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Regressive and Transformative Informality

Outlines of a Research Strategy

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Preliminary Remark

In this talk, I will propose a way to differentiate the concept of informality as a social phenomenon in a manner that is both relevant to political practice and theoretically substantial. First, I will explain the significance of informality in sociological theory of society and organization. Second, I will describe some key aspects of the political challenges associated with the phenomenon of informality. Building on this, I will then, thirdly, establish the distinction between regressive and transformative informality and explain its consequences for political practice.

Informality – or the dual nature of social order

In sociology, the development of modern societies has consistently been discussed as a process of formalizing social relations.

Through the market logic of capitalist society, as Karl Polanyi most succinctly demonstrated in his book "The Great Transformation," economic relationships were detached from their embedding in a cultural and moral context and subjected to the logic of exploitation. The standards of tradition and historically developed moral concepts, for example in determining "fair prices," were suspended in favour of a purely monetary-value-oriented calculus of utility. With regard to labour, the English historian E.P. Thompson described the displacement of "moral economics"—the culturally anchored and tradition-legitimized standards of fair wages—by the logic of labour markets regulated by supply and demand as an extremely conflict-ridden process in the formation of a working class.

Karl Marx famously described the socio-economic logic of capital as a contradictory dual structure: on the level of the economic conditions of the market economy as a contradictory unity of the use value of commodities and their exchange value; on the level of production as a contradictory unity of concrete and abstract labour, as a regime of abstract societisation that, however, in the process of the accumulation of capital, can only seemingly and not actually detach itself from the material basis of society and concrete labour as the basis of all creation of value.

The sociologist Max Weber described the emergence of modern bureaucracy as a process of rationalization and formalization of social relations and domination. In his famous "Philosophy of Money," Georg Simmel traced how, in connection with the spread of monetary transactions, formal thinking, calculability, and abstracted forms of the coordination of social life became established not only in economic conditions but also in the cultural "superstructure" of society.

Jürgen Habermas, a main representative of the Frankfurt School of Social Philosophy, described the process of modernization as the emergence of abstract system rationality at the level of coordination of social action, which increasingly undermines and, as he put it, "colonizes" the lifeworld-based foundation of action, thus depriving it of its autonomy and self-organization and subordinating it to the functional system imperatives of capitalist economy and formal law. The tense and contradictory dualism of system and lifeworld has since become a central topos in the critical analysis of modern societies.

Anthony Giddens, to cite one final example from the various approaches to a sociology of modernity, described modernization in his book "Consequences of Modernity" as a process of "dis-embedding" social relations, that is, the detachment of social mechanisms from the contexts of life shaped by traditions, local cultures, and immediate personal relationships, as already described by Polanyi. On the one hand, this has unleashed enormous dynamism in social development, with the emergence of global markets and communication networks, the establishment of technological and scientific rationality, and also the liberation of individuals from the constraints of traditional bonds. The downsides of modernization, however, are the increased contingency of social relations, insecurity, and alienation, which repeatedly call into question the stability and cohesion of modern societies.

Modern society, therefore, is permeated by contradictions in its most elementary structures, contradictions that on the one hand keep it in motion, but on the other hand repeatedly plunge it into crises and conflicts. The duality of formality and informality, I argue, is a significant expression of this contradictory fundamental structure of modern society. It would certainly be an oversimplification to limit this to capitalist societies. As we have learned in recent history, even socialist societies cannot resolve this fundamental contradiction between system and lifeworld, between system integration and social integration, and indeed between formality and informality. Abstract social systems depend on lifeworld structures and endanger themselves when they undermine these structures and threaten their continued existence. Society requires system integration and, at the same time, functioning social integration. If system integration becomes autonomous and social integration no longer takes place to a sufficient degree, the cohesion and, in the long term, the very existence of society is at risk, according to the thesis of David Lockwood, to whom Habermas also refers in this respect with his distinction between system and lifeworld.

In the tradition of communitarianism, civil society, also a sphere of informal self-organization within the social sphere, is emphasized as an important resource for

social cohesion and democracy. At times, particularly in the social sciences, civil society has been readily invoked as a positive counter-image to the abstract concept of societisation through the market and the state. A functioning civil society is undoubtedly an important element of an open and democratic society in many respects. However, as Jeffrey Alexander pointed out as early as the 1990s, it also has its dark sides: a lack of transparency, unchecked power relations, and exclusion along the lines of social milieus, ethnicities, traditions, and cultural identities.

The tension between market, state and civil society also reveals the contrast, but also the interdependence, of formality and informality.

Applied to the duality of formality and informality, this means that functioning informal structures are ultimately indispensable, especially in highly formalized systems. It is always about the duality of formality and informality. One should not simply understand lifeworld, civil society, or informality as positive qualitative opposites of formality to system, market, and state, or indeed formal structures. Lifeworld, civil society, and informality each have their dark sides – the constraints of tradition, personal power relations, lack of law and order, insecurity, and the “law of the jungle”. One must look closely to distinguish and assess the potential and risks of informality for a democratic and free society.

In (Marxist) industrial sociology, informal relationships and the subjectivity of the workforce were interpreted as disruptive factors to the profit-making interests of capital, and simultaneously as points of departure for strategies of resistance and representation of labour's interests against capital. Informality, in a sense, creates spaces of freedom that can limit capital's access to human labour. This may put the capitalist mode of the generation of value at risk, although it is creating spaces of uncertainty for the management and spaces of autonomy for the workers in the organisation of the work process.

German sociologists Renate Mayntz and Niklas Luhmann have elucidated the function of informality, or "informal organization," for formal organizations, government agencies, companies, cultural institutions, universities, and associations. According to them, organizations cannot function without informal organization, without "kurze Dienstwege" (short lines of communication, as they are known in Germany), without personally based relationships of trust, and without agreements made outside the formal rules and regulations. Informal organization is a sort of lubricant of formal organization. In a famous passage from his 1964 book "Function and Consequences of Formal Organization," Niklas Luhmann speaks of "useful illegality," which contributes to formal organizations actually achieving their organizational purpose. The attribute "useful" is crucial. It distinguishes "illegality" that is employed in accordance with the organization's purpose from rule violations that run counter to that purpose. If two colleagues disregard certain rules to quickly resolve specific problems in the production process, this can be productive for the company if adhering to all rules would have resulted in a longer production outage. Similarly, if a salesperson generously exchanges a purchased shirt even though the official return period has expired, this rule violation can secure a customer for the company and

enhance its reputation. In contrast, "useless illegality" would include leaving work longer than permitted, watching YouTube videos during working hours instead of working on Excel spreadsheets, or even diverting tools and materials for personal use.

Even within organizations, informality is not simply a resource that can be used free of charge by the formal organization; rather, it can pose a risk to the existence and functioning of organizations.

The coexistence of formality and informality is also a key element in the economic sphere. Estimates from the OECD and the ILO suggest that around 60 percent of all economic activity worldwide takes place in the informal sector, significantly more in low-income countries, but still between 10 and 25 percent in high-income countries. From a macroeconomic perspective, the informal sector is both a threat and a potential asset. The state loses tax revenue and social security contributions due to the informal economy. For those working in it, informality generally means foregoing union representation, the protection of labour and social security laws, and a high degree of job insecurity. At the same time, the informal economy generates income that protects against absolute poverty, ensures the supply of goods to the population, and represents a flexible potential that facilitates the economy's adaptation to changing market conditions, thus increasing its resilience towards uncertainty and turbulent environments. Furthermore, the informal economy is often a source of innovation and creativity that also benefits the overall economy. Here, too, it is the dual nature of informality that must be emphasized. It jeopardizes social cohesion through the segmentation of markets, the social divide between secure and precarious sectors, and the erosion of the legitimacy of institutions. At the same time, however, it can safeguard social reproduction and compensate for the dysfunctionality of institutions and formal regimes.

Informality – Transitional Mode or Trap?

Taking this a step further and not merely considering the coexistence of formality and informality in the economy and society, another dimension of the complex interplay between these two modes of sociality and socialization becomes apparent. In the temporal dimension, we see transitions from informality to formality and from formality to informality, both in individuals' work histories and in the life cycles of companies or entire industries. When a job in the formal economy is lost, informal employment is often the only way to earn an income. However, in functioning labour markets, this informal employment can also serve as a stepping stone to a new job in the formal sector. Often, informal activity marks the beginning of careers in the formal economy. It allows individuals to gain work experience and build contacts that can be leveraged throughout their careers. Even small businesses, starting wholly or partially in the informal economy can, under favourable circumstances, grow into the formal economy.

This temporal dimension of informality, as far as I can see, has received little attention so far. Yet, in assessing whether informality represents a potential for social and

economic development or a threat, it is also crucial to understand whether informality is a temporary mode of participation in the labour market and society for individuals or specific groups, or a persistent trap with few escape routes. For example, there is a wealth of evidence showing that migration is often closely linked to informality, not only in the form of irregular migration, but also in connection with the initial steps of integration into the host society. Informal networks are particularly important for migrants to gain a foothold in a foreign society. Informal labour markets are often the only way to quickly find work and income. Informal structures also play a significant role in housing markets, especially among the migrant population. These phenomena, too, have their advantages and disadvantages, as migration research has demonstrated in many respects. Undoubtedly, there are also highly undesirable side effects, including the scandalous exploitation of immigrants in the informal labour market, deplorable and exorbitantly expensive housing conditions, and business models that shamelessly exploit and perpetuate the misery of vulnerable immigrants. Nevertheless, the informal sphere can also be an important catalyst for successful processes of arrival and integration. However, this is only true if informality, in the temporal dimension, is a state from which transitions into the regular labour market, the regular housing market, and full participation in the host society are possible. In Europe, for example, in connection with the migration waves following the enlargement of the European Union to Southeast Europe after 2008, waves of growth in informal labour markets and informal and illegal economic activity could be observed, sometimes also linked to the misuse of social benefits. However, after some time, this activity partially transitioned into regular employment, thus normalizing itself. However, in some sectors such as the construction industry, the cleaning industry and certain services, irregular work has become entrenched and continues to pose major challenges to government regulatory policy.

We experience both – informality as a transitional phase and informality as a trap of persistent precarious working conditions and living circumstances. And of course, it's also true that no society can afford to have a large portion of the population living and working outside the rules that apply to everyone. Informality can foster social cohesion under very specific conditions. But it can also massively undermine it and put it at risk.

It would therefore be important to be able to track how informality manifests itself in the time dimension, what material living conditions are associated with informality, what the conditions are for growing out of informal work, which groups succeed in this and which do not, how social and economic regulations interact with the dynamics of informality and what influence politics can have here, etc.

There are, in principle, datasets that could be used for this purpose, such as the Socio-Economic Panel (SOEP) in Germany, which has been surveying around 30,000 representative individuals in approximately 22,000 households every year since 1984. This allows for the longitudinal study of life courses within the context of the respective socio-economic circumstances. The SOEP now plays a prominent role in international research, particularly in the fields of poverty research, labour market

research, and the study of living conditions. Similar surveys seem to be available in a variety of countries, including Brazil with its national household-panel.

From a sociological perspective, informality is therefore a highly complex phenomenon that defies simple judgement and can only be grasped with a dialectical terminology, both empirically in terms of the social function of informality and normatively in terms of critical assessment and subsequent policy options.

Regressive and Transformative Informality – Proposal for a Conceptual Framework

Informality is a necessary component of social order and societal reproduction. Its function would be misunderstood if it were viewed solely as residual traditions or even exclusively as a social pathology to be contained and overcome.

We are always dealing with specific arrangements of informality and formality, which can take on very different forms in different societies and at different stages of societal development. One could speak here, using a term coined by the sociologist Norbert Elias, of "figurations," that is, a specific order that should not be conceived as static, but rather as dynamic and fluid.

Informal structures and practices can be "functional" in the sense of Mayntz and Luhmann, as they allow organizations to circumvent rigid bureaucratic structures and ensure their efficiency—organizations that would collapse under strict adherence to all rules ("working to rule"). Informal work can guarantee income and the allocation of goods and services, thus contributing to the reproduction of society. Informality and formality, seen in this light, can be complementary, supplementing each other and stabilizing society. The "latent" function of informality, in this sense, would indeed be to stabilize formal structures by relieving them of burdens and compensating for functional deficits. This certainly does not mean simply justifying informality in all its problematic aspects. However, if one wants to understand why informality is so important even in modern and developed societies, one cannot avoid considering its latent functions.

However, informality can also threaten social order, destabilize social institutions, and undermine cohesion.

The figurations of informality move, in a sense, on a scale between stabilization and destabilization, and it should be the subject of social science research strategies to examine these figurations of the various forms of informality and the equally multifaceted formal structures and practice regulations in a society, in regions or in organizations, and to develop criteria according to which social phenomena can be classified in the multidimensional coordinate system between stability and destabilization.

From a dynamic, temporal perspective, the question arises as to what extent informality hinders or promotes social change. As we have seen, informal structures

and practices can stabilize systems and thus slow down or prevent social change in a progressive sense.

There is indeed a dialectic between formality and informality. Moreover, informality itself has multiple faces. It can be an element of progress and the development of “life chances” in the meaning of Ralf Dahrendorf’s concept. However, it can also be an expression and catalyst of social pathology and societal decline, the perpetuation of inequality and precariousness, and the destruction of life chances. One must therefore look closely and be prepared to deal productively with a certain degree of ambiguity and contradiction. For the social scientific study of informality, as well as for strategies to develop a progressive policy of informality, a conceptual framework is therefore necessary, which can emerge from an international scholarly discussion. As a first step in this discussion and as an initial suggestion, I propose distinguishing three types of informality:

- *conservative informality* is conceptualized as a type of informality preserving given patterns of socioeconomic reproduction, preserving social segregation and the segmentation of markets,
- *regressive informality* as informality undermining institutional orders and as drivers of precarization and destabilization beyond a given space of informal socio-economic activities,
- *transformative informality* as a driver of the enhancement of life-chances, extending the choice of individuals and allowing them to formalize work, businesses or other patterns of action step-by-step; in this respect, informality could even be seen as a supporting element in the development of a fair and inclusive society.

For example, conservative informality could be seen in the phenomenon of unregistered informal work in certain niches of the economy, which arises to circumvent regulations or save on taxes and social security contributions. At a macroeconomic level, it compensates for dysfunctions and rigidities of the regular labour systems, while at a microeconomic level it creates a degree of flexibility and provides employment opportunities for marginalized groups, as well as offering well-established groups of workers the chance to generate supplementary income. By helping to offset the shortcomings of the formal economy, informal work stabilizes the system and the associated arrangement of informal and formal employment. I would subsume many phenomena of the informal economy in high-income developed countries under this type.

When informality undermines existing institutions and destabilizes the economic system, exacerbates inequality and leads to the spread of precarious working and living conditions—in short, when informality triggers and intensifies a downward trend for certain groups, regions, or sectors—I would speak of regressive informality. It is an informality that increases insecurity, jeopardizes achieved standards of civilization, and triggers a downward social trend.

When employers in an otherwise prosperous environment rely on informal employment on a larger scale to cut costs and increase profits, as in agriculture in the US or Southern Spain, this would be an example of regressive informality. It undermines social standards, puts pressure on unionized companies, and promotes the spread of precarious employment. Regressive informality perpetuates precarious working and living conditions and diminishes life chances by reducing options and trapping people in unregulated personal dependencies. In fact, informality almost always has regressive elements. This is part of the dialectic of informality.

On the other hand, there are, of course, significant areas of the informal sector that also exhibit characteristics of alternatives to the dominant, capitalist economic system or, may be better and more realistic, of pathways to transform capitalist societies into more inclusive and equity-based systems. These areas organize the reproduction of marginalized populations, are embedded in communities, and can, in various respects, be seen as the result of civil society self-organization. The "Economía Popular" in Argentina and other Latin American countries, as I learned from Marina Cardelli, a representative of *the Confederation de Trabajadores de la Economía Popular* (CTEP), not only has the character of a defensive self-help structure in a situation of exclusion and impoverishment, but also, in many aspects, the character of a socially offensive civil society self-organization. It sees itself as an important factor in overall economic value creation and can be considered a model of a solidarity-based form of work and economy. "We are a laboratory of social change," says Cardelli, thus also attributing a transformative potential to the Economía Popular. It embodies, at least in part, alternative principles of a needs-based and inclusive economy that can challenge the formal economy, which is currently in a state of perpetual crisis in Argentina. It incorporates elements of empowerment and what Amartya Sen describes as "capability"—the ability to act autonomously and in a way that fosters change. CTEP also aims to make the social achievements of the formal economy accessible to people in the Economía Popular and to form them into a social movement that fights for adequate legal frameworks for this sector of the economy, thereby gradually integrating it into the formal economy. If this process succeeds, the formal economy could also transform itself into a more solidarity-based and inclusive form. At the individual level, transformative informality provides and increases options for development, such as the ability to transition informal activities into formal ones and to strengthen social participation.

This proposed distinction between three types of informality is, of course, an idealization, and there is unlikely to be a one-to-one correspondence with reality. What is likely to be found in reality are always hybrid forms and arrangements of different forms of informality, and it would be the task of empirical socio-economic research to examine more closely which structures and dynamics exist in this regard in individual societies, which factors promote the emergence of transformative informality, and which factors promote the spread of regressive informality.

Furthermore, social reality is always characterized by arrangements of formality and informality, which can mutually enhance but also limit each other and which change in

social development, something we tentatively attempt to grasp with the concept of figuration adopted from Norbert Elias.

From there, a multitude of research questions can be formulated, including the important questions about the relationship between informality and social cohesion, social capital in a society, and issues of sustainability and resilience.

Finally, it would be necessary to examine to what extent the proposed categorization can serve to identify policy options regarding informality or the “governance of informality”.

While government policy towards regressive informality should logically take a more repressive approach, a selective approach would be advisable for "conservative informality," employing specific forms of intervention depending on the target group, occasion, and problem situation. For transformative informality, I envision considering constructive, partnership-based interventions. For example, providing guidance and targeted support to people registered as unemployed, receiving public assistance, and simultaneously engaged in informal work, helping them to gradually transition from informal (and illegal) work to formal (and legal) employment. This approach is preferable to simply suppressing informal activity in individual cases. A similar approach could be taken with informal businesses. A policy on informality can and should also include measures that modify the legal framework for activities, such as those of street vendors in Buenos Aires, to legalize informal, and often highly productive and valuable, activities.

This diagram summarizes this consideration:

Type of Informality	Regressive	Conservative	Transformative
Intervention Strategy	Repression, enforcing the law	Selective action, keeping a balance	Partnership and empowerment

Conclusion

Informality is a complex phenomenon that requires a nuanced approach in both research and practical policy. It has productive aspects that are essential for the healthy development of society. However, informality can also be an expression of societal decline, the erosion of social capital, and the destruction of life chances. These two aspects often intertwine, making a close examination of the relevant social phenomena crucial for developing appropriate political strategies to address informality. The interdisciplinary collaboration fostered by the INSEAI network offers excellent opportunities to develop suitable research strategies in this area.

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Note on the author:

Dr. rer. pol. Matthias Schulze-Böing had been Head of Department for Employment, Statistics and Integration Policies of the Municipality of Offenbach am Main for almost 30 years, after having worked as a researcher on organisational and labour-market topics at several universities in Germany. Further on and parallel to this he was CEO of MainArbeit, the Municipal Jobcenter of the City of Offenbach. He retired in 2021.

Schulze-Böing was chair of the Committee for Employment and Social Policies within the Council of European Municipalities and Regions, Brussels, full member of the Social-Policy-Committee of the German Association for Public and Private Welfare (Deutscher Verein) and Chair of the National Network of Jobcenter-Directors (Bundesnetzwerk Jobcenter).

Currently he is Chair of GEWAK, a scientific association, based in Frankfurt am Main and working on a variety of research-projects. Further on he is working as consultant to government and social service organisations and is member of the advisory boards of the Research Institute for Social Cohesion (FGZ-RISC). GEWAK is a member organization of the INSEAI-Network.

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