

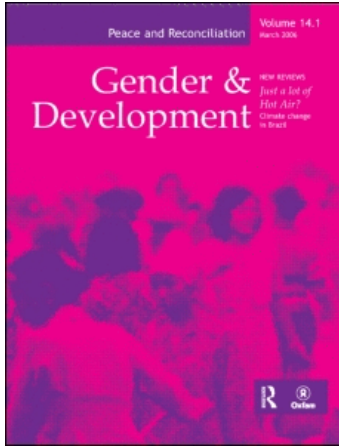
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How the global economic crisis reaches marginalised workers: the case of street traders in Johannesburg, South Africa

Jennifer Cohen

This paper explores the effects of liberal macroeconomic policies and the economic crisis on informal street traders. Street traders are linked to financial markets and the crisis primarily through demand conditions: slower growth and over-trading translate into lower profits. Field research indicates that female traders' households rely significantly more than male traders' households on income generated by trading.

Key words: informal economy; street trading; South Africa; economic crisis

Introduction

Traders in the informal economy are often perceived by policymakers as existing on the margins of national economies, and thus not affected, or minimally affected, by macroeconomic policy decisions. However, research suggests that demand for traders' products fluctuates depending upon macroeconomic dynamics, and that traders' livelihoods are directly linked to global value chains, albeit typically at the least profitable end (Velia *et al.* 2006; Webster *et al.* 2008). Studies also indicate that 'coping strategies' which are, in reality, unsustainable desperation measures, for dealing with a changing trading environment are very limited, rendering traders among the most vulnerable workers.

This article examines the case of informal street traders in Johannesburg, South Africa, who sell new clothing. Some economists and policymakers have claimed that the South African informal economy is structurally disconnected from the formal economy and is largely unaffected by formal economy phenomena (Mbeki 2003; Reynolds and van Zyl 2006). In fact, the research on which this article draws shows that South African street traders are directly affected by the country's macroeconomic policies of liberalisation, and the economic crisis which began in the USA.

Informal activity constitutes one-half to three-quarters of non-agricultural work in underdeveloped countries (Chen 2007). Hart (1976) coined the term 'informal economy' to describe his observations of urban employment in Ghana. The informal economy

refers to a diverse set of economic activities, ranging from insecure, sub-contracted piecework done at home and domestic labour to more entrepreneurial-type self-employment (Peterson 2003). Skinner (2005) notes that although different criteria are emphasised by different authors, the common understanding that they share of informal economic activity is that it tends to be relatively small scale and 'elude[s] certain government requirements such as registration, tax and social security obligations and health and safety regulations for workers' (5).

South Africa has a relatively small informal economy, given the scale of unemployment identified by the South African labour force surveys (LFS). According to the 16th LFS,¹ conducted in September 2007, South Africa's official unemployment rate is 23 per cent.² An expanded definition of unemployment that includes discouraged work-seekers raises the unemployment statistic to 35.8 per cent.³ The survey estimates formal employment at 42.6 per cent of the labour force and informal employment at 10.3 per cent of the labour force. According to most studies, the majority of workers in the informal economy are men, but women predominate in certain sectors, like street trading in fruits and vegetables (Skinner 2005; World Bank 2002). Between 50 and 70 per cent of informal employment in South Africa is in wholesale or retail trade (Statistics South Africa 2007). Retail trading includes businesses selling food, clothing, cigarettes, compact discs, mobile phone accessories, and so on.

The global economic crisis and Bree Street traders

According to orthodox economists, South Africa's macroeconomic policies have been good; its 'sophisticated financial system is fundamentally sound' as of August 2008, according to the International Monetary Fund (IMF) (2008, 3). These economists have historically advocated financial liberalisation, reasoning that supposedly efficient capital markets provide discipline, 'rewarding good policies and penalising bad' (Fisher 1998, 3). South Africa adopted 'good', orthodox, policies in the 1990s, and liberalised its capital account, but its reward for these efforts has been integration into the 'New Financial Architecture' and the detrimental impacts of the global economic crisis (Crotty 2009).

While countries with banks not holding toxic debt may have escaped the immediate fallout, they are subject to significantly slower global growth in the wake of the economic crisis, and slower growth translates into weaker demand for exports. Countries like South Africa that attracted short-term financial inflows are seeing these inflows fall off, as investors react to potential risk. South Africa used these inflows to finance consumption, and is now burdened with a large current account deficit that could trigger a currency crisis. It is clear that the macroeconomic liberalisation policies implemented in the post-apartheid era have exposed the country to unstable global financial flows and built dependence on credit-driven consumption (*Mail & Guardian* 2008). In the face of reduced capital inflows and slowed global growth, the size of the South African current account deficit is a threat to economic stability.

Many of the jobs that were created in South Africa are currently being lost, as consumption slows. Under crisis conditions – slowed growth, increasing unemployment, lower demand for exports, less foreign capital, lower consumption – one would expect that more workers will be pushed into street trading in the informal economy. Most traders working in the informal economy are there primarily because formal jobs are not available (Skinner 2005). Fewer formal opportunities will likely mean more informal enterprises, but fewer customers.

This article is based on research carried out by the author, with 31 street traders in and around Johannesburg.⁴ The research focused on street traders currently operating businesses, aiming to gain an understanding of the barriers they had encountered when going into trading, and challenges they were experiencing while trying to sustain their business in the face of the crisis. The field research was conducted in August 2008, at the start of the decline in retail sales as the crisis was being recognised. It used semi-structured interviews.

Of the 31 traders involved in the research, 12 were women and 19 were men (see Table 1). None of the trading businesses were registered to pay taxes. All were involved in selling new clothing. The motivation for selecting this particular group was, in part, that the sale of new clothing was likely to be more sensitive to changes in demand than trade in staple goods such as food. In addition, much of the clothing that traders sell is imported, and they therefore represent the distribution end of an international value chain that is serviced by the formal economy.

The 31 traders interviewed in my research had businesses ranging in age from less than one year to over 20 years. The average time of trading was eight years. It should be emphasised that this research was undertaken too early to capture the likely rise in informal trading as unemployed workers seek to survive. Anecdotal evidence suggests that this is happening (Timse 2009).

Informal traders' motivations, start-up, and connections to the formal sector

In South Africa, lack of demand for labour by the formal economy has created a pool of unemployed people, some of whom see themselves as having no choice but to start a business in order to generate the income required to survive. One 22-year-old South

Table 1: *Trader demographics*

	Immigrants (%)	South Africans (%)	Total (row %)
Male	14 (73.68)	5 (26.32)	19 (100.00)
Female	3 (25.00)	9 (75.00)	12 (100.00)
Total	17 (54.84)	14 (45.16)	31 (100.00)

African male trader said that he saw himself and other young people who are unemployed as having a choice only between starting a business and becoming criminals. He chose to start a business because the potential consequences of crime outweighed the appeal of immediate pay-off. Sixty per cent of all traders interviewed stated that they started their business primarily because of unemployment, and 40 per cent started primarily because they saw trading as a profitable opportunity. Men were more likely to report starting their businesses because they saw a profitable opportunity, while women were more likely to say they were motivated by unemployment.

It is important to note that *all* of the traders who identified unemployment as the primary reason for starting the business also saw it as a profitable opportunity. However, many of them qualified seeing a profitable opportunity with statements such as, 'it is more profitable than being unemployed'. When asked the question, 'What were your reasons for starting this business?', 17 of the 31 traders said they were unemployed, and several concluded their responses with statements like: 'it's better than nothing', 'I had no other choice', 'I couldn't find another job', 'Poverty', or 'There was no choice, my family was suffering in poverty'.

Most businesses were started with very little capital (the start-up cost for a trader selling new clothing ranged between R70 (US\$25 at the 1991 exchange rate) and R6,000 for a business started in 2007 (US\$851 at the 2007 exchange rate); the median was a little over US\$100 in terms of the start up years' exchange rates. Most had borrowed start-up money from family or friends, or used their own savings. Many people had begun by selling only a few things, or had started with low-cost items like cigarettes and sweets before moving into higher-profit items, such as shoes and clothing. When asked if he ever considered taking out a loan, one trader said yes, but that he had needed a bank account with money in it in order to get a loan – but if he had a bank account with money in it, then he wouldn't *need* a loan.⁵

Nearly all of the traders said they got supplies in bulk, but in small quantities, from formal shops that target traders as evidenced by painted signs stating 'hawkers welcome'. Another potential interaction with formal shops is through competition. Competition with formal shops was rarely cited as a challenge for traders when they were starting the business, but about 37 per cent now say that competition from formal shops is a problem. Traders who have businesses aged under three years are more likely to see formal shops as competition. Owners of businesses that are older are divided into half who say formal competition is a problem currently, and half who say it is not. I would speculate new shopping venues are the main reason, in addition to which it is probable that formal shops have become more of 'the norm' for some customers. This is fine. Women traders were more likely than men to see formal competition as a problem. It appears that female traders are more sensitive to changes in customers' behaviour and demand.

The next section discusses the impact of the crisis in terms of limited and falling consumer demand.

Demand-based constraints on street traders' businesses

Because the informal economy is intimately linked to the formal economy and macroeconomic conditions, when growth slows and unemployment increases, traders may see a decline in demand for their goods and services, and greater competition, leading to falling profits. Traders' own accounts suggest that this is happening. The interview data suggest that female traders may be more sensitive to degraded demand conditions.

Seventy-five per cent of female traders, and 65 per cent of male traders, reported having made more money a year before the time of the research, which echoes a drop in consumer demand for retail goods (Statistics South Africa 2009). The reason for fewer sales may be either lower demand by consumers, more competition from new traders, or a combination of both. As the number of traders increases, the number of customers would need to increase faster to keep profits from falling. While there was broad agreement among my research participants that sales are relatively slow, it is not possible definitively to separate the impact of a drop in market-wide consumption demand from the impact of competition.

Major problems most commonly identified by traders were low profits, too much competition, large variation in sales over time, and customers looking but not buying. In the next sections, I look more closely at each of these.

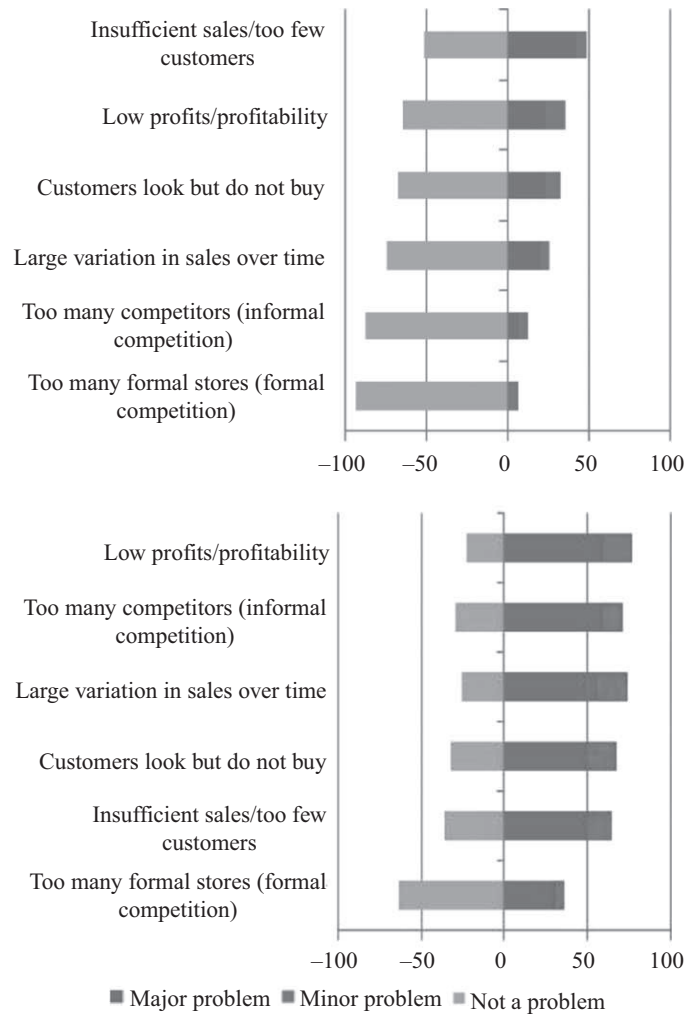
Profitability

Low profits may be the outcome of factors ranging from fewer customers, increased real or perceived competition, or additional pressure for income from growing households. Overall, about 80 per cent of respondents reported that low profits are a problem for maintaining the business, while 35 per cent said low profits were a problem when they started the business. When the responses are disaggregated by gender, the change in identifying low profits as a problem is especially pronounced for women compared with men. The same proportion, about 40 per cent of men reported low profits having been both a major problem at the time of start-up, and at the time of the research. In contrast, no women saw low profits as a major problem at start-up, yet nearly 85 per cent believed low profits were now a threat to their businesses.

One trader, a 32-year-old woman from Harare, Zimbabwe, said she had moved to South Africa to look for work, but started trading when she realised there were 'no jobs'. She has had her business for eight years, but is concerned that the business is earning too little money for her to keep it going.

In general, the problem of low profits may reflect overtrading or market over-saturation. The more traders there are in the market, the lower demand is for each individual trader's goods. The data indicate that women's businesses tend to be more profitable than men's businesses.⁶ Therefore, the gendered discrepancy between viewing low profits as a major problem does not reflect *actual* lower profits for women,

Figure 1: Current demand constraints upon entry.

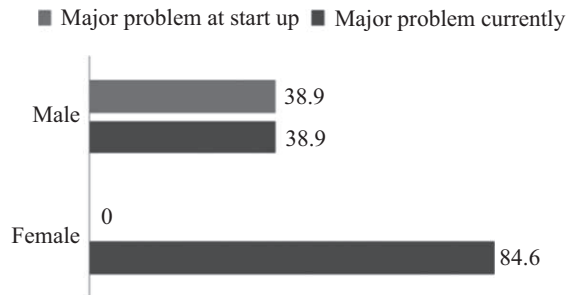


but may instead reflect a greater sensitivity to low profits. This is explored in more detail in the following section.

Variable levels of trade

A second challenge is the fact that trade is not constant. There are specific times when sales are slow, and a few of the traders said they sometimes are unable to buy stock. While 25 per cent of respondents said that variable sales were a problem when they started their business, 75 per cent reported that unpredictable sales are a problem for maintaining the business now. Variable sales could become easier to contend with over time, as a trader learns the market patterns.

Figure 2: Percent of traders identifying 'low profits' as a major problem.



There was a gendered difference in traders reporting variable sales as a major problem, just as there had been regarding low profits.

The fact that variable levels of trade were reported as a major problem facing many of the traders – and in particular the female traders – may be due to the fact that nearly all of the traders interviewed are earning relatively low incomes all month or all year, and face a challenge to maintain their households. Even in relatively good times, making a living can be difficult if income is very low. During lulls, including those that are expected, hardship may result because saving income to smooth consumption is difficult or impossible when the business earnings tend to be low even when the business is relatively busy. As it is highly unlikely that female traders confront a more variable market than male traders, the data again indicate that female traders and their businesses may be more sensitive to variability. Several traders linked variability to inflation, which limits their customers spending on 'extras' like new sneakers or book-bags.

Competition and over-trading

A third constraint is the ratio of buyers to sellers. Several traders pointed out that there are fewer customers because people are unemployed and are spending money only on

Figure 3: Percent of traders identifying 'variable sales' as a major problem.

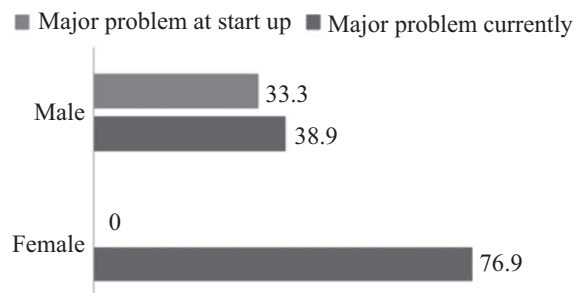
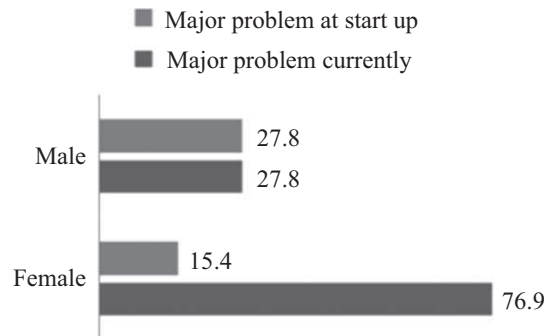


Figure 4: Percent of traders identifying 'customers looking but not buying' as a major problem.



necessities such as food and transportation. A rising number appear to be looking, but not ultimately buying.

While both male and female traders reported that there were fewer customers, female traders were far more likely to report that fewer customers, and customers looking but not buying, constitute major barriers to the sustainability of their businesses.

During the interviews, some of the traders suggested that an increase in the number of traders was responsible for a reduction in the number of customers per trader. Competition in the market is the single demand-based variable identified by both male and female traders far more frequently as a major problem currently than when they started the business.

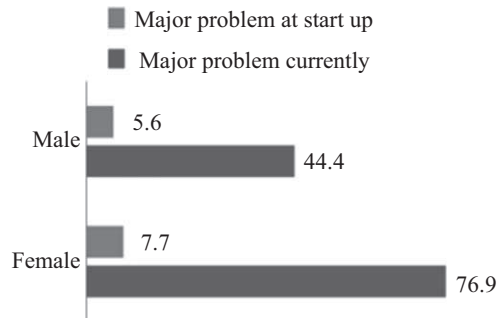
A small proportion – 8 per cent of women and 6 per cent of men – reported that too many competitors posed them a major problem when they started trading. In comparison, over 75 per cent of women and 44 per cent of men now see too much competition as a major problem. Over 90 per cent of the traders interviewed said there are more traders now than there were one year ago.

Given that traders are setting prices and buying the same stock from the same suppliers, the perception of a highly competitive street trading environment seems to come from the insufficient number of customers and low profits. Competition manifests itself in a sense of insecurity and vulnerability shared by most of the traders, both male and female, but again, female traders are more likely to consider competition a major problem for their business.

Discussion of the findings

The survey data indicate that traders, particularly female traders, are sensitive to changes in demand and overtrading. Higher unemployment and lower demand,

Figure 5: Percent of traders identifying 'too many traders' as a major problem.



driven by the economic crisis, may constitute a disproportionate threat to the sustainability of women's trading businesses.

While demand and business income are perceived by the majority of traders of both genders to be lower than the year before, female traders are more likely to identify demand-based barriers such as low profits, customers looking but not buying and variable sales as major barriers to the sustainability of the business.

The finding that female traders are far more likely to view the demand barriers as major problems that they currently confront may be driven by several factors. The first and perhaps most important issue is that female traders' households appear to rely more heavily on income from the business than male traders' households.⁷ The research findings suggest that female traders have lower household incomes than men, but slightly higher incomes from their businesses.

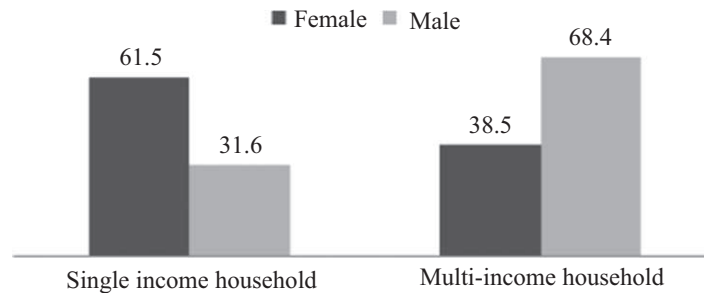
The reason that men report overall higher household incomes is because men are more likely to live in households with multiple income-earners. Sixty per cent of the women interviewed are the sole earner in their household, while this is true for only 32 per cent of men.

The median household size of four does not vary by gender, but female traders' households are far more likely to be single-income households with more children. The eight female traders who were the single-income earner for their household supported 22 children in total, while of the six male single-income earners, five were supporting no children and one supported two children.

It seems likely, therefore, that female traders may be more sensitive to the constraints on customer demand for their goods, because their households rely more heavily on income from trading. The profit margin is so low that even predictable fluctuations in demand (and hence income) may prove problematic for women; particularly those who are sole income earners for their households.

A secondary, linked reason for traders to perceive business as comparatively unprofitable at the moment may be inflation. For most South Africans, the cost of basics such as food and transportation has risen, and households may have an

Figure 6: Percent of female and male traders living in single- and multi-income households.



increasingly difficult time making ends meet. However, more research would be needed, with a larger sample, and questions focusing specifically on household vulnerability, in order to draw more concrete conclusions about the gendered perception of demand-based constraints.

Conclusions

The people who are currently losing their jobs in the formal sector, as well as others who work informally, for example as cleaners, are street traders' customers. The informal economy, and trading in particular, may act at first as a fall-back income-generating option for the unemployed, but this means more competition. Before the economic crisis, there was very high unemployment, and the informal economy was already crowded relative to the level of customer demand for the products and services on offer. The informal sector is unlikely to be able to absorb more workers, be they newly retrenched or new entrants into the labour force. Slower growth, fewer jobs, less disposable income, and more competition all result in lower income for traders, already a vulnerable group.

For the traders that I interviewed, the primary effects of the economic crisis are lower profits and greater competition. All traders are vulnerable, but female traders are especially insecure; most are already earning incomes that are insufficient for supporting a household, reinvesting in their business or saving money. Many traders were barely able to eke out a subsistence living for themselves and their families. One woman was supporting her four children on her income from trading and Child Support Grants of R460 (US\$46 at the time) per month and her situation was not unusual. The income generated by trading has not been high in the past, but the current crisis is exacerbating the problem. Traders have few coping strategies; they cannot increase their hours due to safety concerns, or lower their prices. When their earnings decrease because of external forces, they have no business-based way to

respond. Female traders and their households seem to suffer the most, because their households are more reliant on income from trading.

The Bree Street traders in my research have had no involvement in the construction of the New Financial Architecture; and they have been largely excluded from the social groups worldwide who have benefited from it. However, they are one of many marginalised groups who will bear the damage of its collapse.

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Notes

- 1 There are some known problems with the LFS data, which may result in under-counting informal activity (see Devey *et al.* [2003] and Webster *et al.* [2008] for more information on problems with the LFS). However, these data are the best available at a national level.
- 2 The official unemployment rate includes 3,945,000 '[p]ersons aged 15–65 who did not have a job or business in the seven days prior to the survey interview but had looked for work or taken steps to start a business in the four weeks prior to the interview and were available to take up work within two weeks of the interview' (Statistics South Africa 2007, 210)
- 3 The expanded definition here includes those classified as officially unemployed, and 3,425,000 'discouraged work-seekers', defined as '[p]ersons who want to work and are available to work but who say that they are not actively looking for work' (Statistics South Africa 2007, 210)
- 4 The research was carried out by the author under the Corporate Strategy and Industrial Development Research Programme (CSID) at the University of the Witwatersrand, Johannesburg, South Africa. The Office of the South African Presidency provided the funding for the field research discussed in this article, through its Second Economy Strategies Project, administered by the Trade and Industrial Policy Strategies (TIPS). The project is part of the author's dissertation research for a PhD in the Department of Economics at the University of Massachusetts in Amherst, MA, USA.
- 5 Most traders were unwilling to take loans from banks, in part because they felt that their businesses are vulnerable and loans were too risky. See also Cichello (2005).
- 6 The median monthly business income for a female trader was R1200 (\$120 at the time of the interview), while for male traders the median was R1000 (US\$100 at the time of the interview).
- 7 The income data are to be treated with caution, as some traders were unable or unwilling to disclose earnings.

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