

Title: The Lessons of Polanyi & Chayanov for the Conception of the Informal Sector

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Abstract

Far from withering away, the informal sector continues to occupy an important place within economies in general, and within the so-called developing economies in particular. This phenomenal persistence has forced economists to take note of, and explain the informal sector. Adherents of the dominant neoclassical economic theory have conveniently ventured into this domain to do away with its distinguishing characteristics and to explain it as if it were no different in essence or functioning from the market economy. Paraphrasing Polanyi, obsessed with the “obsolete market hypothesis”, they pretended they identified markets where there were actually none. In contradistinction, if we are truly respectful of the distinguishing attributes of the informal sector, then this would also provide us with a spring-board to attempt a thorough critique of some of the highly-flawed fundamental assumptions of the orthodox approach. This paper will dwell upon elaborating an alternative institutional economic approach to the informal sector by scrutinizing the works of Polanyi and Chayanov. Polanyi’s work will help us to place the informal sector within the overall context of a market economy without necessarily dissolving its characteristics into market mode, market logic and gain-motivated agencies. Given this macro positioning, we will then approach Chayanov’s work to illustrate, first, how his macro conception overlaps with that of Polanyi, and secondly, how the micro-level elaboration of agents and activities within the informal sector can in fact be further improved by recourse to his specification of peasant family farming mode. Therefore, a synthesis of the now-classic works of Polanyi and Chayanov can offer a way out from the impasse of neoclassical economics in explaining the informal sector.