

## Financial Crises, the Informal Economy and Workers Unions

by Renana Jhabvala

Workers all over the world have been hit by the financial crisis and the unemployment rates, particularly in developed countries, have risen to high levels. Little is known, however, about the effects on the informal workers in developing countries who have no social security net or unemployment insurance, and no personal savings cushion to tide them over the crisis. Even worse, as the crisis deepened and the world began looking for solutions, these workers' voices and concerns were not heard, as their 'unemployment rates' were rarely measured. Unemployment in the informal economy cannot be measured by "jobs lost", but rather by income decline, decrease of days of work available and disappearing livelihoods.

The importance of understanding the impact of the global recession on the informal economy cannot be underestimated. The informal economy includes all economic units that are not regulated by the state and all economically active persons who do not receive social protection through their work. The size and significance of the informal economy is tremendous, and in developing regions, the informal economy makes up anywhere from 60-90 per cent of the total workforce. Moreover, the formal and informal economies are not entirely distinct. In global value chains, production, distribution and employment can fall at different points on a continuum between pure 'formal' relations (i.e. regulated and protected) at one pole and pure 'informal' relations (i.e. unregulated and unprotected) at the other, with many intermediate categories in between. Workers and units can also move across the formal-informal continuum and/or operate simultaneously at different points along it. These dynamic linkages of the formal and informal economies highlight the importance of understanding the 'informal-ity' of the global economy and recession.

Before the financial crisis the GDP growth rates in the Asian economies were among the highest in the world, with the 2008 growth rate in India being over 9 percent. Banks in India had been well regulated and so did not undergo the same crises as the Western banks, but because of the uncertainty in the economy they were wary of lending and the credit slow-down added further to the reduction in investments. However, the financial system has become internationally connected and in January 2008, the Bombay stock exchange Index which had grown 21,000 points began to fall rapidly. It had fallen to 15,000 points in June 2008 and to 10,500 points in Oct 2008. This caused a severe shortage of liquidity and a major reduction of investments as the capital of traders and industrialists

eroded. At the same time, industries dependent on export began a slow down with spiral effects into the rest of the economy. The worst-hit industries were diamonds and other gems and jewellery as well as textiles, garments and metal-ware.

Studies were undertaken by SEWA in early 2009 and later by WIEGO found crises in sectors where the informal economy was concentrated. It is estimated that 1-2 per cent of the urban population of the world lives off collecting and recycling paper, cardboard, plastic, glass, and metal waste. The earnings of these poorest workers declined considerably world wide—by more than 50% according to the SEWA survey-- as the drop in demand for manufactured goods from developed countries led to a decline in exports of manufactured goods from developing countries which, in turn, led to a decline in demand for recycled waste materials and a drop in the selling price of waste. The net result was that tons of waste materials accumulated on streets or in warehouses, containers loads of waste are stockpiling at harbours or was going directly to landfills and incinerators without being sorted for what can be recycled.

SEWA's waste collector members in Ahmedabad said they compensate for lower prices by spending more hours to collect the waste. They used to go in the morning at 5:00 am but now they start their work at 3:00 am with the mentality that 'someone else will come early and pick it up, instead I will take it first.' Earlier, the woman of the family would go to pick up the waste, now they prefer to take more members especially children of the family so that more waste is collected. As they are now unable to pay the fees and other expenses for education they have taken them out of school and started to involve the children in waste collection as well as sending them for other income earning activities.

Construction was another industry hit worldwide and the main sufferers were the construction workers, who are paid by the day and whose days of work as well as earnings reduced considerably. The Indian survey showed whereas normally 85% of women full time work of more than 20 days a month, after the crisis only 11% had full time work. Most of them

worked less than 15 days a month and 10% had no work at all. There was also a 30% decline in their daily wages.

One of the first ill-effects of the crisis seemed to be psychological, with increasing conflicts and growing drunkenness, especially among men. Families responded also by reducing their food intake—three meals instead of two, reducing 'expensive' foods like milk or eggs. Some families went into debt to pay for illnesses or other major expenses; others pulled their children out of school or moved them to cheaper education.

In India, we seem to be coming out of the crisis as the stock market rose 70% from its low of last year. Industrial production is up, as is employment in many industries such as construction with the daily wage increasing almost to pre-crisis levels. Although some export-linked industries such as diamonds are still in difficulties, it seems that on the whole Indian informal workers are recovering their employment. However, this does not mean all is well. As the economy recovers, inflation rises too and the prices of staple food have gone up by 17% in 2009.

From the point of view of the workers, their work lives are full of insecurity. During the crises, they lost their earnings and had no social safety net or cushion to fall back on. As the economy pulls out of the crisis, they face price rises, and without a social protection cover they have to pay for health care and insure themselves against personal crises from their own earnings and savings.

The world has focussed intensively on the financial crisis brought about the unregulated greed in the financial systems, and will perhaps bring reform within those systems. But for the informal workers, the financial crisis was just one more hurdle in a work-life of continuous insecurity. The solutions lie in more complete systems of social security and voice for informal workers, who constitute the majority of the work-force today.

Given that informal workers constitute such a large section of the work force, and that most countries are democratic, with being Governments being elected on the will of the majority, the real question is why is a system of social protection not already in place? Such a system would act as a cushion during crises and help the worker secure the volatilities present in the system. The answer to this lies in the balance of power. Today much of the policies and regulations favour those with capital and especially the larger corporate structures. Those groups which are able to organize and make their voice heard are able to access the countervailing power either through the political system or directly in the market. Unfortunately, informal workers are barely organized today and as a result have neither voice nor representation nor any countervailing power. In fact they, the most vulnerable of

people, become a cushion for the economic system. They are the ones who absorb the maximum shocks in the system.

The voice of the informal workers needs to be heard, and its effect felt in the political system, in order to start the process of a social safety net for informal workers, which can only happen by organizing. On the ground many trade unions, especially in developing countries have organized informal workers and brought their voice to the bargaining table. These include agricultural workers and transport workers through Ghana Trade Union Congress and street vendors in CROC Mexico . SEWA is an example of a national trade union which has reached a membership of 1.2 million informal workers. At the international level networks of organizations of informal workers such as the alliance of Street Vendors (Street Net), the alliance of homeworkers (HomeNet), and the newly developing alliances of domestic workers through the IUF and waste collectors alliances are identifying their issues and bringing the voice of informal workers to the international arena. Equally important is the role of WIEGO which highlights these issues and takes them into the policy arena. However, the scale at which the voice of the informal workers is still far too small. A fairer international economic system requires a representation into policy making of the informal workers. This will only happen if workers organize on a large scale.

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