

The Future of Work Is Informal

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This paper is a literature study on informal work. It is based upon the fact that informal work is prevalent in most parts of the world, especially in the Global South, where more than 80% of humanity lives. The paper first looks at work relations in the past and present in the Global North with special attention to the existence of a dual system where workers rights are less guaranteed for certain groups such as migrant workers or racial minorities, as well as the Global South, where workers rights have never been fully respected. The paper then turns to the rationale for informal work, grounded in four theories; the neo-liberal/dual economy school, the Neo-marxian/structuralist school, the legalist/institutional school and the voluntarist school. These theories also provide some insight into the business rationale for informal work, which seems very strong. The final chapter takes a look into the future and provides six reasons why the future of work will likely be more and more informal. It also makes suggestions for a new paradigm based upon recognition of the realities of worker rights in the Global South and how people cope with that. This may form the basis for more effective ways to promote workers rights.

Keywords: labour market, dual system, informal sector, migrant workers, labour economics

INTRODUCTION

In our research into business practices worldwide but particularly in the Global South, we found that the informal and possibly illegal character of many business practices is predominant yet largely ignored in business management literature (Dellevoet and Jones 2024). This is by definition true for the large, informal sector but also, with varying degrees, applies to the formal sector. There seem at least two explanations for this phenomenon: an economic rationale to reduce costs and increase profitability and a behavioral rationale where the business owner/manager wants to retain control and be as little as possible constrained by formal rules and regulations.

The informal business practices (IBP) encompass a wide range of business activities and indicators at the micro-level i.e. those practices that happen within the enterprise or in its relations with the direct business environment including employees, business partners, and financiers, clients, suppliers and (local) government.

In this paper, we would like to focus on the labor relations between business owners/managers and employees and explore the reasons behind the fact that, in many parts of the world, these relations are characterized by persistent informality (Mosoetsa 2012). Labor informality refers to employment that is not regulated or protected by the government, often characterized by lack of social security coverage, benefits and legal protections.

In the first paragraph, we will look at the nature of labour relations, past and present, both in the Global North, where the labour movement was critical in advancing workers rights, as well as in the Global South, where labour conditions were very different. Particular attention will go to the current situation where, instead of labour market systems of the North acting as models for development in the South, features of unregulated and informal labour markets associated with the South have increasingly been adopted in industrialized countries (Mosoetsa 2012).

Secondly, we will turn our attention to the business rationale behind informal work, both from the employers' and the employees' perspective. This paragraph will cover some of the theoretical explanations but highlight several recent developments in labour markets that seem to corroborate these theories.

Finally, we will take a look into the future and draw some lessons from the previous paragraphs. This will be followed by a critical analysis of some of the suggested solutions to reverse informal business relations and suggest elements of a new paradigm when dealing with informal work.

WORK, PAST AND PRESENT

When we think of the labor market, we can at least distinguish three different models: 1) the labour market in the Global North, particularly the highly developed countries in Europe, North America and the Far East, 2) Migrant labor in the Global North and 3) Labour in the Global South, especially the wide spectrum of low to medium developed countries.

The Global North

In the Global North, the roots of the labor movement can be traced back to the Middle Ages, when the guild system dominated organized labour in major cities. The guilds were expected to protect the interests of the owners, labourers, and consumers by regulating wages, prices, and professional standards (Priestland 2012). The system of guilds was succeeded by the labor movement during the industrial revolution in the late 18th and early 19th centuries when rapid industrialization led to harsh working conditions in factories and mines. Workers began organizing themselves in trade unions to advocate for better wages, shorter working hours and safer working conditions.

Throughout the 19th century, labor unrest was common as workers protested against exploitative working conditions. Strikes, protests, and sometimes violent clashes with employers and authorities marked this period. In the first decades of the 20th century, inspired by the anti-capitalist works of Karl Marx and Friedrich Engels, workers also started to organize themselves in "socialist" or "communist" political parties, which received significant support from the urban population. Through this mass mobilization, labor unions gradually gained legal recognition and secured labor market reforms. Political and civil freedoms such as those of assembly and expression, were guaranteed. In many European countries and North-American states, governments enacted labour laws that established minimum wages, limited working hours and improved workplace safety. In response to the great depression of the 1930's further social security legislation was passed that provided protection against unemployment and loss of income.

The labor movement continued to grow and diversify in the 20th century. Workers in various industries, including manufacturing, transportation and service sectors, organized themselves in unions and lobby groups and became part of the economic governance structures of post-World War II welfare states. The Labour movement also became increasingly international, with unions forming alliances across borders to advocate for workers rights on a regional and global scale. This led to recognition of civil liberties and social and economic rights, for example in the Universal Declaration of Human Rights, adopted by the UN in 1948, and a wide array of international organizations promoting workers' rights, including the International Labour Organization (ILO) which was established in 1919, the World Federation of Trade Unions (WFTU) in 1945 and the International Confederation of Free Trade Unions (ICFTU) in 1949 who merged in 2006 into the International Trade Union Confederation (ITUC).

However, throughout most of the 19th and 20th centuries, workers rights and benefits remained limited to the largely, white population of European descent. In Russia, serfdom in the rural areas was predominant and in the early 19th century small, urbanized, literate and skilled elements of the working class started to

organize themselves in unions and rapidly developed close ties with Russian Social Democracy. Continued repression by the Czarist regime led to radicalization and, after the Bolshevik revolution of 1917, they were quickly incorporated and subjugated to the communist party. In the following decades, Russian industrial workers gained social security and guaranteed jobs but no political and civil liberties (Richards and Share 1988).

In the United States, slavery was officially abolished in 1865, but institutionalized racial discrimination against African, Latin and Asian Americans continued until late into the 20th century. African American workers faced significant exclusion and discrimination from mainstream labour unions such as AFL-CIO, which white workers and leaders often dominated. The result was lower wages and less social security than those available for white workers. Progress was only achieved when the black labour movement joined hands with the civil rights movement in the 1950's (Foner 2018).

Migrant Labour in the Global North

Hence, throughout the 19th and 20th centuries, a dualistic system persisted in the Global North, where labour rights and benefits were unequally distributed between social and political classes and between races. This pattern received a significant boost during the post-World War II period of reconstruction and rapid industrialization of large parts of Europe and the United States, accompanied by higher education levels and affluence of the working population. As local labour markets suffered from severe shortages of cheap and low skilled labour, governments started to attract large numbers of migrant labourers from the Global South, those from Central America for the USA while Europe took in migrants from Northern Africa and the Middle East (Gozzini 2006).

Even though receiving countries' bureaucracies tried to manage the inflow of new migrants, labour conditions were often very poor; small, unhealthy work spaces, long working hours, low wages, no job security, limited access to social security and poor housing (see for example Pais and Marcolin 2024 on domestic workers in Italy). Local labour unions didn't see it as their task to defend the rights of these newcomers. They were at best reserved since they feared that the importation of cheap labour, would undermine their bargaining power and job security (Penninx and Roosblad 2000). In general, these migrant workers were poorly integrated in the post-World War II welfare states and societies, due to cultural, linguistic and educational barriers. In addition, few efforts were made by the host countries who considered the migrants as temporary immigrants. This led to their under representation in the political arena but also to their limited participation in civil society, including union membership which in many countries stood at less than 10% (Penninx and Roosblad 2000).

Since the end of the Cold War, increasing flows of migrants try to enter Europe and the USA via human trafficking. The International Organization of Migration estimates that in 2020 there were about 281m international migrants, including refugees, almost double the number since 1990. The smuggling exposes them to considerable risk en route, as witnessed each year by the hundreds of victims that perish in the Mediterranean Sea. Moreover, as they remain illegally in the EU, they are further at risk of exploitative recruitment and employment practices (Godeau 2003, Ryan and Zahn 2023).

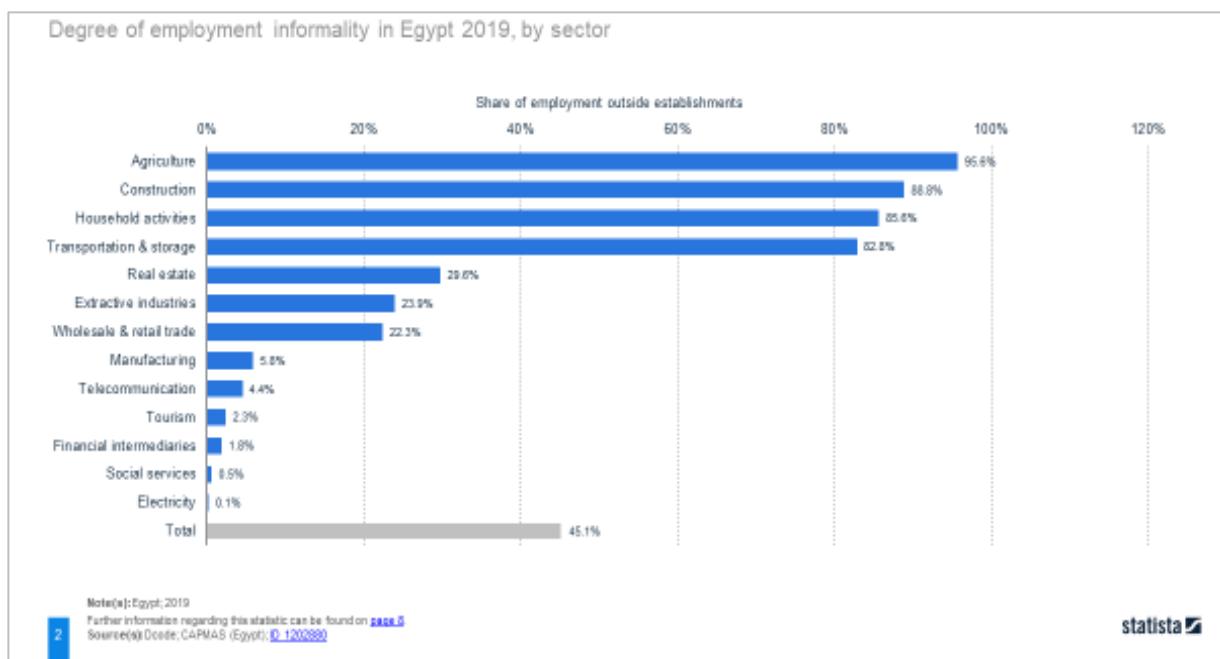
Thus, in the Global North, the dualistic system of, on the one hand, good labour conditions for the majority of the national workforce who are fully embedded in European societies and states and, on the other hand, poor labour conditions and discrimination for low class and migrant workers who remain at the fringes, remains in place (Kefferputz 2004 and Andall 2007). This offers numerous advantages for employers in labour intensive sectors of the EU and the USA. Recently, the Dutch Labour Inspectorate, a government agency, raised the alarm that the financial benefit of illegally employing migrant workers is too attractive for employers in many sectors such as agriculture, construction and the hospitality industry. In one of the cases, the labor costs for the employer would be 15,750 euros if work had been done according to the rules. The employer actually incurred costs (wages) of 6,240 euros. The benefit amounts to 9,510 euros. This is higher than the standard fine amount of 8,000 euros. The Labor Inspectorate also calculated the average 'payback period', a somewhat cynical term in this context, because the 'earnings' arise from law violations. In almost 90 percent of cases, this is less than 1 year. In 7 of the 24 situations studied, the 'payback period' is even 3 months or less (arbeidsinspectie 2024). This is likely the case for many developed

countries in the Global North. For example, Stansbury studied the incentives to comply with the minimum wage in the US and the UK and found that, in both countries, the costs violators face upon detection are often little more than the money they saved by underpaying. To have the incentive to comply under existing penalty regimes, typical US firms would have to expect a 47%-83% probability of detection or a 25% probability of a successful lawsuit. In the UK, typical firms would have to expect a 44%-56% probability of detection. Actual detection probabilities are substantially lower than this for many firms, and would likely remain so even with realistic increases in enforcement capacity (Stansbury 2024).

The Global South

Much of what happened in the Global North since the beginning of the Industrial Revolution bypassed the majority of countries in the Global South. The first reason is that the industrialization of these countries happened late, as in Asia, and in many cases remained limited in scale and scope as in Latin America, the Middle-East and Africa. Figure 1 shows the example of Egypt, where the principal employment can still be found in agriculture, while the manufacturing sector only accounts for less than 6%. The agricultural sector in most parts of the Global South is dominated by subsistence farmers or landless peasants who are mostly not or poorly organized. In Sub-Saharan Africa, subsistence farmers account for 80% of all the agricultural output.

FIGURE 1
SHARE OF EMPLOYMENT BY SECTOR IN EGYPT IN 2019



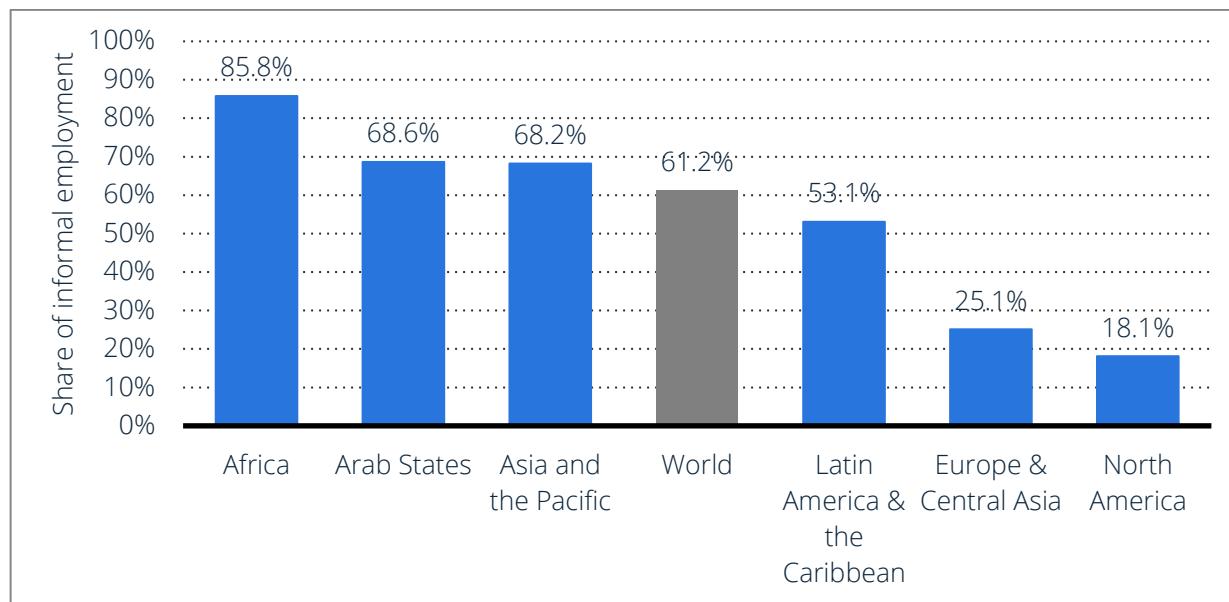
Source: Statista

The low level of industrialization also means low unionization. In regions like Central Africa, only 3,6% of formal workers are organized in unions, against 31,4% in Northern Europe (Amnesty 2024). However, there are exceptions. In some countries in the Global South, especially after independence in the 1960's, labor movements have historically played a significant role in advocating for workers' rights, organizing labor unions and influencing government policies. For example, medium income countries like Brazil, Argentina and South Africa, with a sizeable manufacturing and mining sector, have had strong and influential labor movements that were also closely connected to the more progressively left wing political elites in these countries (Schillinger 2005).

But low industrialization isn't the only explanation for low unionization. Another important factor is the nature of the political economy. In many parts of the Global South, labour movements faced numerous challenges and remained relatively weak, even after the colonial period. In many countries under autocratic, one party rule, mass mobilization of workers was either co-opted for political ends or actively suppressed (Adu-Amankwah and Otoo 2022, Bernards 2024). There were weak legal frameworks for labour rights, limited resources to organize and conduct strikes and fragmentation of the labour movement through divided leadership and bad management. The structural adjustment programs of the 1980's and 1990's meant a further weakening of the labor unions as state enterprises were shut down or privatized, social security schemes minimized and wages suppressed. The close ties with governments were severed or became contentious as unions tried to stand up for labor rights, but this also meant that they were no longer part of the political elites' patronage network (Bernards 2024). This led to lack of social protection, fair wages, rights at work and decent working conditions.

A third characteristic that hindered the labour movement in the Global South is the extent of informality. Figure 2 shows the share of informal employment as a percentage of total world employment.

FIGURE 2
SHARE OF INFORMAL EMPLOYMENT AS A PERCENTAGE OF TOTAL EMPLOYMENT
WORLDWIDE IN 2018, BY REGION



Source: Statista

According to the ILO, in 2018, more than 61 percent of the world's employed population earned their livelihoods in the informal sector. In all, 93 percent of the world's informal employment is in emerging and developing countries (Jirjahn 2025, ILO 2018). Education is a major factor affecting the level of informality. As the level of education increases, the level of informality decreases. In addition, people living in rural areas are almost twice as likely to be in informal employment as urban areas (ILO 2018). Other factors that explain the wide incidence of informality are reducing costs, lack of trust in government and low tax morale (Dellevoet and Jones 2024).

A fourth element is the nature and scope of globalization and the inclusion of the Global South in international supply chains. These chains are almost without exception, characterized by a formal front of compliance with rules and regulations, often at the market side in the Global North, and an informal backside of informality, minimal standards, and constant drive to lower costs, often at the production or supply side in the Global South (Jirjahn 2025, Dellevoet and Jones 2024 on inclusiveness). Rogan et al.

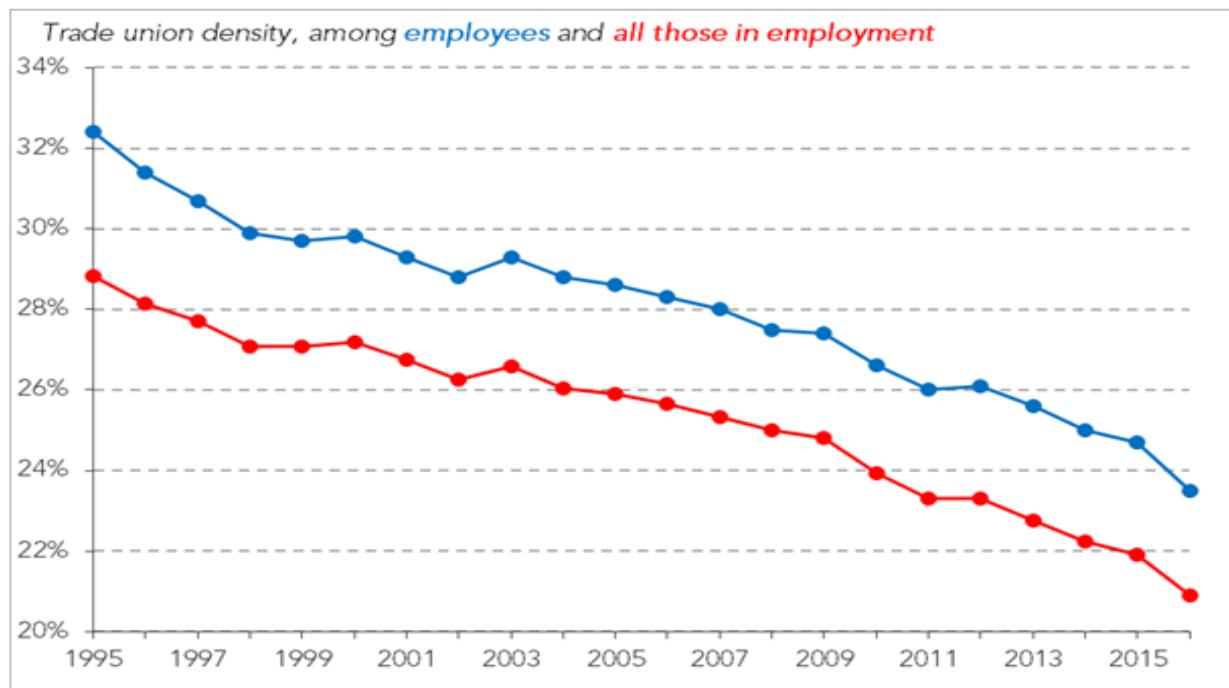
found that even the most marginalized workers in the Global South, such as home-based workers, street vendors and waste pickers are embedded in the formal economy. While they are not engaged in wage employment, they play subordinate but essential roles to both formal sector firms for the national market and global production networks (Rogan et al. 2017). These subordinate but mostly informal workers and service providers are a typical feature of global supply chains. Global supply chains have facilitated a significant shift in manufacturing from the Global North to the Global South with workers in developing countries producing almost half of the value of global manufacturing exports by 2015 (Free and Hecimovic 2021).

Thus, from a global perspective, one can observe a strong North-South Divide. Many of the achievements of the labor movement in the Global North have not been shared with migrant workers nor workers in the Global South. This North-South Divide has deepened in the late 20th and early 21st centuries. Due to demographic trends, the Global South is dominating the world population, more and more people are subjected to labor conditions typical for the Global South, such as informality, less pay, less job security and minimal social benefits. According to the Economist, the Global South already accounts for roughly 40% of world GDP and around 85% of the world's population (The Economist 2024).

Moreover, it seems that some of these labor conditions are also becoming more prevalent in the Global North. A telling example is the persistent problem of wage discrimination against women. Based on data from 80 countries, estimates by the ILO show that on average, women still continue to be paid around 20% less than men for similar jobs (ITUC Policy Brief 2023).

The erosion of worker bargaining power and collective bargaining have also led to wage suppression and the deterioration of labour's share of income. This development coincides with the decline of the labour movement since the 1990's (Michel et al. 2020) as can be seen from the example of the UK in figure 3 below.

FIGURE 3
TRADE UNION MEMBERSHIP IN THE UK



Source: Resolution Foundation 2017

The steady decline of union membership is due to multiple, interrelated factors such as:

- 1) Economic shifts from traditionally unionized sectors such as manufacturing and mining to services;
- 2) Globalization, the outsourcing of jobs to low cost countries in the Global South;
- 3) Employer opposition to unionization efforts by advocating for anti-labour legislation, intimidating workers, engaging in anti-union propaganda or implementing union-busting tactics (Mishel et al 2020, Evans et al. 2023);
- 4) Technological advancements leading to the platform economy, automation and increased application of robotics and AI technologies, which renders many old jobs obsolete (Gatune and De Boer 2024, Sander 2024);
- 5) Declining membership as attitudes among workers change leading to individualism, skepticism towards collective action, perceptions of unions being outdated or ineffective and free riders behavior (as benefits that were negotiated by the unions with government and employers apply to the whole sector anyway) (Kremer and Engbersen 2020);
- 6) Changing composition of the workforce, including the rise of the platform and gig economy and more high-tech, specialized, foreign workers as well as independent contractors, whose number dramatically increased after the 2007 financial crisis and the 2020 COVID crisis, when many workers were laid off (Gatune and De Boer 2024).

Thus, the legal and policy foundations for worker rights and benefits are weakening, even in the Global North (Rodriguez and Lucio 2023).

THE RATIONALE FOR INFORMAL WORK

Theoretical perspectives on informal work are similar to those on the informal economy in general. The neo-liberal, dual economy school asserts that less developed countries have two different sectors. One is capitalist, modern, progressive, dynamic and depicted as capital-intensive. The other is the “subsistence” or “peasant” sector, pre-capitalist, reliant on family labour, unsophisticated in its production and operations, low technology use and low productivity, activities that are seen as distinct from- and not related to the formal sector (Lewis 1954). Over the course of the twentieth century, modernization theory argued that the informal sector was about to disappear anyway with economic development and the application of the Rule of Law. Governments can assist in this modernization process by investing in education and providing credit and business development services for informal workers to get the qualifications they need to find formal employment or start businesses (Dell’Anno 2021).

This view was challenged by the Neo-marxian, structuralist view that sees the informal economy as subordinated economic units (MSME’s) and workers that serve to reduce input and labour costs and, thereby, increase the competitiveness of large, capitalist firms (Castells and Portes 1989). Capitalism drives informality, specifically the attempts by formal firms to reduce labour costs, minimize the power of organized labour, and increase (global) competitiveness. Formal and informal economies are intrinsically linked. Governments should address the unequal relationship between “big business” and subordinated producers and workers by regulating both commercial and employment relationships and stimulating organized labour (Kanbur 2009, Evans et al. 2023).

The legalist/ institutionalist schools of thought put more emphasis on the worker. They see the informal sector as comprised of micro-entrepreneurs who choose to operate informally to avoid the costs, time and effort of formal registration and who need property rights to convert their capital into legally recognized and tradeable assets (De Soto 2000). The legalist/institutionalist school also acknowledges that big, formal firms collude with government to set the bureaucratic “rule of the game”. They argue that governments should introduce simplified bureaucratic procedures to encourage informal enterprises to register and extend legal property rights (De Soto 2000).

Finally, the voluntarist school also focuses on the workers as micro-entrepreneurs who deliberately seek to avoid regulations and taxation in order to maximize their financial benefit. They believe workers are not victims of cumbersome regulations but base their decisions on a rational cost-benefit analysis. The voluntarists pay little attention to the economic linkages between informal and formal enterprises but hold

the notion that informal enterprises create unfair competition for formal enterprises because they avoid formal regulations, taxes and other production costs. They argue that informal enterprises should be brought under the formal regulatory environment by providing incentives to increase the tax base and reduce unfair competition to formal businesses (Chen 2012).

While the neo-liberal/dualistic and neo-marxist structuralist schools view informality-whether understood as a labour relation or as a characteristic of the firm, sector or the economy as a whole- as inherently exploitative, the legalist/institutionalist and voluntarist schools of thought envisage informal employment as inherently dynamic and a means of individual accumulation. All of them seem to have in common that both employers and employees seem to have good reasons to stay informal.

Indeed, the business case for labor informality can be very strong for various reasons:

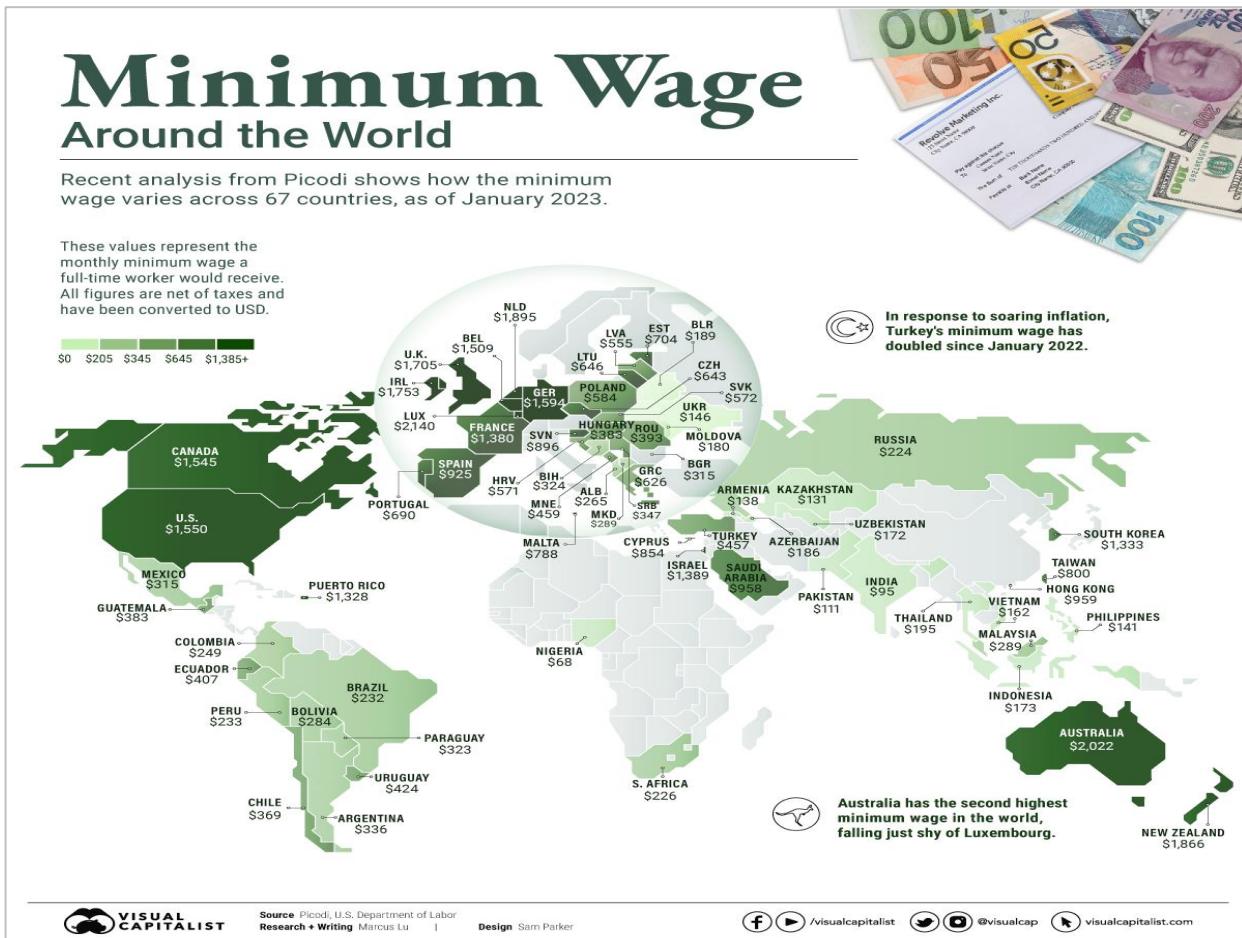
1. Cost reduction. Labour costs as part of a business operational costs can vary widely across different countries, time periods, and economic conditions. However, as a rule of thumb, Labour costs in agriculture tend to be a smaller proportion of the total costs, especially in highly mechanized systems. Agriculture often relies heavily on machinery, land, and other inputs. In less mechanized or labour-intensive systems, the proportion of labour costs might be higher. However, globally, agriculture often has lower labour costs compared to the other sectors due to seasonal work, informal work and lower wage rates in many parts of the world. On average, it can be assumed that labour costs can vary between 10-20% of operational costs in commercial agriculture (USDA 2021).

In the industrial or manufacturing sector, labour costs are typically a more significant proportion of total costs than in agriculture, but they are often lower than in the services sector. This is because manufacturing involves both (low skilled) labour and substantial capital investment in machinery and equipment. The exact proportion can vary greatly depending on the industry and the level of automation, but it may be assumed that, in general, labour costs could amount to 20-30% of operational costs (Paycor 2024, KPMG 2020).

Labour costs in the services sector are generally the highest proportion of total costs compared to the other two sectors. Services tend to be more labour-intensive, with businesses relying heavily on human skills and expertise. In this sector, labour costs could be as high as 30-50% of operational costs. It includes a wide range of activities, from retail and hospitality to tourism, finance, healthcare, and education, where skilled labour plays a crucial role (Terzioglu and Chan 2013, Pais and Marcolin 2024).

Informal employment allows businesses to reduce costs associated with formal employment such as taxes, social security contributions and compliance with labor regulations (i.e. working hour restrictions, health and safety standards). In India, social security schemes include the Employee provident fund (EPF), health insurance and medical benefits, disability benefit, maternity benefit and gratuity. These social security schemes may cost an employer up to 15-16% percent per basic salary, but in case of sickness or work related accident more than 50% of the basic salary (Dezan Shira & Associates 2024). It is much cheaper to just send the employee home and hire them again once they have recovered. Similarly, quite a few countries in the world have established minimum wages as seen from Figure 4 below. However, offering salaries below that level remains tempting, particularly when jobs are scarce, or supplement these with non-salary benefits such as food. Hence, reducing these costs can significantly lower operational expenses and increase profitability, especially for MSME's with smaller output and limited resources.

FIGURE 4
MINIMUM WAGES AROUND THE WORLD 2023



Source: *the visual capitalist*

2. Competitive advantage. By reducing costs and increasing flexibility, businesses operating in the informal sector may gain a competitive advantage over formal competitors. This advantage can enable them to offer lower prices, attract more customers and capture market share, particularly in industries where price sensitivity is high (Rozo and Winkler 2010);
3. Flexibility. Informal arrangements offer businesses greater flexibility in adjusting their workforce in response to fluctuating demand and market conditions. Since informal workers are typically not bound by formal contracts or regulations, businesses can hire and terminate them more easily, avoiding the administrative burden and costs associated with formal employment, especially in (formerly socialist) countries where workers often get the benefit of the doubt in labor conflicts (Pais and Marcolin 2024, Singh 2010).

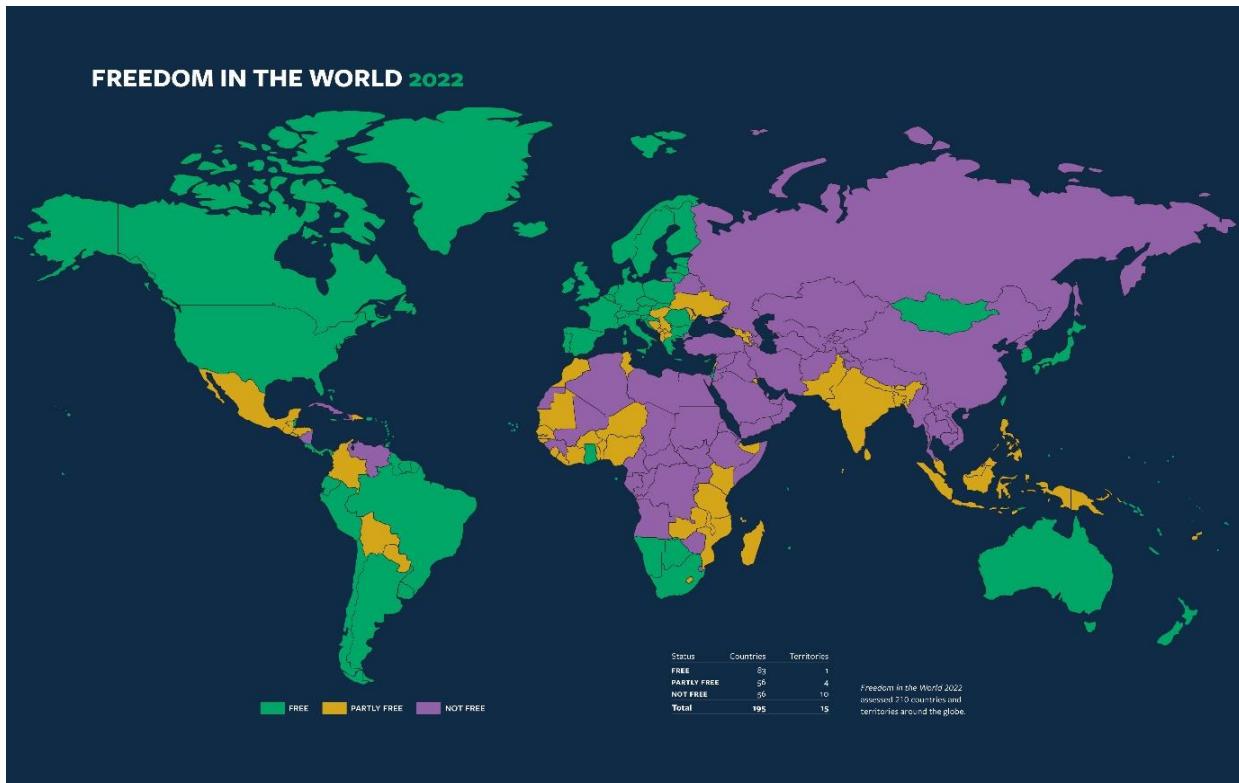
THE FUTURE OF INFORMAL WORK

As we have seen from the labor movement in the Global North, the advancement of labor rights and its embodiment in laws and regulations, didn't come as a benevolent gift from those in power or stemmed from a widely shared notion of the "social contract". It resulted from a protracted and often conflictual process of political emancipation of the working class against the more privileged classes of nobility,

commerce, and industry (Priestland 2012, Evans et al. 2023). This type of mass mobilization is hard to envisage in most parts of the Global South for various reasons:

1. The structure of the economies hasn't fundamentally changed as most economies are still heavily dependent on extractive industries and primary exports, often dominated by large, foreign companies who have little interest in dealing with local, organized labour (Todaro and Smith 2015). The industrial sector is still relatively small as most workers in the urban areas seek their livelihood in informal services, except for South- and East-Asia where the factories of the world are located.
2. Most societies in the Global South, and increasingly so in the Global North as well due to immigration, are a mosaic of different identities along ethnic, cultural, religious and racial fault lines. These divisions are often felt more strongly than divisions based on class or labor relations, which is one of the reasons why the labor movement is so often fragmented (Adu-Amankwah and Otoo 2022, Jirjahn 2025). In the absence of protection from an organization they can identify with, workers tend to seek individual arrangements that suit them and the employers well but deprive the state and collective social insurance schemes of revenues. A typical example is the phenomenon of "envelope wages" in large parts of Eastern Europe (Dellevoet and Jones, informal business practices, 2024). This is a way of remuneration where formal, registered salaries and benefits are kept at the minimum to reduce tax and social benefits liabilities, while supplementary salaries are handed over directly to the employee outside of the bookkeeping of the firm.
3. In line with the export-oriented industrialization strategies of the Newly Industrialized countries (NIC's) in the 1960's and 1970's, the structural adjustment programs of the 1980's and 1990's and the advent of neo-liberal ideologies in the 2000's, the governments in the Global South have consistently prioritized attracting foreign direct investment and promotion of export-led growth over the protection of workers' rights (Evans et al. 2023). As Chang pointed out in the case of South-Korea, the social cohesion between the political and economic elites around economic objectives deliberately excluded the popular classes and in fact tended to silence dissenting voices and was pro-capital (Chang 2012).
4. These governments are also often autocratic and ruled by a narrow political elite which is still very apprehensive of mass mobilization which they can't control. As can be seen from figure 5, most parts of the Global South are either not or partly free. This includes suppression of political and civil rights, such as the right of assembly and organization and the right of expression, which are so critical for the labor movement. The ITUC Global Rights Index 2017 ranks countries against 97 internationally recognized indicators to assess where workers' rights are best protected in law and practice. The report's key findings include:
 - a. Eighty-four countries exclude groups of workers from labor law.
 - b. Over three quarters of countries deny some or all workers their right to strike.
 - c. Over three quarters of countries deny some or all workers collective bargaining.
 - d. Out of 139 countries surveyed, 50 deny or constrain free speech and freedom of assembly.
 - e. The number of countries in which workers are exposed to physical violence and threats increased by 10 per cent (from 52 to 59 countries) and include Colombia, Egypt, Guatemala, Indonesia and Ukraine.
 - f. Unionists were murdered in 11 countries, including Bangladesh, Brazil, Colombia, Guatemala, Honduras, Italy, Mauritania, Mexico, Peru, the Philippines and Venezuela.

FIGURE 5
FREEDOM OF THE WORLD 2022

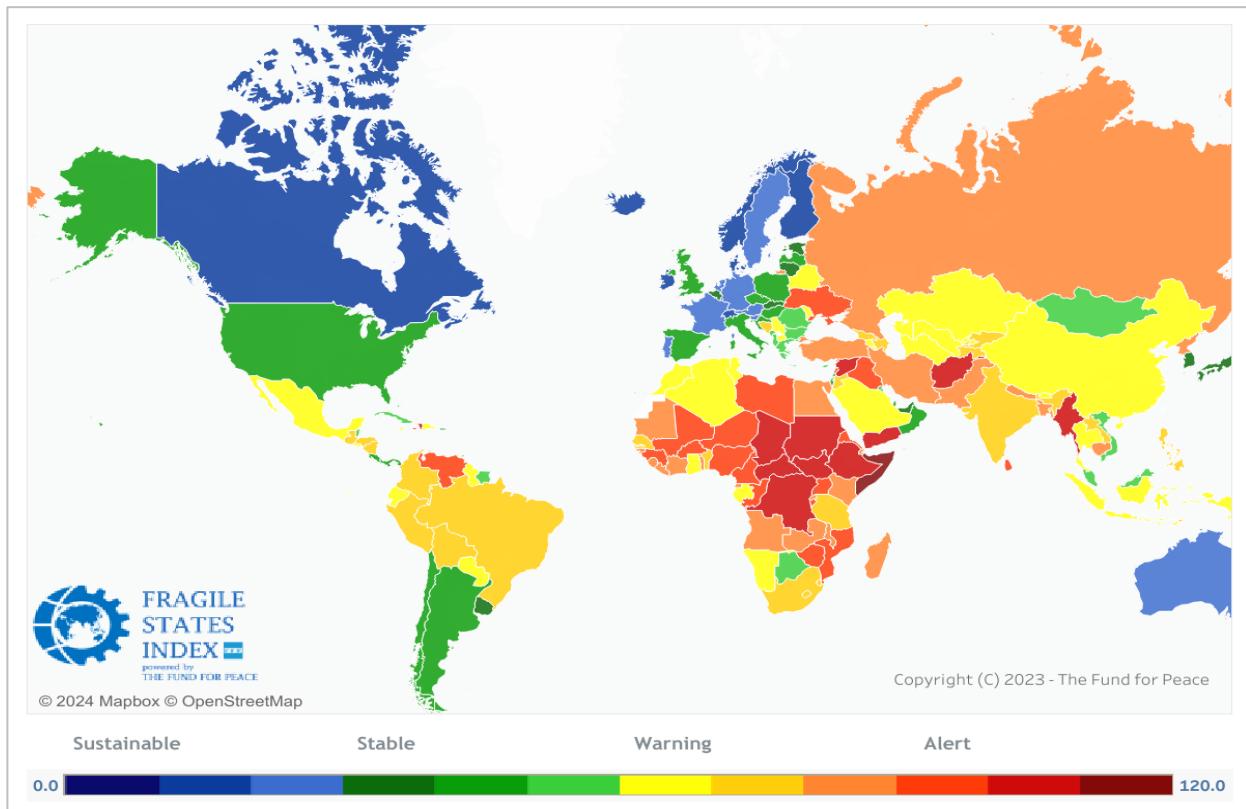


Source: Freedom House

As we saw under paragraph 2, the labor movement is not just a social but also a political organization to further workers' interests. Hence, the political space is likely to remain very limited, which makes union membership less attractive or outright dangerous. As mentioned before, this is exacerbated by the lack of unity and poor leadership among the labor movement in the Global South (Adu-Amankwah and Otoo 2022).

5. The current model and economic rationale of global supply chains, as described under paragraph three seems to be so strong that it has rebound after the financial crisis and COVID, despite many observers who thought that globalization was ending (Altmann and Bastian 2023). Hence, informal relations between subordinates and off takers in these supply chains will continue.
6. Informal work relations are in many cases the result of non-implementation of labor laws, which often exist, but no more than a paper reality. As Perez and Gandolfi pointed out in the case of Peru, weak and incompetent government bureaucracies are rarely interested or capable of applying the law (Perez and Gandolfi 2024). Figure 6 shows the state of fragile states in the world. It is based, amongst others, on economic indicators such as uneven economic development and political indicators such as human rights and rule of Law. Similar data can be found in the Rule of Law Index of the World Justice project.

FIGURE 6
WORLD OVERVIEW OF FRAGILE STATES 2024



Source: *The Fund for Peace*

In view of these persistent realities, it seems that calls from development organizations to stimulate the formalization of labour through a range of “stick and carrot” policies such as subsidies, fiscal incentives, deregulation, capacity building, advocacy campaigns and stronger enforcement will likely be ineffective. They presuppose a strong government that is often absent.

Similarly, the appeal by the ILO, OECD and other organizations for a renewal of “the social contract” (Mosoetsa and Williams 2012) seems to largely ignore the realities in the labour market, especially in the Global South, as described above. How can such a contract come about when the business sector is not interested, civil society is fragmented and disorganized and the state can’t even fulfill its basic duties such as providing security and public services?

A New Paradigm

These approaches mentioned above, are too Euro-centric and too dualistic between formal and informal. A way forward could be to see labor relations across the globe in a new light, instead of black and white, they are shades of grey. Some of the elements of this new paradigm could be:

1. Formal and informal work relations exist in the same sector and organization and there may be very logical business reasons for that (for example to keep labor costs affordable or increase competitiveness for the company to survive). As we saw, there is even an informalization of formal labor going on in the Global North. The lack of regulation of labor laws is also a form of regulation as it is intentionally conceptualized and designed in such a way that it creates flexibility and pragmatism so businesses can rapidly adapt to ever more volatile changes in market conditions (Bieler and Nowak 2021).

2. Focus on livelihoods, not on wages and social security. Even the concept of “living wages” (i.e. wages that afford a decent way of living) sympathetic as it may be, seems to raise the bar beyond what companies are willing or able to pay (ETI 2024). The poor have never had a decent income from their undervalued labor, and this is not about to change. They have always coped in different ways, such as working longer hours or taking second jobs. What matters are the availability of opportunities to gain an income from these various activities. Despite all the criticism, the evidence is mounting that Globalization i.e. trade and global integration, have raised incomes across the world, while dramatically cutting poverty and global inequality (Revenga and Gonzalez 2024).

Similarly, it is questionable if pension schemes and other social benefits are important to workers, especially in the Global South. The life expectancy is much lower than in the highly developed countries, while the effective retirement age is kept at the European average of about 65 years (WEF 2023). Besides that, many retired workers haven’t saved much or don’t get access to their benefits due to bureaucratic obstacles and bad administration so trust is low. According to “The Conversation”, only 19.8% of people above statutory retirement age receive a pension in sub-Saharan Africa, and just 8.9% of the labor force is covered by pension schemes. This is much lower than the global average where 77.5% of people above statutory age and 53.7% of workers have pension coverage (The conversation 2024). The familiar mechanism for workers in many parts of the Global South is to keep working and depend on the family.

3. Work is more hybrid i.e. independent of time and location. Due to digitization, e-commerce and other technical appliances, working from home or in the neighborhood will become more and more common. This will be especially noticeable in the services sector, but may also apply to textiles and other, small industrial work as part of an (international) supply chain (SER 2022). This could also imply that working hours are no longer fixed and that family members, including children, may lend a helping hand. In the agricultural sector this is in fact very common.
4. Collective bargaining through unions at the sector or national level is more and more a thing of the past. It has always been questionable to place labor unions at the center as the only institutional expression of labor interests, as was the European experience. In the two most populous countries in the world, India and China, there are either no trade unions -China- or only a tiny section of workers are organized in trade unions -India-. In other countries of the Global South, too, trade unions are in many cases only present within the public sector and special professions and the majority of informal workers are often organized in other forms of association such as “Trust” or “informal enterprise” networks (Aidi 2022, Meagher 2010). Workers in the Global North and the Global South don’t affiliate themselves anymore with a single employer, career or sector, especially male, younger workers in the private sector. They seek more flexibility and individual solutions. Independent contractors may have to set different rates for their services and include specific contributions to their social benefits per client or employer. However, there is power in numbers, but perhaps better achieved at the community level, as a broader social movement, or the micro-level, in the same company (Pais and Marcolin 2024). A starting point could be realizing that about 98% of all businesses are Micro, Small and Medium size Enterprises (MSME’s) and 60-70% are family businesses. In such a setting, labor relations are social and personal, informal relations rather than rights and duties, where there is a sense of loyalty, joint responsibility and fairness. When these relations break down, workers simply move on. In many cases, these labor relations are in fact regulated by explicit or implicit understandings and rules which are clear to all workers inside the company. Issues such as safe working conditions may very well be better solved in such a context than by government regulations and enforcement.

CONCLUSION

Informality persists and is rising in many places, both in the Global South and in the Global North. The preconditions that led to the labor movement and worker rights in the Global North are largely absent in the Global South. Fundamental changes in the labor market, such as the shift to a largely services-based economy, globalization and international supply chains and the advent of digital technologies, have all contributed to the continuation of informal and often individual work arrangements, contrary to what the neo-liberal modernization scholars thought. The business case for informal work is very strong as it is very attractive to reduce labor costs and social benefits contributions which form a significant proportion of operational costs in industry and the services sector. These developments are so powerful that even in the Global North, migrant workers, and increasingly local workers such as independent contractors, are also subject to more informal work arrangements. Calls for government intervention and a new social contract from civil society and international organizations such as the ILO, don't seem very convincing as they are based upon the European experience of the late 19th and 20th century. The labor movement in the Global South is much weaker, barely tolerated and repressed.

What can be done to counter the negative consequences of this reality such as worker exploitation? It seems to me that pressure from Western donors and multilateral institutions upon governments in the Global South to respect workers' rights will be ineffective, as these governments have a strong interest in attracting FDI in a highly competitive, global market. Western governments may also lack the legitimacy to defend workers' rights since they allow more informal and exploitative worker relations in their own countries, especially towards migrant workers, and also host the multinational companies that benefit from the violation or minimization of workers' rights in the Global South.

Change must come from within. If there is a lesson to be learnt from the European experience, it is that labor rights aren't awarded but need to be conquered. This requires a well-organized, labor movement in combination with political representation, as happened with some success in Latin America and South-Africa. Given the low membership base, fragmentation and poor leadership of unions, this will be a long-haul process. In this process, they don't need to stand alone. Western CSO's could more pro-actively support the mobilization of civil society in the Global South, first of all by recognizing that a paradigm shift about work in the Global South is needed that moves away from Western, normative frameworks such as political and civil liberties, workers rights and living wages, towards a focus on opportunities for making a living and non-union forms of social organization. Secondly, by offering support to counter fragmentation and stimulate broad-based movements that supersede ethnic, racial, religious and cultural boundaries. This way, full respect of workers rights are not a precondition for aid or support, but rather the outcome of it, in the long run.

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