Informal Economy: Cultural or Compulsion?
(Study of the Emergence of the Informal Economy in Urban Area in Java, Indonesia)

Bahtiar Fitanto*, Nurman S. Fadjar**

*Economics and Development Studies Department, Brawijaya University, Indonesia, Email: fitanto@yahoo.com
**Economics and Development Studies Department, Brawijaya University, Indonesia, Email: nsfadjar@yahoo.com

ABSTRACT: City can appear to be a strong economic attraction because city as a center built and accumulate various economic factors. This paper aims to look at whether the informal economy is a cultural or compulsion by examining the emergence of the informal economy in urban areas in Java, Indonesia. The phenomenon of rapid accretion of household and the slow expansion of land in rural areas resulted in the limited agricultural land will bring a result of unemployment so that they move to cities working as laborers, working in informal sector jobs that do not need capital and skills in the city. The informal sector is often regarded as the entrepreneurial spirit that is already there in the city within the individual migrants so that they consciously go into the informal sector because it has been a goal since the beginning of them to earn a livelihood and their fate in the urban areas. There is patronage system, namely the existence of the migrants from the countryside tend to follow the patron in choosing jobs in the informal sector. Cultural factors that gave rise to the informal sector in urban areas are the presence of Javanese culture that is “tanting” (as a helper or apprentice). In addition, also recognize the concept of Javanese culture “bebord”, i.e. the activity to go into town to work (migration).

KEYWORDS: urban bias development, informal economy, patronage system, Javanese culture

PROLOGUE

The meaning of industrialization which is often interpreted as a transformation of the primary economic order to the secondary economic order followed by various strategies eventually come to various biases policies such as urban-biased development (urban bias). This kind of policy model make the government speed up development by placing the city as development center in such a way to be very attractive in economics. On the other hand similar policy is putting traditional rural sector as suburb sector which its role is still in recognition process.

Then the story on large-scale urbanization of agricultural workers with high expectations to go into modern urban sector starts. Higher wages and social status promises are given along with increasing industrial development in urban areas. This is a reality that is promised by the industry as leading sector and be a convincing story in many developing countries.

However, it cannot be assumed that simple. Some academics say that urbanization from rural to urban areas is happened not only because of the strong city's economic attractiveness, but the economic problems in rural force them to earn money in city. The excessive workforce will eventually lead to the urban informal economy, although it is not the only reason.

DEFINE URBAN INFORMAL SECTOR

The first opinion on informal sector was written by Keith Hart, a British anthropologist in 1973. Observing the city of Accra and Nima (Ghana), Hart found that the employment in the city is divided into three categories, i.e. formal, informal and illegal. Each category is classified based on individual activities, income and expenditure. In addition, the difference between formal and informal sectors can be seen from the work regulation, company relationship, time, and legal status.

Hart formulation then becomes a very significant contribution to understand activities of poor people in the city, although in fact it is very difficult to draw a line between legal and illegal activities in
informal sector. Hugo (in Manning and Effendi, 1985) said that it was more confusing to distinguish legal and illegal activities. During his study in Indonesia, he found many illegal activities in formal sector in Jakarta.

Hart concept of informal sector was developed by ILO by conducting research in 8 cities in developing countries, i.e.: Free Town (Sierra Leone), Lagos and Kana (Nigeria), Kumasi (Ghana), Colombo, Jakarta, Manila, Cordova and Campinas (Brazil). The results shown that most of informal sector workers were poor, prime age, not educated, below minimum wage standard, low-capital business, and this sector might cause vertical mobility.

In other section, Dipak Mazumdar wrote about "segment" of labor markets in the city. His research tried to explore how dualistic urban labor markets in developing countries. His results of analysis found that based on the secondary data analysis on income workforce in various countries, workers in tertiary sector and workers who ran their own business got various income, and there was no evidence that their total income were lower than the group of labors and employees who normally were classified in the formal sector. According to Mazumdar, poverty is not necessarily a characteristic of informal sector workers, and as Papanek wrote based on a survey of 'poor' people in Jakarta, their average income are much higher than they were in villages.

SECOND WAVE INVOLVEMENT: FORCED OPTION

The more advanced economic development the more established the transportation means in line with better development of infrastructure, that is roads. Because of the transportation construction, no need to worry about being isolated. Public transportation can reach rural to remote areas, going through the slopes and hills in agricultural areas. Then, the coming of transportation institutions (motorcycle taxi which is usually called "ojek") isolation problem among villages have been solved. Ojek can go through narrow streets, rice field, so that connection between two villages can be more quickly.

In line with structural changes in transportation, the quality of rural formal education has improved. The education level of each family members increases because education development spread throughout the country. This situation encourages better mobilization of the workforce, while the labor markets between rural and urban areas are more integrated and influence each other. The Increase of structural transportation change is followed by improving rural formal education quality (Kasryno and Suryana, 1988).

Both structural changes brought impact on rural economic structure, namely: (a) Accessibility (openness), to increase both phisical and information development among rural areas (b) Rural labor force with higher education.

Both structural changes increasingly make farmers more critical in running their farming business. Farming is no longer a family farm which have dominant use of human resources within family member and minimum input to buy but it was aiming at the commercial farm or agribusiness. The farm is to meet family needs as well as market orientation. Those structural changes influence the rural employment along with their higher formal education.

Another possibility which decrease the primary sector workers maybe related to change of mind set of rural youth, especially for the educated one. It seems they are reluctant to work in agriculture, because the work is assumed to have lower status. Apparently, most of them are more interested in tertiary sector in urban areas.

The gap between modern sectors in urban areas and rural traditional sector is disadvantage for rural labors. Thus, the theory that stated the labors supply in poor countries and developing countries are unlimited actually cannot be justified by determining minimum requirement to work in the modern sector in urban areas. It is true that labor force is very high, however, setting minimum requirement on education and skill will decrease the number of labor force to find a job in modern sector.

The high urbanization will cause more problems on the labor force. Rather than solving problem of unemployment in urban areas, the high number of labor force would burden the city with all complexity of its problems. As a matter of fact the role of informal sector employment is a safety valve to accommodate over supply labor force that is not accommodated by the modern sector. This is the first thesis of the emergence of informal sector.
INFORMAL ECONOMY NON-STRUCTURAL

In addition to urging the problems of economic structure, there some more things we need to review as the reason for the emergence of the informal sector. In second thesis, the emergence of the informal sector is often considered a core of entrepreneurship that is already in most migrants. In fact, many informal sector workers who then are reluctant to return to their job in agricultural sector they have left when they decided to migrate. Self confidence and strong desire to come into informal trading sector in urban areas are much stronger than the desire to go back to the village. Rachbini (1994) explained there are three reasons why people with entrepreneurial ethos drawn into informal sector. Firstly, almost no formal procedures in establishing businesses in this sector, meaning to say no cost and not take a long time; secondly, small capital requirement, and thirdly, the profit potential is quite good.

Those reasons make people are relatively easy to tap into the informal sector. It is a little bit different from informal workers who came from rural areas. Among them only a few want to go to the informal sector because they failed to take formal sector. The rest are consciously go into the informal sector because it has been their goal to earn money since very beginning, to try their fortune in urban areas.

Third, some of the informal sector in urban areas is a form of business diversification because informal sector seems to generate challenges revenues. For example, people who have stores, after the stores closed, then they open informal businesses in front of their shop. Some wives / husbands of employees who run business to meet their needs, which depend on wife or husband salary before. In this context, the informal sector is as a family economic buffer in the formal subsistence sector. This indicates that the salary structure in the formal sector is also the cause of informal sector enterprises.

The fourth factor is that the system of patronage. Most migrants from the villages tend to follow the patron in choosing a job in urban informal sector. For example, if the patron is soup selling, then they will also be a soup seller. This occurs because of the apprenticeship program for newcomers or be an assistant in the sector. It means they go to be part of an informal system and they get new experiences. The owner’s success story inspire them to be successful.

The fifth factor, called the emergence of the informal sector as the gray side of the formal sector. The nature of the informal system is a pillar of the existing formal employment. The existence of this informal sector is because the formal sector workers need it. Cultural factor is the sixth factor that allowed the emergence of informal sector. We have heard the term tanting (a helper or apprentice). In Java language, tanting means assist to pull upward by hand). The system is the most effective invitation from rural to urban. Besides, the Javanese are also familiar with the concept of beboro, an activity to go to the city to work (migration). Beboro migrants usually invest their income to the village, in order to plan their pension to return to the village. As they want to die and be buried in their village, so that their bones will not be separated from the ancestors. The remaining of investment to the village then will be used as an investment in the city.

Another cultural concept is rantau (go to new areas to earn money). The concept merantau belongs to Padang people. Unlike beboro, rantau concept means new areas, such as colony and there is no requirement to return to Darek, but there is an obligation to assist the Darek development. Darek provide rantau as a natural part of Minangkabau identity as well as human resources for its expansion.

CONCLUSION

The existence of the informal sector can be a blessing as a safety valve against excessive unemployment, but it can also be a complicated issue in the development if it is not resolved properly. The emergence of slums and other social issues can follow the informal sector issues related to poverty.

However, working in the informal sector is not only a forced choice. It is noted there are several other factors to trigger the emergence of informal sector. For example, because the seeds of entrepreneurship is embedded in the minds of many migrants, business diversification, patronage, alongside the formal sector, and the cultural also influence somebody to enter the informal sector.
REFERENCES