

Conceptualizing Economic Marginalization

Key-notes for the Living at the Margins Conference
Cape Town, March 26, 2007

Ravi Kanbur*

www.people.cornell.edu/pages/sk145

April, 2007

Introduction

What exactly is “economic marginalization”? How should one conceptualize it, and what are the implications of such conceptualization? These notes are an attempt to address these questions and to put forward some ideas for debate and discussion.

There are two basic pieces of ground clearing needed before we get specific. First, marginalization is a relational statement. A category X cannot be marginalized in and of itself. It always has to be marginalized in relation to some other category, Y. So conceptualization requires an explicit statement of both X and Y—although in many cases Y is thought of implicitly as “the rest of society”, or the “rest of economy”, or simply “the average”.

Second, we need to get beyond a well worn critique of any categorization into discrete groups—that reality is more continuous. All analysis, certainly all conceptualization, uses simplified categorization of a complex reality. The real question is whether a categorization into two (the “marginalized” and “the rest”) misleads to such an extent that an expansion into three (or four, or more) categories is worth the price of added complexity relative to the benefits of greater understanding. This is something that has to be debated and decided on a case by case basis.

In what follows I will consider economic marginalization as outcome and as process (or structure). I will then consider discussions of “formality” and “informality”. I will conclude with some points on policy implications.

* T.H. Lee Professor of World Affairs, International Professor of Applied Economics and Management, and Professor of Economics, Cornell University. These notes formed the basis of my keynote address to the Living on the Margins Conference. They are drawn from a range of papers I have written in the last few years, which can be downloaded from my website, given above. These papers are listed at the end of this note.

Economic Marginalization as Outcome and as Process

In the analytical literature, and certainly in the policy discourse, there are two often undifferentiated strands of thought—economic marginalization as outcome, and economic marginalization as process.

On outcomes, a static and a dynamic characterization can be discerned. One often sees statements about marginalization of X relative to Y meaning simply “X is worse off relative to Y”, where “worse off” can itself be measured in a number of ways, covering income and non-income dimensions. At other times, marginalization is taken to mean “X has got less of the increase in the pie than Y”. The first statement is related to the level of inequality, the second is about changes in inequality.

Let us apply the above to income inequality between and within countries. Are poor countries of the world becoming economically marginalized, in the sense that they are getting less of the global increase in income than the rest? The answer to this question is not unambiguous. China, India, Bangladesh, Pakistan, Vietnam, etc are all growing at rates far higher than the growth rates of OECD countries, and relative to the world average growth rate. So these poor countries are not being marginalized in this sense. The story is very different for most of Africa, and some of Latin America. The low (often negative) growth rates of these countries relative to the world imply marginalization according to the relevant definition. Turning now to inequality within countries, there is strong evidence that growth, especially rapid growth, has been accompanied by increasing inequality. This is true of the countries mentioned above, as well as countries in Africa and Latin America. And inequality in many countries, especially in Latin America, is in any case high by global standards.

The evolution of world income inequality as a whole is clearly an aggregate of these trends and there is room for disagreement depending on what weight one gives to each, and of course the data issues that plague any global assessment of this type. However, we can be relatively confident that economic marginalization within countries, defined as increasing income inequality within countries, is indeed taking place.

Economic marginalization as a process relates to economic structures, in particular to the structure of markets and their integration. To the extent that the markets that some individuals or groups engage in are segmented from the economy in general, these individuals can be said to be marginalized from the rest of the economy. A possible remedy, discussed quite often, is to advance integration through, for example, building infrastructure (eg roads) linking markets, or institutions (eg microcredit) which allows some groups to participate in market activities. Segmentation and exclusion may, however, have non-economic and non-financial origins, for example in discrimination by gender, caste or ethnicity. Here integration takes on a broader meaning.

Alongside integration arises the issue of adverse integration. If markets were competitive, with market power evenly distributed, then integration into market structures should increase income earning opportunities for those previously excluded, and reduce process as well as outcome marginalization. But integration into a market structure with concentration of market power is marginalization operating through market structures. Monopoly or monopsony are obvious examples of market power where those at the weaker end lose out from market structures even though they are integrated into them.

Formality and Informality

The discourse on marginalization is often overlaid with, or even solely identified with, the discourse on “formality” and “informality.” This distinction, which has been central in the development studies discourse for the past 60 years, is nevertheless not very clear and sharp in the literature. There is a multitude of definitions, with little in the way of consistency. However, two strands can perhaps be discerned. The first strand identifies “informal” with “chaotic”, “disorganized”, “uncertain”, “no rules of the game”, etc. This is a dangerous mindset which is empirically false and has led to policy disasters, such as the nationalization of forests because it was felt that local “informal” forest management mechanisms were not adequate. The result was even more deforestation than before. This mindset endures, and can lead to heavy handed interventions to “bring order” to sectors which are perceived as being disorderly, and unconnected to the “formal” sector which is perceived as having greater order and stability. This mindset has to be resisted firmly in analytical and policy discourse. It is to be hoped that it will be resisted in the “first and second economy” discourse in South Africa.

The second strand, which is in principle neutral on the intervention question, identifies “formal” and “informal” as tendencies along a spectrum of “more or less engagement with the state.” This matches statistical definitions often used (eg in defining formal enterprises as those that pay taxes, or those that are subject to labor regulations, etc)). It also focuses attention on policy and on intervention, its extent and its nature. However, in accepting this way of thinking about formal and informal, there should be no presumption that more, or less, intervention is necessarily better, or worse. It depends on the situation on the ground, and on the nature of the intervention. Some interventions—for example the many attempts to control, or “regulate”, street trade—end up hurting the poor more than helping them. Other interventions, for example, extending microfinance facilities to previously underserved areas, can be beneficial to the poor.

If we think therefore of “integration into state structures” as being a dimension of marginalization, similar issues arise as in the case of market integration. If the integration is neutral, for example where efforts are made to extend benefits to those who have a right to them, then this can reduce marginalization—viewed as outcome and as process. An example

of this is where state provision of water and sanitation services is extended to areas that were previously excluded. However, just as in market integration, there can be adverse integration into state structures. It is well understood, for example, that legal structures and processes often advantage those with education and resources to fight court cases. With such inequalities, bringing the poor into formal legal nets, for example through land titling or creating formal legal titles to slum properties, has to be done with great caution and with due attention to the power and resources inequalities in the system. Even with such caution, on the part of policy makers and implementers the poor need to organize so as to better navigate both market and state structures.

Summary and Policy Conclusion

Economic marginalization can be conceptualized as outcome or as process (or structure). On outcomes, marginalization can be a static description, or a dynamic characterization of how things are moving. On the latter, defining marginalization as the worsening position of some relative to the average, the question is whether economic inequality is on the increase. The short answer is that income inequality is indeed on the increase within countries; however, the picture on income inequality between countries, and on non-income inequality, is much less clear.

On process or structure, two important dimensions are integration into market structures, and integration into state structures. While both types of integration can in principle lead to better outcomes for those previously excluded, or marginalized, adverse integration is an ever present danger. Whether it is market or state, adverse integration into structures with unequal power and resources can lead to poor outcomes for some, and thus exacerbate marginalization in terms of outcomes.

What do policy makers and their analysts need to do in light of the above?

*There has to be analysis of, and development of policy towards, monopolistic and monopsonistic tendencies in local and national markets

*There has to be prior analysis of possible adverse integration consequences when investments (eg transport) are made to integrate markets.

*The technical design of state interventions and regulations has to be looked at to ensure that those with education or resources insufficient to navigate their way through the administrative maze are not being disadvantaged.

*The attitude of government officials have to change towards those who cannot easily manage state regulations and procedures.

*There has to be support for Membership Based Organizations of the Poor, organizations that are responsive to their poor members and who can represent the interests of the poor to the rest of society, including, especially, local and national governments

Papers

Martha Chen, Renana Jhabvala, Ravi Kanbur and Carol Richards, "[Membership Based Organizations of the Poor: Concepts, Experience and Policy](#)", Introduction to Martha Chen, Renana Jhabvala, Ravi Kanbur and Carol Richards (editors), *Membership Based Organizations of the Poor*, Routledge, 2007.

Basudeb Guha-Khasnobis, Ravi Kanbur and Elinor Ostrom, "[Beyond Formality and Informality](#)", in Basudeb Guha-Khasnobis, Ravi Kanbur and Elinor Ostrom (eds.) *Linking the Formal and Informal Economy: Concepts and Policies*, Oxford University Press, 2006.

Haroon Borhat and Ravi Kanbur, "[Poverty and Well-being in Post Apartheid South Africa: An Overview of Data, Outcomes and Policy](#)", in Haroon Borhat and Ravi Kanbur (eds.) *Poverty and Policy in Post-Apartheid South Africa*, 2006.

Ravi Kanbur and Anthony J. Venables, "[Spatial Inequality and Development: Overview of UNU-WIDER Project](#)", September, 2005.

Shantayanan Devarajan and Ravi Kanbur, "[A Framework for Scaling Up Poverty Reduction, With Illustrations from South Asia](#)", August, 2005.

Martha Chen, Renana Jhabvala, Ravi Kanbur, Nidhi Mirani and Karl Osner (Editors), "[Reality and Analysis: Personal and Technical Reflections on the Working Lives of Six Women](#)", April, 2004.

Renana Jhabvala and Ravi Kanbur, "[Globalization and Economic Reform as Seen from Below](#)", in K. Basu (ed) *India's Emerging Economy: Performance and Prospects in the 1990s and Beyond*. Oxford University Press, 2004.

Ravi Kanbur, "[On Obnoxious Markets](#)", in Stephen Cullenberg and Prasanta Pattanaik (editors), *Globalization, Culture and the Limits of the Market: Essays in Economics and Philosophy*. Oxford University Press, 2004.

Ravi Kanbur, "[Economic Policy, Distribution and Poverty: The Nature of Disagreements](#)", *World Development*, 2001.