

Theory Talks

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THEORY TALK #56

KEITH HART ON THE INFORMAL ECONOMY, THE GREAT TRANSFORMATION, AND THE HUMANITY OF CORPORATIONS

Theory Talks

is an interactive forum for discussion of debates in International Relations with an emphasis of the underlying theoretical issues. By frequently inviting cutting-edge specialists in the field to elucidate their work and to explain current developments both in IR theory and real-world politics, *Theory Talks* aims to offer both scholars and students a comprehensive view of the field and its most important protagonists.

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KEITH HART ON THE INFORMAL ECONOMY, THE GREAT TRANSFORMATION. AND THE HUMANITY OF CORPORATIONS



International Relations has long focused on the formal relations between states; in the same way, economists have long focused exclusively on formal economic activities. If by now that sounds outdated, it is only because of the work of Keith Hart. Famous for coining the distinction between the formal and the informal economy in the 1970s, Hart is a critical scholar who engages head-on with some of the world's central political-economic challenges. In this *Talk*, he, amongst others, discusses the value of the distinction 40 years after; how we

need to rethink *The Great Transformation* nearly a century later; and how we need to undo the legal equivalence of corporations to humans, instituted nearly 150 years back.

What is, according to you, the central challenge or principal debate in International Relations? And what is your position regarding this challenge/in this debate?

I think it is the lack of fit between politics, which is principally national, and the world economy, which is global. In particular, the system of money has escaped from its national controls, but politics, public rhetoric aside, has not evolved to the point where adequate responses to our common economic problems can be posed. At this point, the greatest challenge is to extend our grasp of the problems we face beyond the existing national discussions and debates. Most of the problems we see today in the world—and the economic crisis is only one example—are not confined to a single country.

For me, the question is how we can extend our research from the local to the global. Let the conservatives restrict themselves to their national borders. This is not to say I believe that political solutions to the economic problems the world faces are readily available. Indeed, it is possible that we are entering another period of war and revolution, similar to 1776-1815 or 1914-1945. Only after prolonged conflict and much loss might the world reach something like the settlement that followed 1945. This was not only a settlement of wartime politics, but also a framework for the economic politics of the peace, responding to problems that arose most acutely between the wars. It sounds tragic, but my point in raising the possibility now is to remind people that there may be even more catastrophic consequences at stake that they realize already. We need to confront these and mobilize against them. When I go back in history, I am pessimistic about resolving the world's economic problems soon, since the people who got us

into this situation are still in power and are still pursuing broadly the same policies without any sign of them being changed. I believe that they will bring us all into a much more drastic situation than we are currently facing. Yet in some way we will be accountable if we ignore the obvious signs all around us.

How did you arrive at where you currently are in your thinking about IR?

My original work in West Africa arose out of a view that the post-colonial regimes offered political recipes that could have more general relevance for the world. I actually believed that the new states were in a position to provide solutions, if you like, to the corrupt and decadent political structures that we had in the West. That's why, when we were demonstrating outside the American embassies in the '60s, we chanted the names of the great Third World emancipation leaders—[Frantz Fanon](#), [Kwame Nkrumah](#), Fidel Castro, and so on.

So for me, the question has always been whether Africans, in seeking emancipation from a long history of slavery, colonialism, apartheid and postcolonial failure, might be able to change the world. I still think it could be and I'm quite a bit more optimistic about the outcome now than I have been for most of the last fifty years. We live in a racialized world order where Africa acts as the most striking symbol of inequality. The drive for a more equal world society will necessarily entail a shift in the relationship between Africa and the rest of the world. I have been pursuing this question for the last thirty years or more. What interests me at the moment is the politics of African development in the coming decades.

Africa began the twentieth century as the least populated and urbanized continent. It's gone through [a demographic and urban explosion](#) since then, doubling its share of world population in a century. In 2050, the UN predicts that 24% of the world population will be in Africa, and in 2100, 35% (read the report [here](#), pdf)! This is because Africa is growing at 2.5% a year while the rest of the world is ageing fast. Additionally, 7 out of the 10 fastest growing economies in the world are now African—Asian manufacturers already know that Africa holds the key to the future of the world economy.

But, besides Africa as a place, if you will, a number of anti-colonial intellectuals have played a big role in influencing me. The most important event in the twentieth century was the anti-colonial revolution. Peoples forced into world society by Western Imperialism fought to establish their own independent relationship to it. The leading figures of that struggle are, to my mind, still the most generative thinkers when we come to consider our own plight and direction. My mentor was the Trinidadian writer [C.L.R. James](#), with whom I spent a number of years toward the end of his life. I am by temperament a classicist; I like to read the individuals who made a big difference to the way we think now. The anti-colonial intellectuals were the most important thinkers of the 20th century, by which I mean Gandhi, Fanon and James.

But I've also pursued a very classical, Western trajectory in seeking to form my own thinking. When I was an undergraduate, I liked Durkheim and as a graduate student Weber. When I was a young lecturer, I became a Marxist; later, when I went to the Caribbean, I discovered Hegel, Kant and Rousseau; and by the time I wrote my book on money, *The Memory Bank*, the person

I cited more than anyone else was John Locke. By then I realized I had been moving backwards through the greats of Western philosophy and social theory, starting with the Durkheim school of sociology. Now I see them as a set of possible references that I can draw on eclectically. Marx is still probably the most important influence, although Keynes, [Simmel](#) and [Polanyi](#) have also shaped my recent work. I suppose my absolute favorite of all those people is Jean-Jacques Rousseau for his [Discourse on Inequality](#) and his inventive approach to writing about how to get from actual to possible worlds.

What would a student need (dispositions, skills) to become a specialist in IR or understand the world in a global way?

In your 20s and 30s, your greatest commitment should be to experience the world in the broadest way possible, which means learning languages, traveling, and being open to new experiences. I think the kind of vision that I had developed over the years was not one that I had originally and the greatest influence on it was the time I spent in Ghana doing my doctoral fieldwork; indeed, I have not had an experience that so genuinely transformed me since!

Even so, I found it very difficult to write a book based on that fieldwork. I moved from my ethnographic investigations into a literature review of the political economy of West African agriculture, and it turns out that I am actually not an ethnographer, and am more interested in surveying literature concerning the questions that interest me. I am still an acute observer of everyday life; but I don't base my 'research' on it. Young people should both extend their comparative reach in a practical way and dig very deeply into circumstances that they encounter, wherever that may be. Above all, they should retain a sense of the uniqueness of their own life trajectory as the only basis for doing something new. This matters more than any professional training.

Now we see spectacular growth rates in African countries, as you mentioned, one of which is the DRC. How can we make sense of these formal growth rates: are they representative of the whole economies of these countries, or do they only refer to certain economic tendencies?

The whole question of measuring economic growth is a technical one, and it's flawed, and I only use it in the vaguest sense as a general indicator. For example, I think it's more important that Kenya, for example, is the [world leader in mobile phone banking](#), and also a leader in recycling old computers for sale cheaply to poor people.

The political dispensation in Africa—the combination of fragmented states and powerful foreign interests and the predatory actions of the leaders of these states on their people -- especially the restrictions they impose on the movements of people and goods and money and so on -- is still a tremendous problem. I think that the political fragmentation of Africa is the main obstacle to achieving economic growth.

But at the same time, as someone who has lived in Africa for many years, it's very clear that in some countries, certainly not all, the economies are very significantly on the move. It's not—in principle—that this will lead to durable economic growth, but it is the case that the cities are expanding fast, Africans are increasing their disposable income and it's the only part of the world where the people are growing so significantly. Africa is about to enter what's called the demographic dividend that comes when the active labor force exceeds the number of dependents. India has just gone through a similar phase.

The Chinese and others are heavily committed to taking part in this, obviously hoping to direct Africa's economic growth in their own interest. This is partly because the global economy is over the period of growth generated by the Chinese manufacturing exports and the entailed infrastructure and construction boom, which was itself an effect of the [greatest shift from the countryside to the city in history](#). Now, the Chinese realize, the next such boom will be—can only take place—in Africa.

I'm actually not really interested in technical questions of how to measure economic growth. In my own writing about African development, I prefer anecdotes. Like for example, Nollywood—[the Nigerian film industry](#)—which has just past Bollywood as the second largest in the world! You mention the Congo which I believe holds the key to Africa's future. The region was full of economic dynamism before King Leopold took it over and its people have shown great resilience since Mobutu was overthrown and Rwandan and Ugandan generals took over the minerals-rich Eastern Congo. Understanding this history is much more important than measuring GDP, but statistics of this kind have their uses if approached with care.

Is it possible to understand the contemporary economic predicament that we are seeing, which in the Western world is referred to as the “crisis”, without attributing it to vague agencies or mechanisms such as neoliberalism?

I have written at great length about the world economic crisis paying special attention to the problems of the Eurozone. My belief is that it is not simply a financial crisis or a debt crisis. We are actually witnessing the collapse of the dominant economic form of the last century and a half, which I call national capitalism—the attempt to control markets, money and accumulation through central bureaucracies in the interests of a presumed cultural community of national citizens.

The term neoliberalism is not particularly useful, but I try to lay out the history of modern money and why and how national currencies are in fact being replaced. That, to my mind, is a more precise way of describing the crisis than calling it neoliberal. On the other hand, neoliberalism does refer to the systematic privatization of public interests which has become normal over the last three or four hundred years. The bourgeois revolution claimed to have separated public and private interests, but I don't think it ever did so. For example, the Bank of England, the Banque de France, and the Federal Reserve are all private institutions that function behind a smokescreen of being public agencies.

It's always been the case that private interests corrupted public institutions and worked to deprive citizens of the ability to act purposefully under an ideological veil of liberty. But in the past, they tried to hide it. The public wasn't supposed to know what actually went on behind the scenes and indeed modern social science was invented to ensure that they never knew. What makes neoliberalism new is that they now boast about it and even claim that it's in everyone's interest to diminish public goods and use whatever is left for private ends—that's what neoliberalism is.

It's a naked grab for public resources and it's also a shift in the fundamental dynamic of capitalism from production for profit through sales to varieties of rent-seeking. In fact, Western capitalism is now a system for extracting rents, rather than producing profits. Rents are income secured by political privilege such as the dividends of patents granted to Big Pharma or the right to control distribution of recycled movies. This has got nothing to do with competitive or free markets and much opposition to where we are now is confused as a result. Sometimes I think western capitalism has reverted to the Old Regime that it once replaced—from King George and the East India Company to George W and Halliburton. If so, we need another liberal revolution, but it won't take place in the North Atlantic societies.

In your recent work, you refer to *The Great Transformation*, which invokes Karl Polanyi's famous analysis of the growth of 19th century capitalism and industrialization. How can Polanyi help us to make sense of contemporary global economy, and where does this inspiring work need to be complemented? In other words, what is today's Great Transformation in light of Polanyi?

First of all, *the Great Transformation* is a brilliant book. I have never known anyone who didn't love it from the first reading. The great message of Polanyi's work is the spirit in which he wrote that book, regardless of the components of his theory. He had a passionate desire to explain the mess that world society had reached by the middle of the 20th century, and he provided an explanation. It's always been a source of inspiration for me.

A central idea of Polanyi's is that the economy was always embedded in society and Victorian capitalism disembedded it. One problem is that it is not clear whether the economy ever was actually disembedded (for example capitalism is embedded in state institutions and the private social networks mentioned just now) or whether the separation occurs at the level of ideology, as in free market economics. Polanyi was not against markets as such, but rather against market fundamentalism of the kind that swept Victorian England and has us in its grip today. The political question is whether politics can serve to protect society from the excesses produced by this disembedding; or whether it lends itself to further separation of the economy from society.

And I would say that Polanyi's biggest failure was to claim that what happened in the 19th century was the rise of "market society". This concept misses entirely the bureaucratic revolution that was introduced from the 1860s onwards based on a new alliance between capitalists and landlords which led to a new synthesis of states and corporations aiming to develop mass production and consumption. Polanyi could not anticipate what actually happened after he wrote his book in 1944. An American empire of free trade was built on a tremendous bureaucratic revolution. This drew on techniques and theories of control developed while fighting a war on all

fronts. The same war was the source of the technologies that culminated late in the digital revolution. Karl Polanyi's interpretation of capitalism as a market economy doesn't help us much to understand that. In fact, he seems to have thought that bureaucracy and planning were an antidote to capitalist market economy.

If you ask me what is today's great transformation, I would prefer to treat the last 200 years as a single event, that is, a period in which the world population increased from one billion to seven billion, when the proportion of people living in cities grew from under 3% to around half, and where energy production increased on average 3% a year. The Great Transformation is this leap of mankind from reliance on the land into living in cities. It has been organized by a variety of institutions, including cities, capitalist markets, nation-states, empires, regional federations, machine industry, telecommunications networks, financial structures, and so on. I'm prepared to say that in the twentieth century national capitalism was the dominant economic form, but by no means all you need to know about if you want to make a better world.

I prefer to look at the economy as being organized by a plural set of institutions, including various political forms. The Great Transformation in Polanyi's sense was not really the same Great Transformation that Marx and Engels observed in Victorian England—the idea that a new economic system was growing up there that would transform the world. And it did! Polanyi and Marx had different views (as well as some common ideas), but both missed what actually happened, which is the kind of capitalism whose collapse constitutes the Great Transformation for us today. The last thirty years of financial imperialism are similar to the three decades before the First World War. After that phase collapsed, thirty years of world war and economic depression were the result. I believe the same will happen to us! Maybe we can do something about it, but only if our awareness is historically informed in a contemporarily relevant way.

The distinction between states and markets really underpins much of what we understand about the workings of world economy and politics. Even when we just say “oh, that's not economic” or “that's not rational”, we invoke a separation. How can we deal with this separation?

This state-market division comes back to the bourgeois revolution, which was an attempt to win freedom from political interference for private economic actors. I've been arguing that states and markets were always in bed together right from the beginning thousands of years ago, and they still are! The revolution of the mid 19th century involved a shift from capitalists representing workers against the landed aristocracy to a new alliance between them and the traditional enforcers to control the industrial and criminal classes flocking into the cities. A series of linked revolutions in all the main industrial countries during the 1860s and early 70s—from the American civil war to the French Third Republic via the Meiji Restoration and German unification—brought this alliance to power.

Modernity was thus a compromise between traditional enforcers and industrial capitalists and this dualism is reflected in the principal social form, the nation-state. This uneasy partnership has marked the relationship between governments and corporations ever since. I think that we are now witnessing a bid of the corporations for independence, for home rule, if you like. Perhaps,

having won control of the political process, they feel than can go ahead to the next stage without relying on governments. The whole discourse of ‘corporate social responsibility’ implies that they could take on legal and administrative functions that had been previously ‘insourced’ to states. It is part of a trend whereby the corporations seek to make a world society in which they are the only citizens and they no longer depend on national governments except for local police functions. I think that it is a big deal—and this is happening under our noses!

Both politicians and economic theorists ([Oliver Williamson](#) got a Nobel prize for developing [Coase’s theory](#) of the form along these lines) are proposing that we need to think again about what functions should be internal to the firm and what should be outside. Perhaps it was a mistake to outsource political control to states and war could be carried out by private security firms. The ground for all of this was laid in the late 19th century when the distinction in law between real and artificial persons was collapsed for business enterprises so that the US Supreme Court can protect corporate political spending in the name of preserving their human rights! Corporations have greater wealth, power and longevity than individual citizens. Until we can restore their legal separateness from the rest of humanity and find the political means of restricting their inexorable rise, resistance will be futile. There is a lot of intellectual and political work still to be done and, as I have said, a lot of pain to come before more people confront the reality of their situation.

What role do technological innovations play in your understanding and promoting of shifts in the way that we organize societies? Is it a passive thing or a driver of change?

I wrote a book, *the Memory Bank: Money in an Unequal World* (read it [here](#), with the introduction [here](#)), which centered on a very basic question: what would future generations consider is interesting about us? In the late ‘90s, the dot com boom was the main game in town. It seemed obvious that the rise of the internet was the most important thing and that our responses to it would have significant consequences for future generations.

When I started writing it, I was interested in the democratic potential of the new media; but most of my friends saw them as a new source of inequality – digital exclusion, dominance of the big players and so on. I was accused of being optimistic, but I had absorbed from CLR James a response to such claims. It is not a question of being optimistic or pessimistic, but of identifying what the sides are in the struggle to define society’s trajectory. In this case the sides are bureaucracy and the people. Of course the former wish to confine our lives within narrow limits that they control in a process that culminates as totalitarianism. But the rest of us want to increase the scope for self-expression in our daily lives; we want democracy and the force of the peoples of world is growing, not least in Africa which for so long has been excluded from the benefits of modern civilization. Of course there are those who wish to control the potential of the internet from the top; but everywhere people are making space for themselves in this revolution. When I see how Africans have moved in the mobile phone phase of this revolution, I am convinced that there is much to play for in this struggle. What matters is to do your best for your side, not to predict which side will win. Speaking personally, [Web 2.0](#) has been an unmitigated boon for me in networking and dissemination, although I am aware that some think that corporate capital is killing off the internet. A lot depends on your perspective. I grew up

learning Latin and Greek grammar. The developments of the last 2-3 decades seem like a miracle to me. I guess that gives me some buoyancy if not optimism as such.

It's obvious enough to me that any democratic response to the dilemmas we face must harness the potential of the new universal media. That's the biggest challenge. But equally, it's not clear which side is going to win. I'm not saying that our side, the democratic side, is going to beat the bureaucratic side. I just know which side I'm on! And I'm going to do my best for our side. Our side is the side that would harness the democratic potential of the new media. In the decade or more since I wrote my book on money and the internet, I have become more focused on the threat posed by the corporations and more accepting of the role of governments. But that could change too. And I am mindful of the positive role that some capitalists played in the classical liberal revolutions of the United States, France and Italy.

Final Question. I would like to ask you about the distinction between formal and informal economy which you are famous for having coined. How did you arrive at the distinction? Does the term, the dichotomy, still with have the same analytical value for you today?

Around 1970, there was a universal consensus that only states could organize economies for development. You were either a Marxist or a Keynesian, but there were no liberal economists with any influence at that time. In my first publication on the topic (*Informal Income Opportunities and Urban Employment in Ghana*, read it [here](#), pdf)—which got picked up by academics and the International Labor Organization—I was reacting against that; the idea promoted by a highly formal economics and bureaucratic practice that the state as an idea as the only actor. In fact, people in Third World cities engaged in all kinds of economic activities, which just weren't recognized as such. So my impulse was really empiricist—to use my ethnographic observations to show that people were doing a lot more than they were supposed to be doing, as recorded in official statistics or discussed by politicians and economists.

Essentially, I made a distinction between those things which were defined by formal regulation and those that lay outside it. I posed the question how does it affect our understanding in the development process to know more what people are doing outside the formal framework of the economy. And remember, this came up in West Africa, which did not have as strong a colonial tradition as in many other parts of Africa. African cities there were built and provisioned by Africans. There were not enough white people there to build these cities or to provide food and transport, housing, clothing and the rest of it.

In my book on African agriculture, I went further and argued that the cities were not the kind of engines of change that many people imagined that they were, but were in fact an extension of rural civilizations that had effectively not been displaced by colonialism, at least in that region. Now if you ask me how useful I think it is today, what happened since then of course is neoliberal globalization, for want of a better term, which of course hinges on deregulation. So, as a result of neoliberal deregulation, vast areas of the economy are no longer shaped by law, and these include many of the activities of finance, including offshore banking, hedge funds, shadow banking, tax havens, and so on. It also includes the criminal activities of the corporations

themselves. I've written a paper on my blog called "How the informal economy took over the world" which argues that we are witnessing the collapse of the post-war Keynesian consensus that sought to manage the economy in the public interest through law and in other ways that have been dismantled; so, it's a free-for-all. In some sense, the whole world is now an informal economy, which means, of course, that the term is not as valuable analytically as it once was. If it's everything, then we need some new words.

The mistake I made with other people who followed me was to identify the informal economy with poor slum dwellers. I argued that even for them, they were not only in the informal economy, which was not a separate place, but that all of them combined the formal and informal in some way. But what I didn't pay much attention to was the fact that the so-called formal economy was also the commanding heights of the informal economy—that the politicians and the civil servants were in fact the largest informal operators. I realize that any economy must be informal to some degree, but it is also impossible for an economy to be entirely informal. There always have to be rules, even if they take a form that we don't acknowledge as being bureaucratically normal like, for example, kinship or religion or criminal gangs. So that's another reason why it seems to me that the distinction has lost its power.

At the time, it was a valuable service to point to the fact that many people were doing things that were escaping notice. But once what they were doing had been noticed, then the usefulness of the distinction really came into question. I suppose in retrospect that the idea of an informal economy was a gesture towards realism, to respect what people really do in the spirit of ethnography. I have taken that idea to another level recently in [mywork on the human economy](#) at the University of Pretoria in South Africa. Here, in addition to privileging the actors' point of view and their everyday lives, we wish to address the human predicament at more inclusive levels than the local or even the national. Accordingly, our interdisciplinary research program (involving a dozen postdocs from around the world, including Africa, and 8 African doctoral students) seeks ways of extending our conceptual and empirical reach to take in world society and humanity as a whole. This is easier said than done, of course.

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Related links

- [Faculty Profile at U-London](#)
- [Personal webpage](#)
- Read Hart's *Notes towards an Anthropology of the Internet* (2004, Horizontes Antropológicos) [here](#) (pdf)
- Read Hart's *Marvel Mauss: In Pursuit of a Whole* (2007, Comparative Studies in Society and History) [here](#) (pdf)
- Read Hart's *Between Democracy and the People: A Political History of Informality* (2008 DIIS working paper) [here](#) (pdf)
- Read Hart's *Why the Eurocrisis Matters to Us All* (Scapegoat Journal) [here](#) (pdf)