

The Impoverished

Humanity's informal majority

(summary)

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KEPA'S WORKING PAPERS 18, 2009

ISSN 1796-6469

ISBN 978-952-200-106-1 (PDF)

ISBN 978-952-200-105-4 (NID.)

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Foreword

This Working Paper is an abridged version of the book *The Impoverished: humanity's informal majority* which was published by KEPA and Like Publications in August 2004. The book was received enthusiastically among people related to development cooperation and global issues in general.

The Impoverished is a book about the over half of the world's inhabitants who make their living through economic self-sufficiency in rural areas, villages and cities. For them being 'outside the law' is a normal situation, whereas legality and official formality are an exception and privilege of the few.

The book was a result of an intensive cooperation. Kent Wilska wrote the text together with Max von Bonsdorff, Matti Lahtinen and Juha Rekola. Hence, KEPA's Information and policy officers wrote stories from different parts of the world to demonstrate how these people survive in their everyday life.

In this cooperation impoverishment was brought up as a useful concept for KEPA's programme. KEPA uses the concept of impoverishment to underline that poverty is not created by itself. Poverty is the outcome of people's active deeds or inactivity which maintains existing injustices. Poverty is a result of structures that feed societal inequality. The eradication of poverty, ending of impoverishment, can be successful only if these structures and practices are dismantled.

Later on, Kent Wilska wrote an abridged version of *The Impoverished* with an epilogue. This version summarises the book's theoretical part, which clarifies how the structures, institutions and practices that impoverish these people function.

We wish you inspired reading.

Helsinki, Finland, March 2009
Outi Hakkarainen

This Working Paper has been published in Finnish (Working Paper no. 15), Portuguese and Spanish (Reports 88 and 93). This English version has also been published in 2007 as part of the report *Locating Impoverishment* (87) which includes four of the above-mentioned cases published in *The Impoverished*, those of Cuba, Mozambique, Nicaragua and Zambia, and an analysis on impoverishment in seven local communities in Indonesia, Tanzania and Zambia. These studies have been published also as separate Working Papers (5, 6 and 7). All these publications are available at <http://www.kepa.fi/palvelut/julkaisut>.

Impoverishment on the margins of the global village

All agree that poverty is a multifaceted phenomenon. It's not just a matter of insufficient income or meagre consumption. Rather, it concerns housing, nutrition, health or education. It may involve insecurity, vulnerability, or being exposed to violence, crime or natural disasters. It may be the lack of opportunity to take part in decision-making or being incapable of joining in the activity of the community. There are many efforts to gauge the different dimensions of poverty, but when we extend our conception of poverty beyond income poverty, measuring it has proved more difficult.

No one is poor or rich at birth. After they are born, people become part of the activities of a community, as a result of which they may become rich or poor in relation to others.¹ Different kinds of societal institutions create the settings in which people become rich or poor. In some countries the structures and institutions are such that the majority of people are driven into poverty. These structures can make up an almost unsurpassable void that cuts across generations.

Poverty is nearly always relative compared to something else. We can say, however, that people who experience hunger are poor in every sense, though their situation wouldn't be compared to the living conditions of other people. But poverty has a deeper and political significance if a person's situation is compared with another's, for instance in relation to money, food, housing, literacy, and possibilities for decision-making or participation. There is no other absolute objective poverty limit than death. Despite this, there is a constant effort to set various limits. What if everyone in the world earned a dollar a day? The

¹ *It used to be said that to be born in Finland was a lottery win. People possible have a reasonable future before them if of all the countries in the world they are born in Finland. This is because of the fairly extensive possibilities for equality among residents. Although parental wealth and position make significant differences, Finns have fairly good opportunities to build their lives equitably. Central to this is public healthcare, education and social protection. Finns are included in society from birth.*

definition of different poverty limits is affected by what others have.

There wouldn't, therefore, be poverty without wealth. All the talk about the problem of poverty only pays attention to one protagonist. The problem is the weaker one. It's not the one that has entitled itself to framing the problem. Amidst much rhetorical dexterity up pops a new 'objective' reality – poverty. This new reality is debated in terms of how it should be measured and tackled. Nevertheless, poverty is born of social conditions that distinguish the rich and the poor.²

Poverty and riches, impoverishment and enrichment, indigence and wealth are inseparably interlinked. One person's wealth or poverty brings about economic, social, political and cultural interaction. Poverty is therefore the result of some activity.

The reasons for poverty are those structures that feed societal inequality. The existence and maintenance of these structures is impoverishment.³ Impoverishment is what makes a person become poor. Impoverishment is the result of the active workings (or inactivity) by mechanisms or people, it does not occur of itself from passive poverty

The Western roots of development thought

'Development' and growth have been considered natural and positive things in the Western tradition since the time of Aristotle. Progress and rationality became strengthened at the end of the 17th century, in contrast to the superstition and stagnation of the Middle Ages. The core of Western thought was that the development of societies was founded on certain natural principles. This societal development dogma was consolidated at the end of the 19th century.⁴

Western development ideology was linked to a strong belief in the imperative of growth. The good life can be assured to all through technological progress and an ever growing production of commodities and services. Such development offered the promise of superabundance. It was considered natural, positive, necessary and indisputable. Development is a social creation but

² Rist 2002.

³ *Impoverishment, the act of making someone poor.*

⁴ Rist 2002.

it seeks present itself as a 'natural' phenomenon that has its own dominant community law.⁵

At the end of the 19th century Western societies were seen as superior to others. The West was in the lead because the size of its production was bigger and because it had more scientific and technological inventions. Comparisons became central, and areas beyond the West were not viewed intrinsically. Different countries were simply bunched together as 'developing countries'.⁶

The central problem with these quasi-definitions was that they were based on the imaginings of one or more people about what was the ideal condition of social existence. The definition of these imaginings is wholly dependent on the speaker's own subjective viewpoint. Such imaginary worlds are very often pleasant and desirable. Who wouldn't want a world in which everyone was happy, lived longer and better, without disease, poverty, exploitation and violence? Consequently a broad consensus was created around irrefutable values. If, however, development is just a word that describes the sum of broad good humanitarian values, we can conclude that there is no development anywhere, and there probably won't be.⁷ Many development visions are lists of good universal things around which it's easy to build a consensus. The ambiguity of the definition of development enables it to be advocated from many different starting points. One person's 'development' can in fact be another's 'anti-development'. We can talk of development that is right and wrong, good and bad.

Due to the UN Human Development Report we can see the abandonment of faith in the holy cow of economic growth. In its thinking the report clearly distinguishes between the acquisition of wealth and the 'good life'.⁸ The definition of development in the UNDP's reports is nevertheless normative. The authors describe what they hope to see. At first sight 'enlarging people's choices'⁹ appears a positive measure. In the final analysis the solution doesn't offer much that's new, the process is open, it leads to the possibilities of such enlarging and in principle is limitless.

5 Rist 2002.

6 Rist 2002.

7 Rist 2002.

8 Rist at the same time sarcastically questions whether earlier development was 'inhumane'. What use has development been if it hasn't taken account of people; has it taken long to come up with this? The first Human Development Report was published in 1990. (Rist 2002)

9 'Enlarging people's choices' is the term used in the report.

Development does not necessarily help everyone in choosing just what they want. Expanding the range of products on offer responds to demand but people's access to fresh air, pure water or clean food is curtailed. The development process also includes loss, destruction.¹⁰

Your freedom is my slavery?

Within a functioning consumer society conditioned by a market economy people compound in principle a common concept of what development is. For very many it's in practice increased consumption, and for that you need production growth. It's the hope of a better job from education, a higher wage, new clothes, a washing machine and television, buying a car or house and using services, going to movies, and travel.

However, not all communities living in the capitalist system are necessarily unanimous about the referent regulations of the market economy or about the means by which welfare is decided as a joint aim. In some people's opinion the market economy and capitalism means that everyone takes care of themselves by themselves. Others think that everyone should be guaranteed certain prerequisites to participate in building welfare. A central part of the economic policy debate of the last couple of hundred years has concerned the extent of freedom of economic activity and the limiting and regulation of markets.

Free markets certainly deserve credit and the need for them should be recognised, because the free participation in economic exchange is of basic importance in social life. The role of markets should not hinge only on what they can do but also on what they are allowed to do. There are groups whose interests the activity of markets gracefully serve, but there are also groups for whom this same activity is a disadvantage.¹¹

It should be kept in mind that wealth is only an instrument for realising the 'good life'. Development can be seen as people's enjoyment of the enlargement of real freedoms. Freedom of political participation, freedom to take part in basic education or healthcare are the constructive elements of development.¹² The individual's

10 Rist 2002.

11 Sen 2001.

12 In stressing the importance of the market economy Milton and Rose Friedman also emphasise that people's opportunities should not be limited by gender, birth, nationality,

ability to enjoy these freedoms depend however essentially on economic, social and political structures.¹³

Not everyone in the world has the same possibilities, neither internationally nor within a single country. Unregulated market mechanisms produce and increase these differences. Everyone barring the most hardboiled fundamentalists admit this.¹⁴ The main issue is precisely that one person's freedom to act in the market economy may limit another's rights, opportunities or freedoms.

Is your own way of life longer possible?

There are nevertheless still communities in the world that are not part of the market economy and mass consumption society.¹⁵ Some members of these communities do want to become a part of this present and to leave behind their old habitations in the rural areas. Some of these communities and people would still like to live guided by other values in harmony with nature in a sustainable way. One is not 'bad' nor the other 'good'. Some people have to leave against their will, while some stay though they don't want to. Different worlds live side by side, overlapping and on top of one another.

The ever wider spread of the market economy threatens to change those people's ways of living that still exist beyond this system or on its fringes. The forced export of the market economy to communities is these people's impoverishment. They should have the freedom to choose "development", or what they want to aim for in life. This would be people enjoying the enlargement

race, faith or secondary characteristic. The only limit should be ability. They are heavily critical in relation to the results of equality – that everyone should end up with the same result regardless of how much work they do or attempt. The starting points of their work "Free to Choose" are close to the 'development as freedom' thinking, as the Friedmans do not believe in the limitation of such freedom in any circumstances (Friedman - Friedman 1982). If biologically inherited qualities should not be allowed to limit people's opportunities, why should inherited wealth or the lack of it? Impoverishment is seen as a characteristic that extends over generations.

¹³ Sen 2001.

¹⁴ Helleiner 2000. Milton and Rose Friedman (1982) consider the idea that free market capitalism increases inequality to be a myth. They think that the gulf between rich and poor is no wider than in those societies where the free market can't function.

¹⁵ Rostow 1961, the age of high mass-consumption.

of real freedoms. But now many don't have the freedom to choose development and instead are offered just a single model.

This is not a philosophical question, because the frontiers of the market economy widen every day. It encloses community lands, privatises water, puts traditional knowledge into private ownership, patents natural diversity. These concrete actions limit people's possibilities to live outside the West's market economy.

These communities become poor because they are robbed of the possibilities to live in the way they want. And yet the communities can be extremely wealthy. It may be spiritual, a harmonious life with other natural life forms or the possibility of all to increase their own multiform cultural tradition that goes back thousands of years. Their wealth is not mainly comprised of goods and services or their consumption. If, however, these communities are robbed of the prerequisites of life, food and water, there will soon be nothing left of their other riches.

Consumer propaganda spread by the mass media can also be thought of as limiting real freedom of choice. In principle this can be fought against by closing our eyes and ears, unlike say confronting the armed guards of a forest felling company.

Is it possible for self-sufficient communities to survive as adapt to the world's present demands? Is the end result inevitable destruction, or is it possible to have peaceful coexistence and institutional pluralism?¹⁶ Can communities be ensured the possibility to preserve their way of life, if they so wish?

The system thrown off track

Over half of the world's inhabitants make their living through economic self-sufficiency or from their own work in rural areas, villages and cities. A large number of these people live outside of the networks of decision-making and support or somewhere on the 'official' and 'unofficial' borderlines. In many developing countries informality or being 'outside the law' is a normal situation, whereas legality and official formality are an exception and privilege.

¹⁶ Amartya Sen thinks that the threat to indigenous communities is inevitable as economic and technological power is extremely difficult to resist. "The threat to native cultures in the globalizing world of today is, to a considerable extent, inescapable", Sen 2001, 240.

Informality is the reality for the majority of humanity, in which people's lives are directed and controlled by norms and practices beyond the law. For housekeeping this means, for instance, that you won't have water unless you get it yourself from the river kilometres away, you won't have electricity unless you drag cables from the power lines to your cardboard and corrugated iron shack. You won't have money unless you make it somewhere. There's no social security. The formal social norm 'Don't steal' quickly becomes 'Steal what you can from where you can, because it's the only way to keep your kids alive.'

Most economic activity in developing countries has never been formal in the same way as in Western countries. Relatively few formal jobs are nowadays generated in developing countries. The formal arrangement of their creation has to do with local and foreign companies and the public sector. Alongside this slowly growing system is the massive, lively and rapidly growing informal economy.

From the standpoint of development policy making what is decisive is whether to take people and their daily reality as the point of departure or just the parameters of the macro economy and their reality.

The widespread ignorance of groups of people or the deliberate exclusion of them from formal networks is their active impoverishment. Economic parameters may improve but there is no significant decrease in poverty. One after the other, different economic strategies fail in trying to reduce poverty, because improving the living conditions of people existing outside the formal networks is not the primary aim of political actors – or because political decision-makers living in their ivory towers simply don't understand how ordinary people exist, and so measures carried out never achieve their desired results.

Birth of the global village

The Peruvian economist Hernando de Soto has declared that capitalism has lost its way in the developing and former communist countries. There capitalism has no connection with those who should be its basis. It has become the self-consuming command ideology of businessmen and technocrats. It makes no sense to demand current liberal economic reforms if you don't admit that they open the doors to just a

small globalised elite and shut out the majority of humanity.¹⁷

When European capitalism spread during the colonial period to the regions of today's developing countries, the majority of people in the new world countries were left out of the new formal economic and political structures. Those who were integrated into the formal system started to play by European rules but remained with the traditional system of life or – where the old system was crushed but nothing was built in its place – with nothing.

The start of Europe's rise coincides with the renewal of trading in the 11th century.¹⁸ In the development of local and international exchange Europeans' contacts with other customs and cultures increased. New forms of production spread, autarky diminished and cities flourished.¹⁹ As migration from the rural areas grew, cities developed increasingly more restrictions on economic activity to protect their own guilds. Not all rural migrants found work. Cities gradually bulged with street merchants. Professional practices and entrepreneurship beyond the law expanded.²⁰

Access to 'legal' professions was restricted. With the tightening of laws and stipulations entrepreneurs were driven into the suburban areas. Unauthorised workers were punished and even killed in France, Spain and England. The governments of Europe were however soon to give in to the growth of informality and to expand legality and to integrate the largest population groups as part of the formal system. Conflicts between the power elites and the majority of the population led to popular uprisings and unrest around Europe. One of the background causes of the French and Russian revolutions can be seen as the gulf between those who belonged to the formal system and the majority people living outside it.²¹

In industrial countries workers became a part of the formal machine with the establishment of jobs legally or 'officially'. At the same time, they became part of the development of formal working regulations. The state began to regulate and restrict the activity of the labour market through legislation. This did not, however, take place by itself, but due to the organisation of the working class. In England, for instance, the deduction of

17 Soto 2000.

18 Maddison 2001.

19 Braudel 1984, Pipitone 1995.

20 Braudel 1984, Soto 2000, Pipitone 1995.

21 Soto 2000, Pipitone 1995.

working hours was the result of a struggle lasting hundreds of years.²²

The success of present industrial countries is found in connection with the remarkable history of public activity, including education, healthcare and land reform. In the West the distribution of social opportunities included the bulk of people in economic growth.²³ The exclusion of a part of the population from formal society is active impoverishment.

As colonial masters Europeans were not concerned with including the people of the conquered territories in the formal circles of society. The inhabitants of colonies were of secondary importance in the view of Europeans. In developing countries the majority of people never became part of the formal structure, many didn't even have birth certificates and were not registered – to the authorities and those in power they didn't therefore exist. Illegal immigrants don't have personal documents, and they can't open bank accounts or conduct what to us are everyday legal transactions. They don't own formally registered property or work within the official economic sector under formal contracts.

People living in rural self-sufficient economies and informal workers in cities are equally excluded from political decision-making. To them the state machinery is abstract and distant. In many countries it has become patently clear that the authorities and economic elites are neither able nor want to integrate the informal and self-sufficient economy into the formal organisation of society. In part this leads to a lack of economic and human capital. And in part it's also a matter of lack of vision.

On the margins of the global village

The 'formal' areas of society always lean for support on the norms and regulations drawn up by government. The terms of exchange born within their frameworks are always calculated, as jobs, GDP figures, how many people educated, how many sick, exports, imports etc. This is not so in the 'informal' areas. Regulations can be created for each and every situation or relationship separately, or then they are ascribed common conventions. These are not always written down, but they are always in mind. The extent of their terms of exchange can only be guessed.

The daily lives of most people in developing countries take place in this 'informal' setting. This does not mean that there are no rules, norms or settlement or solution of disputes associated with it. These rules are not necessarily the same as those for the 'formal' sector. They are not as generally comprehensive. In a small community it's easy to monitor and direct compliance with rules. In cities or in other multicultural interchange the parties don't necessarily have common value based norms. Therefore agreement is 'free', its dictate often more powerful and more 'rich'.

This informal economy is found everywhere. The majority of the world's poor still make their living from self-sufficient agricultural production, but the cities are swelling with increasing speed. In 20-30 years the majority of people in the world will live in cities

Extreme entrepreneurs

People everywhere have to do something to make a living. In those countries where social security is weak or non-existent people are forced to work for themselves by whatever means, if they can't find jobs or are not wealthy enough to manage without working. Income has to be secured somehow without legal help or the protection of social security. This way people become workers in the informal economy, because the setting up of an enterprise in developing countries is often too complicated, expensive and time consuming. This is not a marginal phenomenon. It's the rea-

²² See for example Marx 1867.

²³ Sen 2001, 7, 143.

lity facing most people outside the industrialised world.

Unemployment is conceived of as part of the official labour market. The unemployed are those who actively seek work but don't find it. The definition is for the most part irrelevant for those countries in which there is a large informal sector, because in practical terms everyone, including children, is involved in some kind of economic activity in order to live. It's meaningless to make a conceptual difference between those who are employed in the formal sector and the unemployed.²⁴

The proportion of urban and rural informal work in relation to overall employment is extremely large in many developing countries. Nearly every second person working outside the agricultural sector in developing countries earns their income from informal work. At the extreme end are countries in which informal work constitutes three-quarters or more of total employment. Such countries include Benin, Philippines, Guinea, Indonesia, India, Kenya and Chad.²⁵

In the 1950s and 1960s it was still thought that poor 'traditional' economies would rapidly change into modern developed economies. It was thought that street hawking, small production and different kinds of occasional work would disappear and melt into the modern and formal market economy. By the 1970s it started to be clear that this would not be so, at least not very quickly. The term 'the informal sector' came into use at the beginning of the 1970s, and since then it has become part of the development discourse.²⁶ The legal-formal nature of economic activity or its external-informal character has nevertheless been a feature of human history.

According to the definition of the International Labour Organisation (ILO), informal employment covers all remunerative work, both self-employment and wage employment that is not recognised, regulated or protected by existing legal or regulatory frameworks and non-remune-

native work undertaken in an income-producing enterprise. Sometimes informal work takes place in very small scale business activity.²⁷

Informal economic activity takes place in many different forms. It comprises household production for self consumption, which includes self-sufficient agriculture. Domestic workers are also reckoned as belonging to the informal economy, if they do not have contracts. Informal sector enterprises may be one-person projects, when the individual works for themselves. When informal micro businesses employ family members and outsiders, their labour relations too are informal. Labour linked to the informal economy may also be performed in formal enterprises. Here workers are those who do not have contracts and whose employment does not incur legal protection or social security. These workers include family members working in an enterprise who do not have contracts.²⁸

Micro-business owners live from hand to mouth

Although the informal and formal economy is defined as separate things, in reality they are interconnected in many different ways. The line between them is fairly vague.

Many informal businesses have production or distribution agreements with formal enterprises.²⁹ Many formal enterprises use people working without contracts as part of a very formal chain of distribution. Such workers include, for instance, the masses of ice cream or newspaper sellers seen on the intersections of big cities. They can be distinctive, standing out because of the work clothes they wear as representatives of certain employers, but they nevertheless don't work for them. Working clothes may be just a simple vest or they may be a dress suit. In Santo Domingo the French cell phone operator Orange fitted out the menials of its distribution channels in orange waistcoats, which in addition to the firm's logo is equipped with a uniform plastic phonocard box. This way Orange wanted to present the image that the phonecards sold by the hawkers are the firm's own and not forgeries. With this sort of closeted formal activity it's typical that the employee has just one client. It may be the local branch of a multinational corporati-

²⁴ UNHSP 2003, 98.

²⁵ ILO 2002.

²⁶ ILO 2002. Roubaud (1995) lists nearly 30 terms used in the discourse on the 'informal' economy, such as: unregistered economy, secret economy, alternative economy, parallel economy, grey economy, black economy, marginal economy, peripheral economy, illegal economy, independent economy, indiscernible economy, hidden economy, underground economy, secondary economy, dual economy, unregulated economy, shadow economy, and so on. The inconsistent use of these terms in the media and research affects the climate of systematic analysis.

²⁷ ILO 2002, Tripp 2001.

²⁸ ILO 2002, see also UNHSP 2003.

²⁹ ILO 2002, CMT 2002.

on or a street corner grocery store. It's not a question of actual entrepreneurship.

A second group in trade and distribution are informal entrepreneurs. This may involve just a single person. However, such entrepreneurs have many clients or they can act on their own account and buy goods to sell themselves. The sellers may work from a fixed place of business or may go from town to town. In addition to trading, there's plenty of informal work made in the service sector, such as cleaning, shoe-mending, plumbing and electrical work, shoe-shining, portering, driving and attending parked cars. Informal work is also found in manufacturing in which business owners make or process products for sale. Such work includes various kinds of wood and metal working, sewing and handicrafts.³⁰

The growth of the informal economy does not always happen as a result of conscious activities to avoid registration, payments or taxation. Self-employment may be the only way of staying alive when there's no social security or unemployment insurance. People do not employ themselves outside the formal system because it's cheaper to do so than within the formal structure. Far from it, it may often work out more expensive. Micro-businesses have to pay high interest rates, permit costs and bribes.

Micro-business owners have to invest all their capital practically daily. Similarly, the next day's investment opportunity depends on the sales of the day before. So, if things go badly it's not only that you'll lose that day's meal but also your next procurement. You have to get money from somewhere to get new goods for sale. Keeping food for sale is especially a problem in tropical countries. The timeframe of the micro-business owners living from hand to mouth is short and the ability to take risks imposes limits on ensuring the daily survival of the family.

Rural women the heroes of informal labour

The proportion of self-employment outside of agriculture is in many countries 60% or more. The rest are in informal wage labour. In many countries statistics produced on the informal economy don't take account of agriculture, and only speak of the urban informal sector.

If agriculture is brought into the equation, the importance of informal labour increases re-

³⁰ See also Soto 1990.

markably. Invisible in statistics, the rural informal sector produces for local markets from self-sufficient work or family-based production.³¹

Informal work involves women above all. In nearly every country, if statistics are available, the level of women's employment in the informal urban sector is higher than men's, with the exception of Arab countries.³² Women are also greatly employed in self-sufficient agricultural production, in which the significance of women's informal labour is more far reaching than statistics on urban employment suggest.

Different forms of the free economy

Informal economic activity comprises the entire economic activity people do outside of government regulation, and which can also be called the free economy. This activity is also an informal structure insofar that it does not fulfil legal or other regulatory demands. Most of the housing in the big city slums is informal or illegal. Slums are areas that broadly have these features: lack of clear water available, lack of sewage systems and other basic infrastructure, bad housing, overpopulation and unsure housing administration and ownership.³³

People save up money even though there are practically no more banks in the cities than the rural areas of remote regions.³⁴ But statistics don't cover the savings and finance mechanisms that take place outside the formal financial institutions. The more traditional means of savings is to have a feed pig or partially of a built house. You build the roof while there's a bit of extra cash and then, when there's more, do the floor. If you get a small capital loan you can set up a credit circle together with your companions and work friends. The weakness of informal savings methods in terms of the national economy is that savings

³¹ ILO 2002.

³² For example, in Tunisia informal commerce accounts for about 88% of employment in total commerce, but the proportion of women in commerce is only 8%. In Benin women make up 92% of informal sector commerce. (ILO 2002, 53)

³³ UNHSP 2003, 12.

³⁴ Banks in Mexico did not consider small savers as important clients. From 1980-1994 banks lost over 15 million small clients' accounts, the growth of which had taken over 50 years. Only fewer than 6% of the population had savings accounts in formally regulated financial institutions. (IRELA 1996)

can't be efficiently channelled through them to productive activity.³⁵

Actual interest charged by money lenders is astronomical and repayment times short. Securing funding is often much more expensive for entrepreneurs in the informal economy than for those in the formal economy. The annual rate of interest may be more than 1000% for debts owed to money lenders.³⁶

In defining the informal economy it's worth making a distinction between the sorts of unregistered economic activity whose operational logic is to do with coping, self-employment or a traditional community form of labour, and actual illegal organised crime, such as drug dealing. For instance, in Thailand the illegal economy is massive. It includes drug dealing, gambling, prostitution, smuggling of foreign labour, oil smuggling and arms trading.³⁷ On the other hand, within the informal economy there are also registered actors that for instance circumvent taxes and payments to reduce production costs.³⁸ The link between the criminal and formal economy may also be highly important. In money laundering it's a question of criminally earned wealth being brought into the arena of the formal economy, so that it can be legally used as capital in producing profits for owners.

³⁵ IRELA 1996. *A low level of national savings may be a significant barrier to a country's economic development. In the absence of domestic savings economic growth has to be funded for foreign capital, which can expose a country to the fluctuations of the international market economy with tragic consequences. Latin America offers many examples of this over the last 20 years. The high levels of savings in East and South-East Asian countries is seen as an important background factor in their high economic growth in the 1970s and 1990s. (Wilska 2002; IRELA 1996).*

³⁶ See for example Tripp 2001.

³⁷ Kuronen 2003.

³⁸ Roubaud 1995. *The distinction is partly artificial. For instance, drugs can be considered the same as any other product. It's just that in many countries the state has decided to restrict their production, trading and consumption. In the same way we can consider an individual who starts to deal in drugs as survival and making a living for the family. In defining illegal informal activity it's maybe worth giving attention to the extent and organisation of the activity. Tripp (2001) considers illegal activity in the informal sector to be that which does not correspond to an equivalent licenced one in the formal economic sphere. A market stall may apply for an appropriate permit, whereby informal work becomes formal. This is not possible when the issue concerns drug dealing or blackmail.*

Public services discriminate against the informal sector

The urban poor live in a world outside the law, in areas not shown on maps. There is no waste disposal in such areas, nor other public services. Neither do residents pay tax. Officially they don't exist. Mafiosos or other slum bosses may act as the local 'authorities' far more than city council members. Representatives of the formal system may often not even dare to come to these areas and do not try to reinforce their authority. Residents have neither ownership rights nor any definite administration concerning residence. They have to make different sorts of decisions at a high price on the informal and unregulated parallel market. Slum residents are unable to be part of most of society's formal institutions. Without legal addresses they often can't use social services, healthcare or education. Instead of assisting these people, governments usually drive them away and prevent them from trying to build up the basics of life – a roof over their heads and some kind of income.³⁹

Although in many countries more attention is being given to the informal economy, in drawing up development policy it's still considered a separate entity from other economic sectors. There is no desire to clearly see its connections to the formal economy and there is a lack of comprehensiveness. For instance, foreign trade policy usually doesn't pay attention to the protection of those products that are produced in the informal economic arena. In general economic policy measures more often favour large formal private and public companies with customs and tax benefits, subsidies and funding. This reveals precisely that the integration of the informal economy as uniform part of the national economy in many countries is not a priority, even though the majority of the population supports itself outside the formal network.⁴⁰

For instance, government doesn't often give much thought to improving transport, or electricity, water or refuse disposal in areas where there is a lot of informal activity. Slums are razed to the ground even without warning their residents beforehand. Often informal businesses become the subjects of direct harassment and outrages by the authorities. Street traders are driven away

³⁹ UNHSP 2003.

⁴⁰ Tripp 2001.

and their goods confiscated if they fail to pay protection money or bribes. Informal entrepreneurship is sometimes much more expensive than activity within the formal economic sphere.⁴¹

Problem or solution?

Some emphasise the qualitative differences between informal economic activity for its reciprocity, fairness and morality compared to the 'formal capitalist economy'. For instance, in Africa many entrepreneurs seek to curtail competition by sharing production and marketing ideas. A poor customer may get a cheaper price or a healer may not ask for a pay. Occasional payment defaults in credit circles can be forgiven, because you never know when you'll have problems yourself and it'll be your turn to need help.⁴²

The solidarity aspect of the informal economy is however only part of the truth and it shouldn't be overestimated for ideological reasons. There are also many disadvantages with informal economic activity. Workers are often exposed to abuse, and in its worst forms informal work is forced labour, debt labour and slavery. People often have to work in unhygienic conditions, exposed to poisons and filth.⁴³

Income from informal work is also often poor, though it may sometimes be better than that from formal employment.⁴⁴ Despite this, informal work appears to be clearly tied to poverty, uneven income distribution, poor working conditions and feeble security.⁴⁵

Nevertheless, informal economic activity is not only a negative phenomenon. It's also a means of survival. The streets of big cities in developing countries are abuzz with the bustle of robustly developing business activity. Such activity develops small and medium-large companies, jobs and welfare. Families build their homes themselves as if from nothing, struggle against seemingly impossible odds. Hernando de Soto is indignant that these 'hero entrepreneurs' are

presented as having an impact on poverty.⁴⁶ To him they are the solution. Keeping these people outside capitalism is active impoverishment. Without formal property it doesn't matter how much people work or amass wealth – they so not succeed within capitalist society. They remain outside of the 'radars' of policy makers and official statistics and so are economically invisible. At issue is a deficiency of proper institutions, the exclusion of people, for instance from education, guidance, permits, spaces, formal property rights or via belonging.

The formal and informal economies are broadly understood as operating in parallel and in contact with one another everywhere in the world. The key issue is whether the reciprocity of formal and informal economies is an impoverishing mechanism. When the world's largest economic players unite and the majority of the inhabitants of the rich countries work in the formal economic sphere the doubt arises that those left outside of this system can fully take part in the globalisation of the market economy and equitably benefit from it.

Local communities' means of survival

The majority of the world's poor make their living from self-sufficient agricultural production.⁴⁷ They produce agricultural goods mainly for their own consumption. They take decisions concerning their lives from information and skills found in their immediate surroundings and resting on people nearby, natural resources and taking advantage of simple available materials. Building welfare is intertwined with the shaping of people's social, cultural and political identity. The form of local community systems is, in addition to creating people's material welfare, a foundation of cultural identity of broader significance. Real development can't advance without understanding and taking into account local special features and their customs

⁴¹ Tripp 2001. See also Soto 2000, 1990. Tripp (2001) also mentions the example of African countries where very little attention is given to basic education in the teaching and learning of skills that would be of use to pupils for future informal work, which most of them will be involved in.

⁴² Tripp 2001.

⁴³ CMT 2002.

⁴⁴ CMT 2002.

⁴⁵ ILO 2002.

⁴⁶ Soto 2000. *In fanciful national and global communities the poor are often reckoned to be lazy unemployed, dirty beggars, vagrants, disease carriers or a dirty population that destroys nature* (Tammilehto 2003)

⁴⁷ ILO 2002. *The definition of the informal economy also covers self-sufficient agricultural production. In many countries informal agricultural labour constitutes an extremely large portion of the overall labour force. For instance, in India almost all agricultural work is informal, in Mexico 94% of it is and in South Africa 58% of it is.*

and networking activities, which help people cope in everyday life.

The production and productivity of self-sufficient cultivation is minor. Tools used in cultivation are extremely simple and capital investments very small. The most important production factors are land and labour. In the rural self-sufficient economy life contains many risks and uncertainties. The main aim of production is to safeguard your own subsistence. Small growers don't maximise profits, but rather their families' possibilities to survive. When the life of the family is at stake, you approach risk taking and new inventions and experiments with caution.⁴⁸

How people maximise their chances of survival need to be understood. The economy that functions through the networks of rural families of small growers can be examined as a joint responsibility operation, which gives rise to communities' traditional working customs and organisations. Work is based more on voluntary solidarity than the maximisation of individual profits. The aim is to generate work, not amass capital. The issue is not only the difference based on scale or legislation but that of a qualitative difference in activity. Activity is usually based on cooperation and the collective ownership of the means of production. Income gained can be invested in the development of the community or divided among its members.⁴⁹

The individual and common economy

The majority of people's work is aimed at getting material benefit, though it can't be denied that people derive advantages and satisfaction from different sorts of work. People won't make great efforts and try unless they or those who they see as entitled to it benefit from the results of work. Community work can seem strange when looked at from a society that stresses individuality. But in a small village, where everyone knows everyone else, common efforts for the common good can be an extremely effective incentive for improving living conditions. In a tight community the 'those who they see as entitled to it' requirement is carried through. The limitation is that the benefits are local and no-one benefits essentially more than the others. Community

⁴⁸ Todaro 1988.

⁴⁹ CMT 2002.

economy is based on the loyalty and impartiality of the group.⁵⁰

Community economic activity is threatened to be destroyed in the spread of individualism or when individuals spot the opportunities for wider trading. The community economy based on trust and loyalty operates well in stable circumstances. The system can also adapt to changes as long as they benefit everyone equally. However, this is not typical of economic development.⁵¹

In old societies the working unit was the family, clan, craft guild or some other such group. This sort of working unit is a kind of cooperative. Carrying out work together has its advantages, especially in a community with a self-sufficient economy, because it provides protection and security. A large family is efficient social security in a community living at subsistence level. Just as in society, where it's awkward to rely on the outside, family members offer the opportunity to broaden undertakings. It's also fairly usual that farmers make up groups in individual areas for carrying out work or building houses. The community form of production is not, however, able to become very large as it's based on the mutual trust of the people participating in it and a sense of belonging.⁵²

Members of a community can shoulder the same problems that threaten the community's existence. Day to day survival is the propelling force of economic activity. The members of the community know that their own future depends on the survival of the other community members. The values steered by economic activity are not at the time stipulated according to the market but by the community, family or kin.⁵³ Instead of the market or planned economy we can speak of the 'survival economy'.

With people moving to cities these old community forms of survival strategy have to be adapted to new circumstances. More clear mechanisms for maintaining reciprocity and trust are needed, as the basis of activity is no longer necessarily the rural emotional relations of family, clan, ethnicity or similar foundation.⁵⁴

⁵⁰ *The Theory of Economic Growth, published in 1955 is a classic work on development economics. Sir Arthur Lewis received the Nobel prize in 1979.*

⁵¹ Lewis 1958.

⁵² Lewis 1958

⁵³ Tripp 2001.

⁵⁴ Tripp 2001

Rights to land and natural resources

The mystery of capital

Capital gives the tools for specialisation, the exchange of production and wealth in an expanding market. Capital is a growing source of productive and national welfare, but it's not located in specific wealth, rather in its potential, which is at the disposal of new production. This potential is abstract. It has to be processed and attached to something tangible before it can break free. Capital is often confused with money, which is just one of the forms in which it moves. Money is not fixed to capital. Capital loses much of its mystery when it's not thought of as money.⁵⁵ In the West, capital came about via the indiscernible processes that buried property systems. Those processes, circumstances and rules that made certain kinds of property formal are tied to those sorts of wealth that can be used as active capital.

From the legitimate property system emerged the links by which states transferred wealth from the world in its natural state to the conceptual world of capital. In the West intricate juridical and enterprise structures have over time limited participatory activities by diminishing the uncertainty of social reciprocity. Such structures include closely defined and implemented property rights, formal agreements and securities, trademarks, company shareholders' limited liability and bankruptcy legislation. In developing countries some of these structures are either weak or nonexistent.⁵⁶

⁵⁵ According to Soto, Marx clearly saw that economic life could be created in parallel to physical wealth. Soto considers that Marx did not, however, see that the mechanisms of the system of wealth can in themselves provide wealth, and the form of the labour invested in it that would demand the creation of capital. Marx understood better than anyone at the time that economic resources have to be seen more widely than their physical properties. Money and commodities are just forms that capital takes and every so often abandons. Formal ownership is much more than the right of ownership. Formal wealth has to be seen as a necessary process that gives people the cognitive tools to focus their resources on those aspects from which they can extract capital. (Soto 2000, Marx 1867)

⁵⁶ Bardhan 2001, Soto 2000. See Chang (2002) on the

The contribution of formal wealth to economic development is not the protection of property, as is often thought. The real revolution is to improve the communication between formal wealth and its potential. Owners become 'economic actors' who can transform wealth within a larger network. Property systems safeguard the individual's business activities. Property binds its owners, they become answerable and accountable. Owners can be recognised and located. The power of formal property is centrally connected to the accountability it creates. People can be held to their commitments, their property can be located, they can lose their creditworthiness or they can be distrained by interest on arrears, fines or maintenance payments.⁵⁷

The advantages of formal property are also the divisibility and combinability of property. There may be countless owners of a factory who can sell off their shares without having a palpable effect on the factory. The majority of people in developing countries don't have formal property, and so they are unable to conclude productive agreements with non-familials, be granted credit or carry out other economic legal activities with anyone other than people in their own immediate circle.⁵⁸

The formal organisation of wealth gives birth to capital. Any movement of wealth on the market is very difficult unless it's part of the formal property system. This is the central difference between the majority of people of western and developing countries. In the West wealth is exactly marked and registered. Only in western countries and among small well-off enclaves of people in developing countries is it possible to mark and present wealth, in other words to produce and use capital effectively. Foreign and local investors are just a small minority, and most people in developing countries are excluded from capitalism's private club.⁵⁹

Hernando de Soto stresses the formalisation of property rights as one solution to developing countries' problems. His arguments for this are strong, if we analyse why capitalism has not worked well outside the West.⁶⁰

history of limited liability corporations and other 'good' institutions.

⁵⁷ Soto 2000.

⁵⁸ Soto 2000.

⁵⁹ Soto 2000.

⁶⁰ Soto 2000, 1990. The 2003 annual report of the UN Human Settlements Programme notes that the notions according to which legislative organisations would have

Despite their certain ideological stamp, Soto's ideas are certainly relevant from the angle of wealth creation.⁶¹ However, formal property rights would not overcome many of the internal problems of the market economy. They would not eliminate income gaps and poverty. The real inclusion into society of the majority of people of developing countries demands an active role by the state, for instance in education, healthcare, income distribution and legislation. Part of this inclusion would be the integration of the informal economy with 'formal' society. This would not succeed without the pulling power of the state. Because the governments of developing countries have not started to do this, pressure has to be exerted via civil organisations.

New ownership system?

Conflicts are likely if a common property arrangement is started to be built by force at the behest of the political and economic elite, without taking notice of local community conditions. The consensus of the rarefied viewpoint of the power elite is not enough, even though it might have the blessing of the parliament sitting in the national capital. Large groups of people in developing countries have always lived outside formal democracy.

The problem is to construct the kind of property system that enables broad pluralism, for instance protects community property and the rights of indigenous people to natural resources. It's therefore a question of a great juridical effort requiring significant political will. The end result may not necessarily be economically the most efficient, but it could both satisfy and be more just and sustainable than the current model.

The linking of money, trade and individualism to remote communities involves a new logic

thoroughly reformed the economic potential of the informal sector by making them free are neoliberal. In the same report the organisation views the problem as a failure of institutions and legislation (UNHSP 2003). Whatever the case, people in the informal sector have the right to take part in the modern life of society. According to neoliberal thinking it may be that the formalising of ownership rights would eradicate problems related to poverty and that other economic or social policies wouldn't be needed.

⁶¹ Soto explains, "I am not a diehard capitalist. I do not view capitalism as a credo. Much more important to me are freedom, compassion for the poor, respect for the social contract and equal opportunity. But for the moment, to achieve those goals, capitalism is the only game in town. It is the only system we know that provides us with the tools required to create massive surplus value" (Soto 2000, 208-209)

and begins a transformation process that is hard to stop. But the issue shouldn't be romanticised. In many of these communities there are people who happen to want to join up with the development of the rest of the world, and there are others who don't. You can't come from outside and say "stay there in the forest, because your lives are really much richer and it's a whole lot more beautiful where you are than in the city." At the same time, those communities shouldn't be coerced into the consumer society.⁶²

If traditional ways of life are threatened, for instance in the name of cutting poverty, then those people who are directly affected should have the opportunity to take part in the decision-making on the matter. Modernism can't be unilaterally set aside at the demand of politicians, religious leaders or anyone else wanting to put traditional cultures in museums.⁶³ Communities should be allowed the possibility to decide on their own way of life. The indigenous people of the coast of Nicaragua live in the present world and are conversant with money and control technology and information. They know what they want, but land and the opportunities to realise their visions have been taken away from them.

Knowledge capital

Ideas and knowledge have become more important factors in business. Most of the value of high technology is based on invention, innovation, research, design and experimentation. Wealth is created increasingly on the knowledge and ideas contained in products traded. Knowledge is an important production factor. The ownership of this factor is a central issue from the viewpoint of the creation and distribution of wealth.

The starting point of industrialised countries of fashioning immaterial and patent rights legislation has been heavily criticised. It rests on protecting the free flow of the common heritage of human knowledge and resources from the South to the North, but in the opposite direction there is nothing but protected private property. The legislation of industrialised countries has long been based on the assumption that information must be safeguarded in order for people and

⁶² Tammilehto (2003) strongly criticises prevailing non-ecological cultural chauvinism, where local self-sufficient enterprises are forced to become extinct and integrate with the consumer society.

⁶³ Sen 2001, 31-32.

enterprises to make new inventions and goods from research and development. Private ownership rights to knowledge and natural resources are an alien notion to indigenous communities. The conflict between these systems is exacerbated by robbing communities of knowledge and had serious consequences for the preservation of communities and natural diversity.⁶⁴

The WTO agreement on trade-related aspects of intellectual property rights (TRIPS) industrial and copyrights can be seen as an instrument for privatising intellectual commons. This enclosure of knowledge and natural diversity continues the chain of enclosures started by the colonial conquests. Vandana Shiva considers multinational companies guilty of the blatant robbery of knowledge and biopiracy, a result of which is that food and medicinal crops are in danger of becoming patented by Western corporations. Millions of traditional communities in India have made use of nature's diversity as one of their resources over hundreds of years. The common inventiveness acquired by communities has been the basis of the local economy and culture. People's nutritional and health needs have been met by the solutions based on the traditional knowledge of medicines, agriculture and fishing.⁶⁵ These people's livelihoods are under threat if they are forced to pay for what was once the use of common wealth.

The problem isn't that legislation concerning immaterial rights recognises informal, communal, inventive systems. The protection of immaterial rights emphasises the private ownership of knowledge. It's as if knowledge had existed in an isolated time and place. But knowledge is by its nature communal and grows from a previous foundation. The knowledge of indigenous communities is not changing into a commodity but is communally owned and shared. What should be developed, therefore, is a protective structure of pluralistic immaterial rights that would safeguard the knowledge systems and practices of indigenous communities and the livelihoods based on them.⁶⁶ New legal means are needed related to the ownership of knowledge. Without these, the conflicts between the business practices in the arena of the 'formal' market economy and the communities living on its margins will increase. They will end in the defeat of the latter, as survival on the fringes of the dominant system is extremely precarious.

⁶⁴ Shiva 2003.

⁶⁵ Shiva 2003.

⁶⁶ Shiva 2003.

Some, however, view the West's system of protecting immaterial rights as being from the outset incompatible with the nature of traditional knowledge. Immaterial rights are based on the isolation of individual fragments of knowledge from their contextual origin. Traditional knowledge is intrinsically indivisible. It's destroyed if it's isolated from the social, economic, cultural and intellectual environment of which it's a living part.⁶⁷

The protection of traditional knowledge may then require the protection of the whole way of life of indigenous peoples and communities – by strengthening these communities' rights of self-determination concerning both land and culture. The development of the system of knowledge ownership should emanate from this principle. The basis of legislation should be the customary law of communities.

Those quarters interested in the uses of natural resources have both wealth and technology. Such investors or economic actors operate within the framework of the formal economy. For their investments they need the protection of ownership rights that can be implemented. Arrangements existing in developing countries outside the formal legislative framework comprise different combinations or rules borrowed from legislation, case-related improvisations, old practices or locally-developed customs. They are kept together by a social contract that the community has adopted and which leaders chosen by the community oversee. This sort of property arrangement does not, however, function as capital outside the community.⁶⁸

The logic of economic reform is internally functional as long as there is the desire in those countries to take the economic development based on capitalism forward. The decisive issue is whether small, self-sufficient communities have the possibility to survive in the market economy. Is there space in the world for alternative ways of living? Are community ownership⁶⁹ and the sustainable control of natural resources compatible under modern capitalism?

⁶⁷ Kuyek 2004.

⁶⁸ Soto 2000.

⁶⁹ *There are differences with community land ownership. Many people are entitled to use the same area of land, for instance for grazing or hewing wood. Or many people may work in the same together in the same area and pool production. There are also systems where each person has the independent right to use the land but their right to transfer the entitlement is limited. The fragmentation of land areas into individual units due to inheritance hampers production for many reasons (Lewis 1958).*

The formal economy's solutions

The aim of many developing country governments in recent years has been to integrate with the international market economy. In reality the inclusion in the international economy of people living within the national economies of developing countries is very marginal. Alongside the 'global sector' in foreign and domestic ownership, and in part its competitors, are national private and public enterprises. In many developing countries this sector is weak and narrow. Economic models so far have not been able to involve large groups of people or they have actually taken away the traditional livelihoods from many communities. This is clear from the growth in inequality, the slowing in the reduction of poverty and social and political unrest.

From economic abstractions to real people

Why is it that the economic policy practiced in recent decades in so many developing countries has spent so little time on cutting poverty? This is partly because part of the population remains outside the analysis of political factors. The central goals of economic policy are not selected from the viewpoint of this overshadowed population. This is why the benefits trickle down to them only very slowly, if at all.

Measurement ideology has since the 17th century played an essential role in justifying the choice of system used. Only that which can be measured and presented in figures is real. Measurement results refute what we see and sense to be the case.⁷⁰ From its point of departure, the examination of the macro economy, foreign trade and investments at national level leaves aside most developing country reality. True, the poorest of the poor, landless coffee picker has a microscopic input in the stream of the global economy, but the greater the abstract level on which we act the more distant is the view of how other people really live. And the further away we are from other

people's real lives, the harder it is for instance to plan how their poverty can be reduced.⁷¹

Take the example of one of the world's least developed⁷² countries, Mozambique. The UN Commission for Africa reported that country is in the midst of economic structural change. Industry is becoming the country's widest economic sector. The GDP share of agriculture dropped in the early 1990s from about a third to a fifth in 2001. At the same time, industry grew, especially aluminium industrial production and gas and electricity.⁷³ But the issue is still only that of GDP structural change, not economic structural change. The absolute majority of the Mozambican working population, about 80%, still make their living from agriculture.⁷⁴ Self-sufficient farming is the population's primary source of income and the mainstay of the economy.

Analysis of people's income and labour as the actual starting point alters the practice of development policy crucially. The mental exercise is more difficult, time consuming and revolutionary than you would first think. You have to get out of your air-conditioned jeep and try to really understand how others live.

When talking about the interests of a developing country it's easy to confuse the interests of the country's economic elite and those of the population. The reality of the narrow formal economic sector of developing countries is very different from that of self-sufficient farmers in rural areas. When speaking about the growth in foreign trade or GDP many think that the benefits involve the country as a whole. But there are no distributive mechanisms that automatically have such an impact. Income distribution in many developing countries is extremely uneven.⁷⁵

Analysis of GDP or trade flows among states gives a misleading view from many different standpoints. It often gives the idea that the local trade and economy are unimportant. Let's just examine the export income derived from foreign

⁷¹ See Tammilehto (2003) *global imaginary communities and local real communities*.

⁷² UN human development index measure (UNDP 2003).

⁷³ UNECA 2003.

⁷⁴ FAO 2003, UNECA 2003.

⁷⁵ In assessing the overall effectiveness of different economic systems it should be remembered that, for instance, GDP is a calculatory gross unit. Wealth is, however, always actually distributed among some people. In other words, GDP growth is no great joy unless it is channelled to increasing the welfare of the majority of people.

⁷⁰ Tammilehto 2003, 88.

trade and forget about where people work, and from what and how they make a living. Total production value is determined on the market by supply and demand, not by where people work. The use of machinery and appliances as well as low labour input can produce ten times more valuable production than a huge amount of people working in rural self-sufficient production. But, when we talk about poverty, we can't be oblivious to where they get their income.⁷⁶

Looking for alternatives

The concept of 'economic globalisation' is so over used that it's worth making a few clarifications.⁷⁷ Technological development has shrunk time and place. This has come about from the development of both transport and communications. This technological development has facilitated the fierce growth of international activity by financial operators. It would be almost impossible to halt technical and scientific development. On the other hand, the freeing up of trade and finance flows is an economic policy choice. There are alternatives and possibilities in that area for conscious decision-making. Economic globalisation is therefore not an irrevocable, uncontrollable advancing force.⁷⁸

The rise and fall of paradigms

Firm believers in the power of markets think that their economic model is the only option. There has been an effort to shroud economics as being politically neutral, above and beyond existing realities. There is an effort to distance politics as far as possible from economics.⁷⁹ The economics Nobel laureate Milton Friedman believed that economics is an objective science similar to any natural science.⁸⁰

However politics has by no means dropped out of economics. Belief in the free market is a po-

⁷⁷ According to Tammilehto (2003, 9) the term globalisation "covers the shrinking of cultural differences by the worldwide mass communications, the increase of knowledge worldwide, the compression of time-space, the diminishing importance of nation states, the growing significance of internationalisation or supranationalisation, the recent changes in the worldwide economic system or the recent incarnation of the capitalist world system."

⁷⁸ Helleiner 2000.

⁷⁹ Teivainen (2000) analyses the antitheses of economy, trade and politics in Peruvian contexts during the 1980's and 1990's.

⁸⁰ Friedman 1953. Sometimes economic laws have their believers from representatives of different ideological extremes. Addressing the first Congress of the Communist Party of Cuba in 1975, Fidel Castro said that he had not been aware of the objective laws at work in the economy but had been guilty of idealism. (Tablada 1987).

⁷⁶ The concept of labour value is the central dividing line between Marxist and neoclassical economics.

litical decision. The issue is also partly to do with the reduction of competing schools of thought in economics, compared for instance to the 1950s-1970s, when economics was more openly political and visa versa.

The market mechanisms prescribed for developing countries over the last couple of decades have mainly come from the International Monetary Fund, the World Bank and regional development banks. Many opponents of the new economic globalisation consider these institutions and the WTO as the main preachers of neoliberal economic policy. But are these international economic monoliths really as significant as we're led to believe?

The development debate progresses continually, but the World Bank is still accused of preaching neoliberal economic policy. But many of the original dogmas held by the Bank have been abandoned or have been reworked and supplemented. The World Bank's economists do not exist in isolation from academic and other communities where development issues are deliberated.⁸¹ Over the years, the Bank's development thinking has also changed. Now it emphasises sustainable development, new growth theory, social capital, the building and running of the right institutions.⁸² This thinking will develop further, and the things now being stressed are not the final word.⁸³ Mainstream ideas in developing thinking live only a certain period of time.

Can the place of the paradigm attained in economic thinking contain as valid truth as in mathematics, astronomy or chemistry? Have neoclassical economic ideas become normal science where the bases of theories are no longer questionable? Is the analysis of new phenomena central or can the problems initiated by the issue only be resolved within the paradigm? Many of the lessons of market belief are drawn from the conclusions of basic neoclassical economic textbooks and have spread beyond economics.⁸⁴

81 Meier 2001, Rodrik 2002.

82 Meier 2001.

83 There is awareness within the World Bank of the development and change of such ideas. For more on this see for instance the World Bank's own publication edited by Meier and Stiglitz (2001) *Frontiers of Development Economics*, though the book is not the official view of the Bank on these matters.

84 Neoliberalism is not the same as neoclassical economics. The core of the newclassical paradigm was put first put forward clearly by Alfred Marshall (1890) in the book *Principles of Economics*. The work gradually rep-

Gradually, unorthodox ideas are removed from school and other textbooks and confined to the tomb of economic history.⁸⁵ It was not long ago when nearly every young economist was able to identify situations in which market mechanisms were weak. The same error list was repeated in textbooks. Now referring to potential weaknesses of the market is labelled old fashioned and opposed to modern culture.⁸⁶

There is often no rationally sensible decision on changing paradigms. It can be compared to changing beliefs. The validity of the truth is contested only in crises, when defenders of the new paradigm try to highlight its ability to solve problems better than was done in the past.⁸⁷

The lack of economic policy alternatives is therefore in part a delusion. The options are few because solutions are sought from within the existing paradigm, which limits the attainment of concrete solutions at the national and international level, for instance concerning the debt problem, the structure of the world economy or the management of economic crises.

laced John Stuart Mill's Principles of Political Economy, the mainstream groundwork on economics. The main elements of the neoclassical paradigm are found in just about any mainstream textbook on microeconomics. Neoclassical economics is not necessarily neoliberal. We can distinguish two levels: neoliberalism within neoclassical economics. On the other hand we can speak of neoclassical in relation to alternative schools of thoughts such as Marxism. We can also ask whether neoliberalism is an economic theory at all. Milton and Rose Friedman's 1982 book Free to Choose can be seen as a highly political neoliberal pamphlet, which is based on their scientific work on monetary economics and critique of Keynesianism.

85 Kuhn 1970.

86 Yesterday's inscrutable belief is today's heresy and yesterday's heresy is the new superstition. Sen 2001, 111. Todaro (1988). In Finland too, just a few years ago the Turku School of Economics was using the third edition of the 1985 text book *Economic Development in the Third World*, which describes markets as the new alternative to central economic planning. Todaro describes how increasingly western economists, ministers for development and the leaderships of international development organisations have started to defend the widespread use of market mechanisms as the key factor in efficient and rapid economic growth. (Source used from the Spanish translation of the work, 1988, p 573).

87 Kuhn 1970, Lakatos 1974, Watkins 1974.

Need for historical perspective

The answer to development problems is not black and white. It contains shades of grey. No country has in practice taken any big steps on development according to textbook formula. The answer to development can't be found from traditional antithesis: inward-oriented strategies against export-oriented, the private sector against the public sector, markets versus regulation. Success stories are often a mix of orthodox and unorthodox economic policies. There is much experience of this for instance from East Asia.⁸⁸ What is needed, therefore, are solutions tailored to local circumstances.

Economic globalisation is believed to have made the world extremely similar. This is true of only a small part of it. Most people in the world live in very different circumstances than those in industrialised countries. You're not however supposed to look in the rear-view mirror. But shouldn't developing countries draw lessons from the earlier development of industrialised countries? How are poor countries supposed to attain the same development goals together with rich countries using the same means but different starting points? Unless there are economic policies planned from developing countries' own starting points they will probably always trail behind.

Neoclassical economics has however categorically abandoned inductive, empirical reasoning, and current development policy debate has become particularly unhistorical. Development literature is now crammed with theory-based propositions along the lines of 'free trade benefits everyone'.⁸⁹ If only such exponents would set aside theoretical models and their desperate search for variants for a moment and go and see what reality looks like.

Go and check out reality!

The building of endogenous processes and one's own institutions is believed to be the correct way to higher development. Present industrialised countries are able to realise their own economic and social policies far more independently than present developing countries. In their current si-

⁸⁸ World Bank 1993, UNCTAD 1996, Rodrik 2002, Tammi-lehto 2003.

⁸⁹ Chang 2002. In deductive models conclusions are drawn

uation they have managed by trial and error. Institutions can't be acquired from outside without important local adjustments. The shape of these adjustments demands an active role by the state and civil society. Collaboration is needed to promote the building of enterprises and institutions. There is a need for less universal consensus and more experimentation.⁹⁰

There is no need for worldwide general instructions that should be acted on and valid always and everywhere. Many developing countries are now free to choose just one option. Developing countries need their own thinkers, whose ideas emanate from their own starting points and their own countries' realities, as well as space to try them out.

The further we get lost considering macro economic and global economic policy issues the greater the distance grows in tackling people's existing individual problems.

The fact that vast groups of people in developing countries live outside of formal social structures partly explains why certain well-meaning economic or development policies do not achieve their desired results. There should be a better understanding of self-sufficient and informal economic activity. Attention needs to be focused above all on the points of contact between the formal and informal economy, in order to analyse what possibility there is of the benefits of the formal economy trickling downward.

Towards local participation using poverty programmes

The role of civil society and emphasis on the local gave emerged into the mainstream of international development policy debate. The perspective that special national conditions have to be taken into consideration is also growing among the universal teachings offered by international finance institutions. It's hoped that the inclusion and participation of civil society will improve the ownership of development strategies and that the results of programmes will improve. These sorts of elements are especially built into the Poverty Reduction Strategy Papers⁹¹ drawn up under the direction of the World Bank.

In emphasising the significance of special national features the aim is to stress that developing countries themselves have to have a strong-

⁹⁰ Rodrik 2002.

⁹¹ Poverty Reduction Strategy Papers, PRSP.

er opportunity than before to determine their own development priorities. Developing country ownership of their own national politics⁹² has become the new key concept of the 21st century in development cooperation circles.

Now, the development of different kinds of national action programmes are appended to, and even required by, many international development programmes. In order to receive international aid poor countries have to define their own development goals.

The central starting point and principle of PRSP policy is that it's a national poverty reduction programme, prepared with the participation of the country's citizens and approved by its democratic structures. It should therefore reflect the goals of citizens, particularly the poor and vulnerable population groups.⁹³

Although the UN Millennium Development Goals have been lauded as the central global framework of international development policy, they have also been criticised. According to some critics, these global strategies do not seriously take account of local contexts and needs, and in many cases are not based on how development really happens.

UN circles stress that the MDGs should not be regarded as a development programme as such that should be directly applied nationally. Their intention is more to be a yardstick for progress in national and international development policy and not as determinants of national policy priorities. Within the UN it is pointed out that the millennium goals can only be achieved if they are really relevant to the billions of people whose welfare and preconditions for life they aim to address. The hope is that the MDG aims will be anchored in the national discussions in developing countries. Then different civil society groups and communities can use them and be supported by them to demand political reforms from their own governments.⁹⁴

Although the viewpoint that says development processes have to be led by developing countries themselves has become more general, there are still noticeable problems with the approach. The conditions and background assumptions of development programmes can set important limits on real endogenous development. And what determines these limits is the existing development paradigm.

⁹² *Policy ownership.*

⁹³ *World Bank PRSP Sourcebook.*

⁹⁴ *UNDP 2003*

According to many studies, the PRSP processes have increased political openness in developing countries. In many such countries representatives of civil society have had more of a part and more possibilities to influence the PRSP processes than was the case in connection with corresponding ones earlier. Many critics have however said that the consequence of these processes has not yet done anything important for the political strength of civil society. Opinions have also been expressed that the participation of many important groups and social movements was limited, or didn't happen at all in the first generation of PRSP discussions. Such groups include members of parliament, trade unions, women and many poor groups from the population.⁹⁵

Political conditions from above

What is also problematic from the angle of democratic development is that accountability for seeing the programmes through runs from the governments of the developing countries to their donors, and not from the parliaments to the people. The PRSP processes have not originated as a result of developing countries' peoples' own political movements and campaigns, but instead as a condition set by international policy. So it's not surprising that developing countries' own broad-based NGOs, such as trade union movements, have not immediately adopted them as their own but have considered them as alien.

The journey from the realities of population groups to the PRSP consultations led by civil servants is often very long. Some critics have said that it's not always clear where in the extensive PRSP processes participating NGOs really represent the interests they say they do.⁹⁶ Many evaluations express astonishment at how similar the poverty reduction strategies are for different countries, both to one another and compared to the previously economic structural adjustment programmes imposed from outside.⁹⁷

An evaluation carried out by a Finnish development research team in 2003 also took up this issue. In their view, the goals and priorities built into the Africa PRSP programmes are often at variance with the aims and objectives of poor

⁹⁵ *Stewart & Wang 2003*

⁹⁶ *For instance Stewart & Wang 2003, Gould & Ojanen 2005*

⁹⁷ *UNCTAD 2002, Stewart & Wang 2003, Craig & Porter 2002.*

people in Africa. They reckon that the PRSP programmes reflect more the interests of the developing country governments and international finance institutions than those of poor population groups. The research team also emphasises that despite all the talk, within the donor's PRSP consensus there does not appear to be sufficient political will for strengthening the political influence of the poor and taking their viewpoint into account in the democratic process.⁹⁸

Analysts say that the construction of the Finnish welfare state was something totally different from a bureaucratic project planned and presented to the people by the top-down method. It has been a very difficult and painful process lasting hundreds of years, in which ordinary people, churches, communities, workers movements, businesses and political parties representing different ideologies have, against the backdrop of Finnish beliefs, culture and history, been ready and willing to learn from their mistakes, differences and common interests to build a society for all Finns.⁹⁹

The historical experience of Finland and many other industrialised countries indicates that only transformation processes and campaigns led by social development movements can eradicate poverty sustainably. These days too, movements searching for alternatives are springing up and growing in different parts of the world. They do not only operate locally but seek increasingly strong international cooperation with people and their movements campaigning on the same problems of impoverishment

Local answers to global questions

With economic activity some people may benefit and some may lose out. Limiting economic activity also benefits some people, while for others it hampers their room to manoeuvre. Where to draw the line by which some people's freedoms can be limited so that others can enjoy what they have? How are choices and limitations carried out? These are crucial questions. And it's precisely these questions that people should have the right to influence – locally.

This is an important challenge. The expansion of economic globalisation has shown that decisions on people's living conditions are increa-

singly made by international institutions, such as the World Trade Organisation and the World Bank.¹⁰⁰ The democratisation of global politics is an important political problem. We must not however lose sight of people nearer at hand, of local and national political institutions and of safeguarding their conditions for operating. Does our era of global policy era impoverish the opportunities for national and particularly local politics? Will the role left for the local and national level only be that of adjusting to the set frameworks of rules, agreements and programmes agreed at global level? There seems to be increasingly little space for civil society movements to put through changes locally. Politics is being impoverished.

The current logic of economic globalisation requires the spread of western consumption habits and the basic institutions of the western market economy, such as the system of ownership rights. Although this process will certainly create stronger conditions for economic and social development in certain areas and states, it will at the same time impoverish many people and population groups.

Economic globalisation aims to expand the terrain of activity and manoeuvre as widely as possible around the world for business and investment, not people. This requires national policies in different countries that regulate and limit these activities a little as possible and create the same kinds of operating conditions – institutions and standards – in different parts of the world. The freedom of mobility of international trade and capital has long been at the heart of global policy. This developmental path hampers the possibilities for people and communities to choose different societal policy alternatives, because it locks politics into a single model.¹⁰¹

The struggle is always local

In speaking of impoverishment instead of poverty we have sought to underline that poverty is caused by many often highly complicated and multilayered societal phenomena. What they often have in common is that with the consequences of the impoverishment processes most of the suffering, the poor and the vulnerable hardly have any possibilities to influence these processes themselves. They are usually far from the de-

98 Saasa et al. 2003

99 Saasa et al. 2003, 52

100 Patomäki et al. 2002 present a broad initiative to promote global democracy.

101 Gill 1998.

cisions and decision-makers who have a crucial impact on their society's development. In recent decades political power has shifted increasingly to the supranational level. This has further debilitated democratic possibilities worldwide.

This text especially deals with characteristics and disparities of the informal and formal worlds. For the majority of humanity these in practice mean that formal public policy – the state – is unable to guarantee the basic security of its citizens. This is why people have to seek their basic income from beyond the scope of government. In the process they are left outside of formal society, or at least on its margins. And yet everyone should have the same possibility to construct their own welfare from their own starting points and be proper members of their own society.

It's important to see that in many different developing countries the state is a weak organisation. This is not just because of lack of resources, for in many developing countries the whole appropriateness of the existing social contract is, from the viewpoint of the majority of people, dubious. States are weak because within national borders there in practice there is a single formal, minority social structure with a broad network of communities existing on its margins or outside it altogether. That's where the majority of people live. There is no rule by the people unless the people rule.

Social contracts are born out of the political struggles and mutual agreements of different interest groups. In order for these contracts to be socially sustainable and just, the poorer sections of the population have to be involved in drawing them up.

The 'struggle against poverty' is not an abstract goal or to attain the indicators of set parameters. Ending impoverishment is a struggle for raising real people out of poverty. It's pursued in their interests. And in the end the struggle is therefore always local.

Epilogue

The struggle against impoverishment

The book *The Impoverished: humanity's informal majority* published in 2004 was the first book in a series of reports to be written on global development issues by the Service Centre for Development Cooperation (KEPA). One of the aims of this first book was to give substance to the main concept of the 2004-2006 policy programme of KEPA, 'impoverishment'. The book did not, however, aim for an exhaustive definition of this concept or to set out a clear political programme for ending impoverishment, which is why there is no particular place in the book with a concise and ready answer to what is impoverishment is or how it can be stopped.

The book departed from local level individual experiences in developing countries and attempted to anchor this reality to theoretical literature. The book had three broad goals. It had to be academically sound, easy to read and it had to contain a clear political message. The first of these goals seems to have been realised to some extent, as since 2005 the book has been an exam requirement for students majoring in development studies at the University of Helsinki. As to the readability of the book, I'll leave that for the reader to judge.

The third aim concerned the political message to do with ending impoverishment. The details of this have itself been partly clarified through the numerous training events, seminars and interviews of the last couple of years following the writing of the book. This epilogue is an attempt to encapsulate my thinking on the concept of and struggle against impoverishment. It is an epilogue to the abridged version of the book. These ideas are my own and do not necessarily represent KEPA's views or those of the book's other authors.

Who defines development and poverty?

Before we get into discussing impoverishment or its eradication we should take a moment to think about what development and poverty actually

are. Opening up the concept of development is not a trivial pursuit. Official and civil society discourse overflows with vague interjections about the 'development angle' or 'development dimension' that mean everything or nothing. The starting point of the book is that 'development' is pretty much a subjective concept. So-called definitions¹⁰² of development are often one or more person's ideal conceptions of social existence. Development can also be understood as societal processes that strive for an ideal. The 1986 UN Declaration on the Right to Development defined development as a comprehensive economic, social, cultural and political process that seeks the constant improvement of the well-being of humanity. This should come about through the individual's active, free and meaningful participation in development.¹⁰³

Everyone nevertheless defines the basic factors in their own well-being, what they want to aim for in life. The vision of the one who sets the aims is decisive. It is essential to be able to take part in determining, choosing and realising these 'development goals'. The definitions of development are multiple. This is why one person's 'development' can be another's 'anti-development'. In practice, in the real world, there is therefore no such thing as 'development' that benefits everyone, though we often act as if there were.

Efforts to end impoverishment hinge on a so-called rights-based approach in development thinking. In this approach is crucial to analyse the structural causes of poverty and to focus on inequality, inequity and exclusion, and to support inclusion.¹⁰⁴ Poverty is not just a lack of income or low level of consumption. It may be also related to a lack of opportunities to take part in decision-making or being unable to join in the activities of the community. Because poverty is relative, the reasons for it are the societal structures that feed inequality. Impoverishment is the existence and maintenance of these structures. People don't get poor by virtue of some magical force, but as the result of economic, social, political and cultural interaction and activity.

Impoverishment and the ending of it are political processes. 'Political' is understood as a

¹⁰² According to Rist, the listed very universal issues used as a definition of development do not meet the requirement of scientific criteria, and so the majority of definitions of development are so-called quasi-definitions. Rist 2002.

¹⁰³ United Nations 1986.

¹⁰⁴ Rights-based approach, see for example. IDS Policy Brief 17, May 2003.

process that is basically a question of who gets what, when, where and how.¹⁰⁵ Development and poverty are therefore things related to the aspiration or preservation of the interests of organisations, groups or individuals. So action to reduce poverty is not neutral, objective or apolitical, though it is often posited as such.

But how can impoverishment be stopped? We first have to ask from whose viewpoint the issue is being examined. For whose benefit and with whom one intends to cooperate? We have to take the vantage point and reality of a certain individual or group and begin to analyse the causes of poverty from local systems towards global solutions. There are no very far-reaching universal answers, because impoverishing societal structures and people's living conditions vary greatly depending on their country and place.

Let's consider the economic dimension of development. The physical and immaterial resources of a particular community are always shared in some way among the individuals who belong to the community. The individuals – actors – own and/or use these resources. The way that resources are owned and used happens in the framework of certain rules and systems that are agreed in common or imposed by others. A result of individual activity is that some succeed while others don't. Some manage to acquire more wealth than others. In time, those who do well are able to exploit their position and manage to create social contracts or other arrangements – 'structures' – that benefit them more than other members of the community. These structures become impoverishing in relation to others. Individuals are naturally different, and some have the ability to succeed despite the existence of impoverishing structures. These structures do not explain everything nor do they eliminate individual responsibility. The majority of people are not, however, able to successfully struggle in a disadvantageous environment but are sentenced to a life of poverty because they don't have the chance, for instance, to get an education.

The right to participation is key to development

Development can be viewed as a process toward particular basic rights, such as the realisation of universal human rights. The UN Declaration on

¹⁰⁵ See for example Lasswell 1966.

the Right to Development states that member states should undertake at the national level all necessary measures to ensure, among other things, equality of opportunity for all in their access to basic resources, education, health services, housing, employment and the fair distribution of income. In reality the resources of communities are however always limited and not all rights necessarily can or are wanted to be realised immediately or simultaneously. What is central is the right to take part in the decision-making of the community on what rights are to be realised or enforced and when. Only participation makes it possible to demand other rights and their enactment. The right to participation is therefore key to the achievement of all other rights.¹⁰⁶

Development is largely about selection processes concerning communities, in which there may be legitimate group and community interests competing with one another. Political debate and struggle may lead to solutions that either benefit all or only some. It is often impossible to improve the situation of everyone at the same time, and so choices have to be made. Because the definition of 'well being' is ultimately subjective, decision-making is often about a situation where not everyone can be satisfied.

In addition to setting goals, it is essential to take part in the discussion of the measures by which it is intended to realise them. For instance, there is broad consensus the UN Millennium Development Goals but they won't necessarily ever be attained. Their accomplishment has to be realised by different social-political actions that have practical consequences. These consequences vary in time and place for different people. Some of them may even increase poverty.

To stop the impoverishment of a group work can be done to support its opportunities to participate and influence decision-making at local community and national level, where the societal frameworks are set up in which welfare is created. You can also support a community's material and mental requirements for creating welfare. Such support can consist of physical resources (such as materials, equipment or food), mental resources (such as training), money to procure these or contributing one's own work. The types of support do not counter one another; different kinds of support are needed to meet different needs. There may be a direct crisis or shortage so that immediate support is needed,

106 IDS 2003, *ibid.* See also Sen 2001.

and sometimes it can seem that focusing on uncertain future processes is pointless. However, in terms of ending impoverishment it is not enough just to direct support for immediate needs. In order for the impacts of the support to be lasting you need a more political approach. Support directed at meeting immediate needs cannot replace activities that in the long term cut into impoverishing societal structures. This is why the role of donors always comes second compared to a community's own solutions.

Many impoverishing structures are very close at hand. It would however be misleading to say that all impoverishing structures are local or even national. Individuals and local communities are connected by economic interchange to one another across the world nationally and internationally. Nearly all human communities in the world are interlinked in one way or another.¹⁰⁷ Global solutions have an increasingly strong impact on our lives and decision-making takes place further away from local communities. At the same time, the further you go from the local level the harder it is to indicate the direct cause and effect relations linked to impoverishment or to have an impact on them. In terms of ending impoverishment it is essential to be able to unmask these concealed interconnections. The better we succeed in doing so, the more we can have an impact on people's chances of getting out of poverty. We must therefore be able to understand our own role as a part of global networks. Your own government may for instance take part in the system of international treaties that contribute to the impoverishment of other communities. It's therefore important to influence our countries' decision-making using different forums. We must also understand our own role as part of the activity of international trade and economy. Do our actions take bread from the mouths of others? Do my interests wreck the value of another's labour? Who has to suffer the environmental consequences of my consumption patterns? As consumers our lives are filled with everyday choices: should I buy that carpet that's been made with child labour, do I drink fair-trade coffee, should I buy that garden furniture made out of illegally cut timber?

It's not enough simply to do no 'harm'. Impoverishment is not just the outcome of people's active deeds; it can also be the result of inactivity. It lies in the maintenance of existing injustices.

107 McNeill & McNeill 2005.

Take the situation of ten year-old children living by night in the gutters of some Southern city and by day scraping a living from the local garbage dump: anyone who contributes to things remaining as they are is potentially adding to impoverishment. That's why we must act!

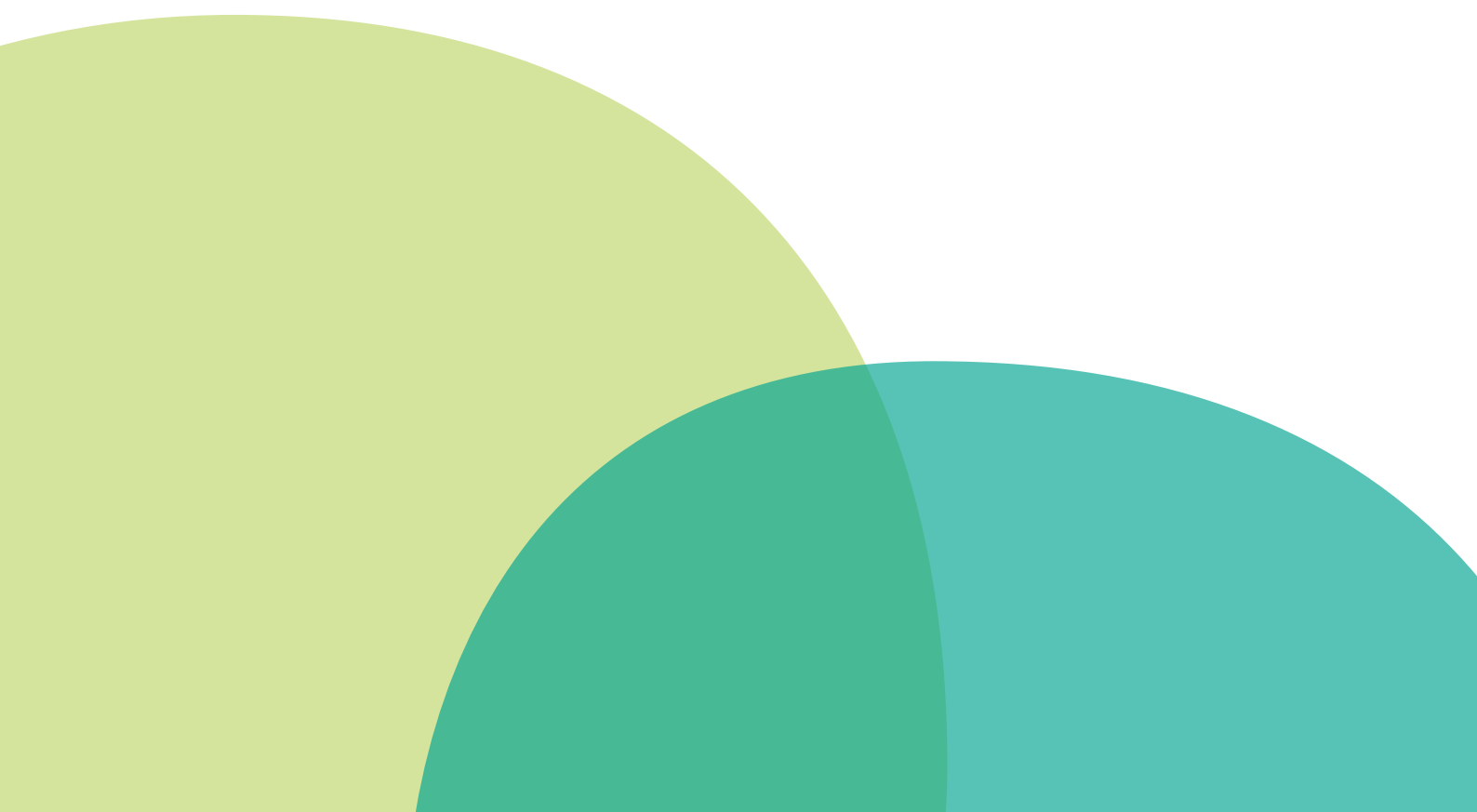
Kent Wilksa
Helsinki 7.11.2006

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Impoverished Humanity's informal majority

(summary)

Poverty is the outcome of people's active deeds or inactivity which maintains existing injustices. Poverty is a result of structures that feed societal inequality. The eradication of poverty – ending of impoverishment – can be successful only if these structures and practices will be dismantled.

This Working Paper introduces those social structures and practices which cause and maintain impoverishment, and offers ideas to dismantle them.

This Paper is a strong address on course of development policy and hopefully contributes to development cooperation work of activists, students and professionals.

This Paper is an abridged version of the book *The Impoverished: humanity's informal majority* which was published by KEPA and Like Publications in August 2004.

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