

Stealth of Nations: The Global Rise of the Informal Economy

Robert Neuwirth

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- **Thousands of Africans head to China each year to buy cell phones, auto parts, and other products that they will import to their home countries through a clandestine global back channel.**
- **Hundreds of Paraguayan merchants smuggle computers, electronics, and clothing across the border to Brazil.**
- **Scores of laid-off San Franciscans, working without any licenses, use Twitter to sell home-cooked foods.**
- **Dozens of major multinationals sell products through unregistered kiosks and street vendors around the world.**

When we think of the informal economy, we tend to think of crime: prostitution, gun running, drug trafficking. *Stealth of Nations* opens up this underground realm, showing how the worldwide informal economy deals mostly in legal products and is, in fact, a ten-trillion-dollar industry, making it the second-largest economy in the world, after that of the United States.

Having penetrated this closed world and persuaded its inhabitants to open up to him, Robert Neuwirth makes clear that this informal method of transaction dates back as far as humans have existed and traded, that it provides essential services and crucial employment that fill the gaps in formal systems, and that this unregulated market works smoothly and effectively, with its own codes and unwritten rules.

Combining a vivid travelogue with a firm grasp on global economic strategy—along with a healthy dose of irreverence and skepticism toward conventional perceptions—Neuwirth gives us an eye-opening account of a world that is always operating around us, hidden in plain sight.

Stealth of Nations: The Global Rise of the Informal Economy Details

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From Reader Review *Stealth of Nations: The Global Rise of the Informal Economy* for online ebook

Jeff Raymond says

I tend to shy away from books like this, mostly because they tend to be more about expanding magazine-level journalism into a book-length treatise when it isn't necessary. The good thing is that *Stealth of Nations* would definitely make a good magazine treatment while being interesting and detailed enough for a book.

The book is more or less a quick and easy read about the underground economy - the selling of pirated materials in China, unlicensed food vendors in San Francisco, the sale of water itself in Nigeria. All sorts of different ways the "stealth economy" works on a regular basis for millions of people worldwide exchanging trillions of dollars yearly.

While a lot of my enjoyment of this book was centered around my favorable political biases toward those sticking it to governments and licensing boards, it's more fascinating to me about all the different ways we see this type of economy pop up, both in developed and underdeveloped nations. How so much of what we take for granted - selling a book online, for example - is part of this economy even if we dislike the concept personally.

Definitely an interesting read if this is up your alley. It's generally nonpolitical, so there's no concern there on a whole, and it's chock-full of a lot of fun and different information.

guiltlessreader says

An eye-opening book about the informal economy and its power to provide much-needed jobs and sustain economies. Full review coming soon!

Full review on my blog [guiltlessreading](#)

My thoughts: The title is an extremely witty take on Adam Smith's *Wealth of Nations* the commonly accepted Economics 101 textbook espousing free market economies. Each chapter opens with an excerpt from *Wealth of Nations* and is expounded on in throughout the chapter (with rather amusing titles, like "The Global Rummage Sale," "The Culture of the Copy" or "The Honest Con Men").

A few intriguing tidbits that I thoroughly enjoyed, and which got me thinking. And the book is loaded with these:

The resurgence of an interest in Shakespeare in the 1700s ... because copies of his plays were pirated and sold for a penny a piece.

"A century after the playwright's death, piracy helped make William Shakespeare a household name, helped promote literacy across the social classes (because even poor people consider coughing up a penny a play) and helped install Shakespeare's writing as the pinnacle of English usage."

- p. 103-104, *Stealth of Nations*

Retail giant Proctor and Gamble has adapted their marketing strategy to cater to System D in developing countries, which makes up over 20% of their market base.

"Yes, our biggest customer is Walmart [...] But in reality our largest customer is what we refer to as HFS--high-frequency stores." Indeed more than 20% of the company's business now comes from these tiny, less-than-three-cash-register stores in the developing world. "It is our fastest-growing customer and, in terms of volume, it's our number one customer" [...]

- p. 132, *Stealth of Nations*

After having viewed Christiane Amanpour's interview with the author (see end of post), I knew I had to read this. Coming to a "developed" country like Canada, "informal economy" carries with it a stigma: "When we think of the informal economy, we tend to think of crime: prostitution, gun running, drug trafficking." This is why I feel this book is so important, if but to correct this misconception. While Neuwirth describes the informal economy as an "underground realm," he is clearly coming from a "developed country" perspective.

The stories told here are not uncommon to me. While Neuwirth's encounters hailed from South America, Africa, and China, these could as easily have been transplanted to my homeland, the Philippines. Or anywhere else in Asia for that matter.

Back home, I used to interact with this economy on a daily basis. There's the women who sell clothing at the office during downtime. There's the old lady who comes by during snacktime with her bilao of merienda like pansit, kakanin and other local fare (basically a basket of snacks like home-cooked noodles and coconut-rice cakes etc.). If I want a snack or I've run out of cell phone minutes, I ran over to the guy over at the corner of the street selling balut and phone cards and a hodgepodge under his umbrella. I have been to malls with full floors of branded electronics selling both legit and very good knock offs (your choice), bootleg copies of newly released DVDs, and designer-branded counterfeit bags and clothing.

This is the informal economy. I grew up with it and I never questioned it. It is systemic, it is commonplace. It met people's needs. Receipts? Don't ask. But if the DVD doesn't work, you can definitely come back and return it. But I am rambling ...

The book tackles the rather controversial subject of the "informal economy," an economy untaxed, largely undocumented, and in the strictest definitions of the global economy - illegal. But it not only exists, it is proliferating. And it not only happening in developing nations, but also in so-called developed countries. Going by many other names - including the gray market, the underground economy, the shadow economy - Neuwirth rebrands it lovingly throughout the book as System D, shortened from l'economie de la debrouillardise which is slang from French-speaking Africa which roughly means ingenuity or DIY economy.

And ingenious it is. Neuwirth presents very compelling evidence of the existence of System D, told through his own meetings with the many resourceful and hardworking entrepreneurs who has come to depend upon the system for their survival. Neuwirth comes across as an investigative journalist with a heart, taking the time to live among them and they in turn have made him privy to details of their lives, many of which would be quite damning - including bribing and smuggling out as a matter of course. The book is as much about as these people's lives as it is of Neuwirth's insights.

While I enjoyed the travelogue style which takes up much of this book, it turns partially academic towards the middle. Some out-of-the-box thinking by big multinational in order to gain a slice of the burgeoning market that is System D. It looks at the history and the opposing economic thoughts towards System D (see chapter "Against Efficiency"). It examines the rather loaded question "Why Not Formalize the Informal?" It provides some great material worthy of debate, and some thought-provoking fodder.

All this material in this rather slim book of less than 300 pages. This will put you on a merry little path if you want to delve into the topic further. You can check out pages upon pages of references at the back of the book. Or check out Neuwirth's *Stealth of Nations* blog.

Extremely readable and engaging, this book reminds me how authors like Stephen Hawking, Malcolm Gladwell and Steven Dubner & Steven Levitt have successfully laymanized academic topics. That being said, don't expect the book to answer all your questions but rather to just get you started asking the questions. It's an eye-opener, not a full-blown economics course.

First line: These are the products of some people's lives.

Verdict: And engaging, thought-provoking insider look at the informal economy, this book will get you wondering, observing, and asking questions you never thought to ask.

Srikanth says

The informal economy, black money etc etc. The names while sounding exotic are nothing but livelihood of people who are trying their level best to survive. The book talks about various ways and means that people around the globe have worked on to make a living. I mean honest living minus lot of government red tape. The author has traveled the world to all the right places starting from Brazil, Africa & China. Really interesting stuff going around which goes around in spite of corruption, lack of governance. From an Indian context, at-least 60% of our country runs in the informal or System D (the name that is given to this informal sector in some places) An honest hawker does a world of good than a formal corrupt bureaucrat. The book has beautiful context from an Indian perspective, post demonetization, GST and various other globalization led issues. The book is more of observations and stories of people and places on ground rather than anything else. There are no answers but lot of stories.

Tin Wee says

The book explore the informal economy in both the developed and developing world, and highlights its rise due to the formal economy's inability to provide for societal needs. The book urges governments to recognize it and work with it instead of trying to stamp it out. I think it's a tall order- on one hand there is an inherent distrust of the `black/grey` market due to the criminal elements who operate in that space, on the other, society's penchant for rules which somehow inadvertently exclude certain people. The book looks at certain examples where efforts have succeeded or failed, but all tie in to a particular social/political/economic context that it's hard to imagine successfully replicating a model elsewhere. Still, an interesting read to understand human nature.

Erik Surewaard says

I was always under the impression that the informal economy (think of unregistered companies; not paying taxes) was bad for the economy. Well... this book changed my opinion. Not for all cases though... For developing countries this informal economy clearly makes sense.

This book is a combination of different stories that the author experienced. The stories are most likely collected by the authors visits. The stories cover mainly South-America and Africa.

I think the book could be presented in a more structured way. The 'scientific message' was too packaged in the stories / experiences that are told. I however was able to gain some valuable economic insights that I decide this book is a four star experience.

Tunde says

Worth a read. Insightful. And an important area of economic activity. Great stories and descriptions of the so called informal market, its necessity and value. Analysis of how to transform or scale it is limited. Bibliography but limited.

Ethan Cramer-Flood says

Stealth of Nations is an anecdotally driven exploration of an important and often overlooked slice of the global economic pie. Neuwirth uses mostly journalistic techniques to make the easily convincing case that the staggering amounts of informal markets, street hawkers, unregistered merchants, and other extra-legal small business people thriving all over the developing world make up a significant (and invisible) portion of many country's total GDP. He then does a competent job of diving into the economic controversy surrounding the questions of whether this is a good thing or a bad thing, whether economists and policy-makers think about these informal markets in a fair minded way, and whether the people operating in this informal environment are part of a vital stepping stone, or mired in an exploitative trap. Needless to say, despite the vital role this informal business world plays in employment generation and economic survival for many regions, there is massive disagreement about its merits, dangers, and opportunities.

It's a fascinating topic. I give the book only three stars for the following reasons: the depth of sophisticated academic research was light; his engagement with world class economists and/or development economists that could have provided more context was insufficient; and his writing style in general was rather pedestrian. I can't question Neuwirth's work ethic or dedication: he went all over the world and dug deep into some incredibly uncomfortable places to get amazing interviews and tell amazing stories. But I was desperately hoping for more scholarly support for his primary theses, and I didn't get it. He convinced me that his argument is interesting and important, but I can't tell the scale of its importance because I'm not willing to just take his word for it.

Dave Burns says

Ive been craving a book on the informal market. Unfortunately this author makes it seem dull.

Samuel says

I really enjoyed the first-hand accounts of how the global informal economy functions worldwide, but I found the economic analysis muddled and not at all helpful. There is an entire chapter about why the

informal economy can't be formalized, only for the final chapter to lay out possible solutions for formalizing the informal economy ranging from a libertarian approach to a communitarian approach. It would have been helpful to lay out some of the economic principles besides just excessive regulation more explicitly to understand why various problems and tensions exist, such as rent-seeking, the free-rider problem, transaction costs, asymmetric information. I know that is probably a big order, but I ended up feeling like there was so much opportunity wasted to really give this book more intellectual heft.

Margaret Sankey says

Taken together, the millions of tiny businesses in the developing world (and on the margins of the First World) are an economic powerhouse, generating in their volume enormous amounts of money and potential economic advancement for the people who undertake to peddle, smuggle, scrounge, resell, recycle and deliver. Neuwirth, who traveled to a variety of locations to observe public markets, diaspora communities of African wholesale buyers in China, giant trash dumps and water selling in Lagos is rightfully admiring of the determination and incredible hard work of the people who make their livings doing this, while recognizing that the network of generators that make up the power grid, or the sale of plastic bags of water replacing municipal water pipes is both unsafe and an ecological disaster, while smuggling, child labor, human trafficking, unlicensed food sources and copyright piracy are major problems. His recommendations are realistic, but obviously extremely complicated and interlocked--authorities need to inspect and control things vital for public safety, but not make the hassle or the entry fee so high people evade it, nations need to provide services and do so in such a way people feel obligated to pay taxes for them and not cheat, the law needs to be small scale and responsive (like Piepowder courts on the spot in markets for disputes), and efforts need to be focused on the truly heinous side of the informal economy--the exploitation of children and enslaved workers, none of which are easy.

Shane says

Three and a half stars. This was a very difficult book to for me to rate. It is a well written and entertaining travelogue style look at the informal economy around the world. It doesn't matter if you call it Systeme D, Jua Kali, or the grey market; it exists and it is huge.

All throughout this book I was reminded of my High-School English teacher, who tried to relate "The Stranger" and "Siddhartha" (existentialism and situational ethics) with a profoundly Lutheran fundamentalist perspective. She didn't do a bad job, she just had great difficulty in separating the material from who she was. Neuwirth has a much similar problem; he seems to glorify in the ingenuity and determination of people trying to get by yet he is repulsed by the sheer dynamism and indifference of the free market. The whole book is a dialectic argument with himself over the power of the marketplace to provide solutions, and the desperate want and need to control and regulate it.

Keynesian economists despise and belittle Systeme D because they cannot understand it, other Statists fear Systeme D because they cannot control it. The future of freedom is here, if it isn't first crushed by collectivists trying to 'help'.

Don says

Much of the tone as well as the argument used in Neuwirth's book resonate with those of Doug Saunders in *Arrival City*. It is quite simply that people must persist, even when the rules and regulations of the societies they live in seem to require their extinction. When those rules and regulations are intended to sustain a market in which all the necessities of existence are traded at the rate that supports the market, and when that rate is beyond the means of a sizeable proportion of people, then the first course of action will be to subvert the market.

Subvert the market, but not yet destroy it. The people who Neuwirth talks to are like Saunders's informants - close, penetrating watchers of the market, observing it in all its shades and shadows, looking for the bits where it can be made to work for them.

Saunders applied this notion to his examination of the physical space of the city, the rules that govern its 'normal', intended functioning, the costs of entry, and the ways these could be evaded by people who couldn't afford the fee. He noted that, contrary to popular prejudice, the fare of such personages was not always to remain in squalor at the bottom of the pile, but sometimes to move upwards. What were they doing when they did this? Where were their conditions locked up in the fabric of cityscapes that sometimes worked with them in their endeavours, but other times blocked them off with apparently impassable barriers.

Neuwirth starts his account a few steps earlier by looking at the nature of the political economy that struggling, marginal people have to operate in. He sees it as being made up of a series of operating modes, with System D being one that froths around everything that is official like a haze of soap bubbles. The term is derived from the French Caribbean word for people who trade in informal markets, *debrouillards*. Once the economy of hucksters and street vendors was small, concerning only those established in niches and trading in goods that would have been close to luxury items for most ordinary people. But things have been happening in the global economy which have detached millions from older systems of subsistence - essentially growing and consuming their own food - and drawing them into places where more sophisticated commodities circulate, and being adroit in managing these systems has increasingly become the condition of survival.

According to the OECD, System D now supports the livelihoods of about one half of the world's workers - 1.8 billion people. These are jobs that are neither registered nor regulated, with the principal effect that any tax that might otherwise be due is avoided. It is easy to sport with the idea that System D represents the most thorough and consistent application of the free market, and Neuwirth pushes this by providing quotes from Adam Smith at the head of each of his chapters. "...where a great deal [of wealth] is in circulation, some shares of it may fall to them" we are told, and one of the outcomes of System D is to substantially increase the rate of circulation. It has allowed high value added goods, like soap powder, automobiles, computers and phones to appear in marketplaces at prices which the even the poorest might dream they will someday afford.

But it is a system made up of ambitious and enterprising who are required as the first thing they have to do to place themselves in spaces where System D can do its work. Neuwirth finds scores of these System D cities, from Lagos to London, Guangzhou, Lima, Gibraltar, Brooklyn and the Paraguayan border town of Ciudad del Este. He pours over the detail of how the entrepreneurs of System D construct networks of suppliers, do deals to guarantee the flow of the goods, and direct this towards the places where the price is paid and the profit realised. It is all about movement and knowing how to hike up value at each stage of the way.

The typical story is that of the Nigerian trader who scraps together enough capital to support a trip to China where he can rummage amongst the unregistered IT traders, looking for the best deal he can get on mobile handsets and SIM cards. Whatever he gets, and smuggles out the country, goes into the network of umbrella stands - a foldup table under the shade of an umbrella, where a female trader will supplement the income

from her official wage with whatever she can get from the sale of this product.

The street trader network does not limit itself to surreptitiously obtained goods, but is even the means which multinational giants like Procter and Gamble will use to get their house cleaning goods into the hands of purchasers who would not go into supermarket stores. The ubiquitous Gala Sausage Roll, a snack consumed widely in Nigeria and produced by one of the country's largest and oldest System A companies, is distributed exclusively across the country by street hawkers.

The description in this book of System D works is vivid and informative, but there is less consideration of why it has become necessary to global market systems, or if indeed it has. Circumventing taxation seems a poor excuse in itself if one assumes that, on the basis of this stream of income, states are able to establish the infrastructure of regulation and governance which would allow the market to function well. It is the fact that this ostensibly noble end cannot be achieved, or is achieved less and less effectively as time goes on, that the need for System D arises. But Neuwirth has little to say on this, though the terms of his analysis are suggestive of an analysis. Regulation of markets becomes ever more difficult because the factors which have to be taken into account and the scope of the information processed grows ever larger as capital grows.

The true contradiction at the heart of the system is that it is success that is killing regulated capitalism, not failure, and as it continues to be more successful in penetrating regions and drawing more people into its maw so will regulation seem less and less plausible.

Until recent times the capacity of the economic system to produce welfare gains for the population has been predicated on regulation and the extraction of taxes from profits and incomes which would support investment in housing, health, education, etc. But if System A can no longer support the welfare of populations will System D be able to do any better.

Neuwirth thinks it might if its protagonists can be nudged in the direction of a Proudhonist programme of association of traders aimed at providing security and cooperation. His final chapters give examples of where he thinks that is already happening. The challenge seems to be rolling it up into an explicitly political programme which aims for the displacement of the authority of the standard model of capital accumulation and its replacement with a proto-anarchist variant.

In times when we all seem to be starting again from the very beginning Neuwirth has provided some insights as to way cooperation and solidarity might arise as people are required to adjust their lives to the challenges of living in increasingly market societies. Perhaps it is time to take on board some of the principles of anarcho-mercantilism to see what leverage it might make available to subaltern people who need to fight daily to secure their existence. But markets are a long way from being reliable friends of the poor, even if they do bring into existence pound shops as well as Fortnum and Mason. They are more likely to be the nursery of exploitation than the support for collectivist social justice.

But that said the book goes a long way to explaining why the poor but hopeful are doing their best to jump on planes and trade across borders, and why the understanding of the advantages that come from understanding the potentiality of space and place are crucial to this. So, mark this one down as a stimulating read that poses lots of interesting questions.

Stephen Yoder says

I'm glad I bought this book. For me it has expanded upon the writings by Sudhir Venkatesh where he

examines a number of working class neighborhoods in Chicago and how economic exchange happens outside of taxable transactions. Neuwirth's focus is much more global, clearly. He's showing how "System D" adds tremendous value to nations as well as many entrepreneurs (and all sorts of levels in between), which is a concept rather foreign to many in the elite and government policymakers. I don't see many governments turning over a new leaf to give amnesty to System D individuals and businesses, but Neuwirth's concluding point, that right now countless deals are being made all over the globe and that these exchanges are making the world a smidgen better, is inescapably true. I'll be thinking about this book for a while, plus I'll view informal economic behavior a shade differently.

Vanessa van den Boogaard says

Not brilliantly written, while language is often used carelessly. Despite this, overall, Neuwirth presents an interesting in-depth perspective into the informal economy, humanizing the lives and accounts of informal sector workers and firms while remaining grounded in the dominant academic theories and narratives of this growing field of study.

Nevertheless, I would challenge his generally rosy view of the sector, including both the challenges of formalizing and remaining informal. While the success stories he often relies on are interesting, they are by no means representative. At the same time, his views for policy reform offer little in terms of realism given the political economy contexts of his case studies (largely, Lagos, Guangzhou and Ciudad del Este). Would also have appreciated a deeper look into the structures of informal governance and regulatory associations and networks within the sector, which are obviously critical to thinking about "real" and "hybrid" governance models.

On the whole, I agree with the general thrust of the book and appreciate his attempt to personalize the sector, though he doesn't push his analysis far or deep enough, while over-explaining simple ideas to the point of redundancy.

Matt says

Written in much more of a literary travelogue style than I'd expected, although this isn't a criticism. Neuwirth does a great job of exploring the various incarnations of "System D", the underground grey and black markets of the global economy that defy, avoid, or even replace formal government. Contrary to our expectations, the shadow economy produces an enormous output, second only to the GDP of the United States. Neuwirth takes us to China, Nigeria, and Paraguay, introducing us to street merchants and informal market associations that do what governments can't or won't: providing a higher standard of living and all-important employment.

Neuwirth is making a case for the free market, as evidenced by the play on Adam Smith's *Wealth of Nations*, and indeed a quote from Smith's seminal economic work introduces each chapter. However Neuwirth doesn't evangelize and his case never crosses into the heavy-handed. He does make a strong case for engagement with the underground, a kind of quasi-legitimacy that allows formal institutions to operate alongside the informal markets and trade associations, rather than treating them as useless criminals.

This isn't the capitalism of the brand we've come to expect in the West, dominated by large firms operating in close cahoots with civilian government, but rather the original entrepreneurship: the informal can-do make-it-happen spirit that should, ideally, define free market enterprise. Neuwirth is sympathetic to their cause and

advocates for measures to negate some of the undesirable aspects of System D, while recognizing and promoting the obvious benefits of informality.

All in all, an interesting read both for its look at the inner workings of the underground and an alternative to the way most of us are used to doing things.
