INFORMALITY AND URBAN LAND MARKETS

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While there is an extensive literature on squatter housing and informal settlements, there is at present only a small body of work on informal land markets. An assessment of the informal sector literature and of the basic issue of land as a marketable commodity in general indicates that informality in land markets is only partially analogous to the broader concept of informality as it is dealt with in the development studies literature. This essay is an attempt to define the concept of informality, specifically in the context of urban land markets. I will argue that, unlike the situation in other commodity markets, the use of a dualistic classification of formal and informal lands is a valid distinction. After reviewing the existing literature, this paper will examine the effects on policy resulting from the interactions between the various actors in the urban land market system. It is necessary to emphasize from the outset that there is no single, coherent informal "sector" of the urban economy, of which land markets are only one part. Rather, there are various types of economic *activities* that may exhibit varying degrees of informality, the system of urban land markets being one of them.

The Problem of Definition

From the perspective of the development of theory, the most remarkable thing about the informal sector is that, despite its broad acceptance as a concept, there is no clear and consistent agreement on the definition of the term. The origins of the concept are well-known to anyone working in development studies; it was first put forth in 1972 in a report on employment in Kenya by the International Labor Organization (ILO), an organization that is largely responsible for the rapid dissemination of the term (Bromley 1979).[1] The ILO based its definition on the application of seven descriptive categories, such as "ease of entry" and "small scale of operations." These categories were contrasted to seven opposite characteristics which were said to define the formal sector of the economy. The use of this collection of empirical categories to define the term leads to a basic inconsistency, as each of the seven characteristics may only be partially dependent upon the others. It is possible for some and not all of the characteristics to apply to a specific activity. The ILO definition is non-rigorous and therefore limited in its use for theoretical analysis.

Furthermore, there is no consistent criterion that can be applied across the diverse range of activities that has been considered to comprise the informal sector of the economy. The term has been at various times equated with the economic activities of the urban poor, the persistence of a rural peasant system of production in the city, and the grouping of all "unenumerated" economic activities. It is also a point of contention as to whether the concept of informality applies to specific activities or to specific groupings of enterprises that undertake those activities (Moser 1984). None of these approaches offers a rigorous definition that can be used on a comparative basis, either within a literature on a particular economic activity or in comparison between the various types of economic undertakings that are seen to comprise the informal sector. Therefore, for the sake of clarity in an otherwise confused field, it is incumbent upon those writing on informality or the informal sector to present

their own definitions of these terms.[2] Such a position certainly has its caveats; each definition proffered may in fact be specific to each particular writer, or at best to each particular activity studied.

With this in mind, I shall specifically define informality in the case of urban land markets to refer to those land markets that are *unregulated by the stipulated legal framework of the state*. This definition, based solely upon legal criteria, is a refinement of one of the characteristics on the ILO's list, "unregulated and competitive markets." It is necessary to narrow the meaning of "unregulated" in this manner, for, as Alan Smart (1986) suggests, even in a nominally unregulated market, basic ground rules must exist and be adhered to by the majority of actors, lest the market break down into unworkable anarchy. Furthermore, in the area of urban land development, it is the legal structure of the state that gives form to the formal private sector. Although the idea of an unregulated market is implicit in virtually all of the literature on informal land markets, such a specific definition is unfortunately lacking. One writer has in fact attempted to apply all seven of the ILO criteria in his examination of El Salvador's informal land markets (Harth-Deneke 1981), but to little effect.

The Relevance of Dualism

A basic criticism of the idea of the informal sector as generally dealt with in development literature is that since it is conceptualized in contradistinction to an opposite, the formal sector, a forced dualism arises. Rather than seeing the two "sectors" as integral parts of a complete system, this dualism allows (or encourages) the view that the informal sector can in some senses be analyzed separately, in isolation from the formal sector (Moser 1984, Harriss 1979). At one end of the debate over dualism are those who see the informal sector to be a redefinition of the Marxist concept of petty commodity production, which, as a minor form of production, is always articulated within the larger framework of the capitalist mode of production (Moser 1979). In the area of commodity production the various arguments against dualism are certainly relevant, as many nominally formal productive activities rely upon informally produced goods as inputs, or alternatively may utilize informal channels for the distribution of goods (Santos 1979).[3] By looking at this as an integrated system, an important question arises: to what degree does the lack of regulation in the informal sector creates a subsidy for formal production processes through the provision of lower priced inputs? If the formal/informal distinction has any validity, it must be conceived of as a continuum with the activities of any individual firm or type of production falling somewhere in between the two extremes.

Land markets, however, should be viewed as an exception to this argument against dualism. The argument is against a dichotomous model that has been derived from an analysis of commodity production, and, as Polanyi correctly asserts, land is *not* a real commodity (Polanyi 1944).[4] It is neither produced (allowing for exceptional circumstances) nor destroyed in its consumption. Unlike real commodities, there are no inputs of labor or materials that are used in its creation except "improvements" to land, such as the construction of buildings or infrastructure, that have direct effects on the valuation of land. The necessity of understanding the creation of a commodity as a potential outcome of both formal and informal processes of production (which is why a conceptual continuum is needed) does not apply in the case of land.

The definition of informality that I have laid out above furthers the case for the use of dualistic distinctions when examining land markets. The definition relies upon inclusion or exclusion from the stipulated regulatory framework of the state. Because most, if not all, legal systems are quite precise in their parameters, specific lands can be seen to fall completely inside or completely outside of the regulatory framework. Although it is quite conceivable that exceptions to this can be found, as a general rule it can be asserted that there is no middle ground between formal and informal lands.

Despite this advocacy for a dualistic framework for examining informality in land markets, we must be careful that the view of urban land markets as a complete system, integrating both formal and informal lands, is not obscured. Changes in one sector (e.g., price increases derived from growth in demand) will certainly have impacts upon the other sector. What is generally not recognized is that, unlike most other commodity markets, formal and informal land markets do not interact through the marketplace (i.e. a common marketplace is missing), but rather in the political arena, in the courts, or through the regulatory machinery of the state. Although a buyer who operates within the formal sector may purchase informal lands, it is only through the intervention of the state, in the form of registration or permitting, that these lands are transferred between sectors. For this reason, there is not a continuum of types between formal and informal when one is considering the lands themselves. There may, however, be intermediary forms in the real estate business. Yonder (1988), for example, found that many land brokers in Istanbul operate in both types of markets simultaneously. In contrast, Gilbert (1981), in his assessment of the literature on Bogota, remarked upon the lack of individuals who would involve themselves in both.

Research on Informal Land Markets

The existence of informal land markets in the cities of developing countries was an issue that was relatively ignored at the time when many researchers first began to critically examine informal settlements. Those who studied the formation processes of informal settlements tended to focus on land invasions. The invasion of lands, either incrementally or as large organized movements, and illegal subdivision, wherein previous owners grant tenure rights although these rights are not respected by the state, are the two principal means by which illegal settlements originate (Hardoy and Satterthwaite 1986, Baross 1983). The prevalence of one means over another can depend upon a number of factors, such as politics, geography, existing ownership patterns or cultural norms (Harth-Deneke 1981, Doebele 1983). According to Smart (1986), the polemical stance of the researchers drove the research. For example, if the purpose of the research was to contradict the assumptions that underlay governmental policies toward uprooting illegal settlements, the settlers could not be seen to be exploiters of one another – a distinct possibility when one begins to examine any sort of commodity market.

Even settlements that began as organized squatter invasions quickly developed land markets, either due to the actions of "professional squat-ters" who staked out claims only for the sake of realizing a profit on their actions (Gilbert 1981, Moser 1982), or through plot "reshuffling" by original inhabitants during the early years of a settlement's consolidation (De Soto 1989). The question, however, remains as to how exploitative such markets are. Are land brokers

in informal markets able to charge their low-income clientele inordinately high prices for properties because of the high levels of demand which generally exist in the markets of rapidly growing cities? Or do the high levels of competitiveness in these unfettered markets, coupled with an understanding by brokers of the what their clientele can really afford, tend to keep prices at a reasonable level?

Carroll (1980) has found wide variation in the types of informal land brokers and their returns on investment in his study of the "pirate" subdivisions of Bogota. We can assume that variations in the modes of operation of brokers and subsequently in price levels to be fairly typical of informal land markets, as in general such markets tend to be characterized by ease of entry and therefore allow a great diversity in the types of players involved in land sales. Such a statement necessarily must be tempered by the particular characteristics of any one place at any one time in its historical development. There can be no absolute answer to this question of the level of exploitation of low-income buyers in these markets. As a generalization, however, prices in informal markets tend to be distinctly and consistently lower than prices of properties in equivalent formal markets (UNCHS 1984, De Soto 1989).

To briefly summarize the studies on informal land markets that have been undertaken, it is worthwhile to examine the purposes for which such studies were undertaken. The earliest studies of the "pirate" subdivisions of Bogota (one might say that this is where informal land markets were first "discovered," at least by academics) were intended first as a critique of governmental policies that further disenfranchised this segment of the residential market (Vernez 1973, Doebele 1977), and then as an examination of the potential contribution of informal markets to processes of urbanization (Carroll 1980). A similar positive viewpoint toward informality is taken in works that use the existence of informal markets as a vehicle for criticizing excessive controls in formal markets (De Soto 1989). Among writers working from a structuralist perspective, the penetration of capitalism in informal settlements has been an important topic (Burgess 1983), and thus studies have been undertaken to examine incipient capitalist relations, both within the land market itself (Moser 1982) and within the related market for rental housing (Amis 1984). A number of studies have also looked at the development of informal land markets relative to urban and national political structures or tried to understand the impacts of urban social movements (Gilbert 1981, Gilbert and Healey 1985, Smart 1986, Castells 1983, Connolly 1982). Surprisingly, one area of concern that has received only little attention by researchers is the effects that informal land markets have on the physical dynamics of urban growth. As an exception to this, Doebele (1988) has examined the physical consequences of informal development in the Kathmandu valley. The principal orientation of work on informal land markets has been on social processes and effects; physical implications have always been treated as a minor concern.

Policy Implications

Starting with the definition advanced above, we may say that it is the actions (or the non-actions) of the state that define the informal sector. The connections between the formal and informal sectors of the urban land market are mediated through the state and its regulatory framework. Policy issues there-

fore arise from the interaction between the state and informal settlements rather than from between the formal and informal sectors.

To understand the effects of this interaction, we must first make the distinction between politics and policy. Political decisions are in their nature ad hoc, whereas policy is assumed to be consistent and coordinated (but certainly not independent of political processes). Although the informal sector is often thought to be ignored or excluded from the purview of the state (this is made explicit in the conceptualization of the informal sector as the "unenumerated" sector), it would be wrong to think that the state takes no actions (other than forced removal) toward informal land markets and informal settlements.

The interaction between the state and informal settlements, when not dealt with in policy, will necessarily occur through political processes. For example, politicians or political parties may sponsor land invasions or encourage illegal subdivision for the sake of attaining greater popular backing (see, for example, Gilbert 1981, Gilbert and Ward 1982, Gilbert and Healey 1985, De Soto 1989), or become directly involved as land brokers for the sake of furthering their own standing in the community (see, for example, Connolly 1982), or when parties take it upon themselves to represent the interests of existing communities (see, for example, Smart 1986).

In recent years, however, there has been a growing trend toward the setting of policy aimed at "regularizing" the lands in informal settlements. This has resulted from the growing emphasis on the beneficial role that slum or squatter upgrading can play in the improvement of urban conditions. For example, Linn (1983) emphasizes the trend within the World Bank to support improvement of existing housing as preferable to other approaches to low-cost housing. While it is understood that the granting of property titles or the upgrading of tenure status can have a positive influence in the success of upgrading schemes (Martin 1983), not all such schemes include provisions for the legal improvement of ownership status for the residents (Payne 1984). A policy toward regularization of legal tenure status on a city-wide basis can also be proffered independently of physical improvement projects (Wegelin and Chanond 1983).

The basic intent of these "accommodationist" slum-upgrading approaches can be seen as the integration of formal and informal land markets. If it is the state that, through its policies, defines informality in urban lands, then attempts to formalize informal lands must be seen as an attempt to redefine the problem. But at one level, the problem will still persist, for it is the economic reality of the urban poor that forces them to seek shelter outside of the formal, and, therefore, more expensive, markets. Any policy aimed at incorporating informally occupied lands into the government's regulatory framework holds the potential for socially deleterious effects analogous to the "gentrification" that has occurred in the inner cities of developed countries in recent years (Silas 1980, 1983).[5] If the poor are displaced by policy attempts to regularize informal land markets, the problems that such programs seek to address will simply be shifted elsewhere.

NOTES

[1]Bromley reviews the origins of the term in his introduction to a collection of papers on the subject. He attributes its rapid acceptance by academics and others working in

development studies to the propitious timing of the introduction of the concept, coming as it did at a point when basic policy approaches to urban employment were being reformulated. See the introductory chapter to Bromley.

[2]An alternative is to simply discontinue use of the term "informal" altogether, and replace it with a word that is more indicative of the defining parameters of the entity being studied. In my definition of informal land markets, this word could (and for clarity's sake probably should) be replaced by "unregulated." However, it is common in the literature on Third World land markets to use the term "informal."

[3]Santos begins with this basic dualism, termed the "two circuits" of the urban economy, but in his analysis stresses the high degree of linkages between the two.

[4]See especially Chapter 6, "The Self-Regulating Market and the Fictitious Commodities: Labor, Land and Money."

[5]See Silas for information on land price and rental increases attributable to the KIP upgrading program in Surabaya, Indonesia, and the subsequent displacement of the previous inhabitants.

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