value in distribution. Ceremonial value constituted part, or even the entirety, of the production surplus, with its distribution basis being the supernatural elements and uncertainties in production.

Divergence of Ownership and Authority

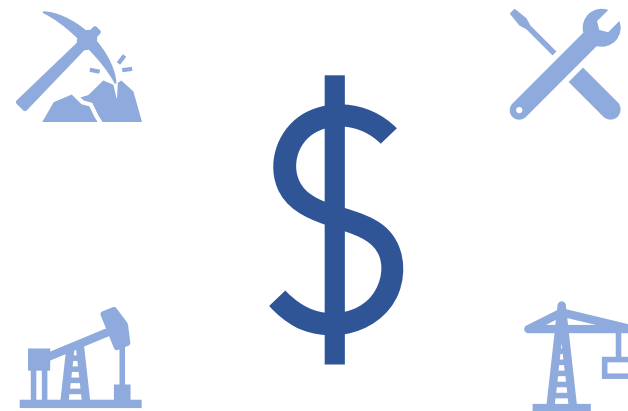


The Impact of Divergence of Ownership and Authority on business Competition

Polanyi's disembeddness is actually Divergence of Ownership and Authority. The Divergence promotes the competition of enterprises, but also brings the instability of profits.

The Machine Process is Controlled by Business Enterprises

In order to pursue continuous and stable profits, enterprises have strengthened their control over machine process, resulting in large enterprises with power, as well as enterprises and individuals without power.



Veblen's Theory of Leisure Class and Symbolic Capital

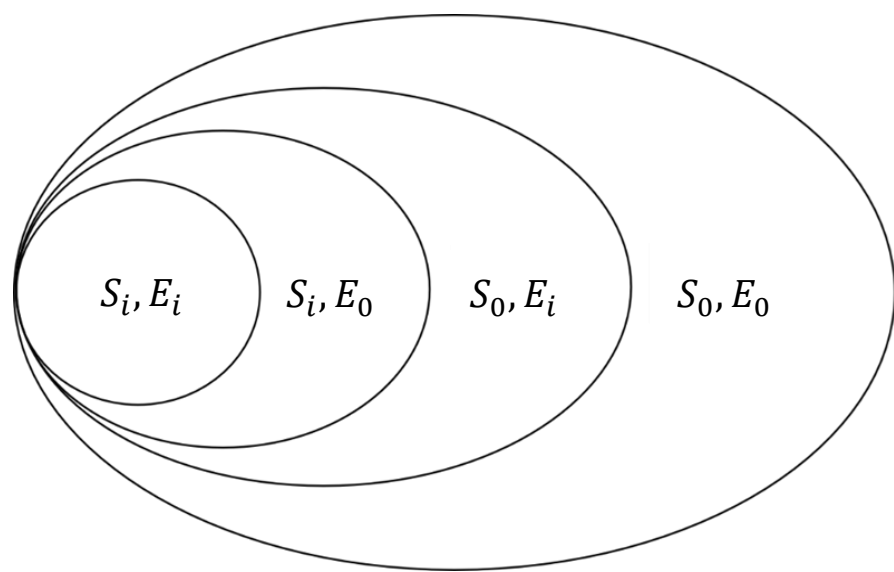
Veblen's four population divisions

According to Veblen's theory of leisure class, there are the leisure class, the vicarious class, the leisure class, and the common man.

Here we categorized them according to their endowments in two dimensionalities: economic capital and symbolic capital. (Bourdieu, 1977)

The relationship between symbolic capital and economic capital

Based on Veblen's perspective, economic capital needs the guarantee of symbolic capital to be maintained and continuously generate profits. Therefore, symbolic capital takes precedence over economic capital, and the concentric structure of power can be summarized as below:



Specifically, if we use S_i to represent the possession of Symbolic Capital and S_0 to represent the lack of it, and use E_i to represent the possession of Economic Capital and E_0 to represent the lack of it. Based on this, according to whether people possess these two forms of capital, the population can be divided into four types: (S_i, E_i) , (S_i, E_0) , (S_0, E_i) and (S_0, E_0) . Admittedly, the scale and degree of people's possession of either capital are continuous, and there is no absolute "complete possession" or "complete lack". For the convenience of intuitive presentation, this paper makes the above simplified analysis. According to Veblen's theory of the leisure class, the four types of people above can be further corresponded to Leisure Class (S_i, E_i) , Vicarious Class (S_i, E_0) , Supirous Class (S_0, E_i) , and Common Man (S_0, E_0) .

Dualism



Formal-informal division of dualism

Dualism divides social groups into Formal and Informal, based on whether symbolic capital and economic capital master at least one or the other.

Formal		ECONOMIC CAPITAL	
Informal		YES (E_i)	NO (E_0)
SYMBOLIC CAPITAL	YES (S_i)	(S_i, E_i) Leisure Class	(S_i, E_0) Vicarious Class
	NO (S_0)	(S_0, E_i) Supirous Class	(S_0, E_0) Common Man

Structuralism



Formal-informal division of structuralism

Structuralism emphasizes the economic subordination between the informal economy and the formal economy, with the informal economy taking a peripheral position in the overall economic system.

		ECONOMIC CAPITAL	
		YES(E_i)	NO(E_0)
SYMBOLIC CAPITAL	Formal YES(S_i)	(S_i, E_i) Leisure Class	(S_i, E_0) Vicarious Class
	Informal NO(S_0)	(S_0, E_i) Spurious Class	(S_0, E_0) Common Man



Legalism

		ECONOMIC CAPITAL	
		YES (E_i)	NO (E_0)
SYMBOLIC CAPITAL	Formal		
	Informal		
	YES (S_i)	(S_i, E_i) Leisure Class	(S_i, E_0) Vicarious Class
	NO (S_0)	(S_0, E_i) Supirous Class	(S_0, E_0) Common Man

Formal-informal division of Legalism

Legalism emphasizes the key role of the legal system in shaping economic activities, arguing that the emergence of the informal economy is due to the failure of the legal system to effectively adapt to the needs of socio-economic development. Only the mastery of both symbolic capital and economic capital can be classified as a formal economy.

Veblenian Perspectives

		ECONOMIC CAPITAL	
		YES (E_i)	NO (E_0)
SYMBOLIC CAPITAL	Formal 		
	Informal 		
	YES (S_i)	(S_i, E_i) Leisure Class	(S_i, E_0) Vicarious Class
	NO (S_0)	(S_0, E_i) Supirous Class	(S_0, E_0) Common Man

Formal-informal division of Veblen's perspective

From the perspective of Veblen's theory, power brings stable profits, immaterial capital controls material capital, and power structure determines the mode of social production, the distribution of economic surplus and the process of social supply. Symbolic capital is the primary basis for dividing formal-informal.

One More Thing: A trial of dynamism

		ECONOMIC CAPITAL	
		YES (E_i)	NO (E_0)
SYMBOLIC CAPITAL	Formal YES (S_i)	(S_i, E_i) Leisure Class	(S_i, E_0) Vicious Class
	Informal NO (S_0)	(S_0, E_i) Spurious Class	(S_0, E_0) Common Man

A trial of dynamism of Veblen's formal-informal perspective

A large number of employees graduated from prestigious schools have not even warmed their office chairs before being included in the layoff list. These people belong to the marginal group of the formal sector, that is, (S_i, E_0) or (S_0, E_i) . Their educational backgrounds have the potential to become symbolic capital, but their transformation depends on the judgment of the business community on market prospects. If the market situation is not good, they will be excluded from the formal economy. Their former handsome salaries and outstanding personal abilities can be transformed into economic capital to a certain extent, but as the years after graduation increase and they move away from the core of power, they will fall from (S_i, E_0) to (S_0, E_i) . At this time, even if they have a certain economic ability, it is difficult for them to return to the formal economy. Their competitive instincts can enable them to win in small-scale business strategies, but these jobs are no longer linked to advanced and sophisticated business strategies. They often can only rely on consumption to show their former social class and taste, becoming a typical spurious leisure class that cannot lower their aspirations and disgrace themselves.

Merci

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We are open to further discussion on this topic.



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