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On the Move, Off the Books

By **MARC LEVINSON**

Meet Paulo Roberto, who sells plastic Spider Man knock-offs in São Paulo, Brazil. Or Yusuf Musa, who drives an illegal motorcycle taxi in Lagos, Nigeria. Or Wen, who runs an unlicensed factory that makes handbags in Guangzhou, China. All are part of what francophone Africans call *l'economie de la débrouillardise*, literally, the economy of resourcefulness. It is more widely known—for resourceful Africans travel far as they power much of the improvised economy—simply as System D.

In "Stealth of Nations," Robert Neuwirth offers a fascinating tour of System D, a world largely ignored by academics and government officials but a world familiar to anyone who has visited developing countries. Step outside your beachfront resort in Cancun and you can't miss it. Usually foreign visitors treat the participants in this unofficial economy with either pity or distrust: pity because they assume that System D workers are on the verge of starvation, distrust because familiar guideposts—regulations, licenses, credentials—are lacking.

Often neither prejudice is correct. Mr. Neuwirth introduces us to a woman named Jandira who for a decade has peddled coffee and homemade cakes to the unlicensed vendors at São Paulo's early-morning wholesale market for pirated movies. Her street-corner business, she proudly tells him, has enabled her to buy two cars and a house and to pay her children's fees at private school. Another of Mr. Neuwirth's sources, Chinese handbag designer Ethan Zhang, prefers to stay illegal. For him it's a matter of costs and benefits: "If I want to get a license, then I will need a bank account and an office in an office building." These are not people who lack the skills to survive through legal employment; they just see no good reason to join the legal economy.



Akintunde Akinleye/Reuters

Jamil Idriss charges \$.30 to recharge a phone battery at his stall in Lagos, Nigeria. He uses rows of three-pin sockets plugged into a diesel generator.

System D is full of surprises. From Linda Chen, who trades counterfeit auto parts, we learn that China has a hierarchy of fake merchandise: The manufacturers of high-quality fakes offer guarantees and take back defective products, but with low-quality fakes it's caveat emptor. Ogun Dairo buys woodchips from a sawmill and uses them to smoke fish, for sale by street vendors; her unlicensed grill is in an illegal squatter settlement in Lagos, but she buys fish that have been imported from Europe. At the euphemistically named Guangzhou Dashatou Second Hand Trade Center, where Arthur Okafor obtains the pirated mobile phones that he later smuggles into Nigeria, the cash turnover is so high that almost every

Stealth of Nations: The Global Rise of the Informal Economy

By Robert Neuwirth
Pantheon, 290 pages, \$25.95

built an entire network of wholesalers and agents and subagents to sell diapers and soap through merchants in villages so remote that they have no retail stores.

"Stealth of Nations" is a valuable book because it challenges conventional thinking about what it means for an economy to develop. Since at least the 1960s, economists have described underdeveloped countries as places with large "informal" economies, in which people work off the books and outside the law. One measure of progress, it is claimed, is the movement of workers and businesses into the "formal" economy, in which employers are registered, income is taxed, and firms are subject to government regulations and legal judgments.

Mr. Neuwirth rejects this distinction. In many places, he notes, formality and informality are not opposites: Yusuf Musa purchases a daily permit from the local government for the right to drive his illegal motorcycle taxi through the streets of Lagos's Festac Town. The computer stores serving Brazilian smugglers, which account for much of the economy in Ciudad del Este, Paraguay, thrive with official toleration. Mr. Neuwirth argues that System D fosters entrepreneurship while also meeting governments' needs to encourage employment; in some cases, a modest amount of tax revenue is also generated. Moving into the "formal" sector, he suggests, may not be a goal to which entrepreneurs in poor countries aspire.



Sunday Alamba/Associated Press

Water for sale in Kaduna, Nigeria.

(unlicensed) kiosk has a battery-powered currency counter.

In short, System D is highly integrated into the global economy. There are global supply chains that stretch from back streets in China to umbrella-stand merchants half a world away. Even giant corporations are getting in on the game. In Morocco, the consumer-goods giant Procter & Gamble has

At the level of the individual worker, Mr. Neuwirth is convincing: Millions of people have overcome the obstacles posed by misgovernment and found paths to prosperity through System D. At the level of society, though, Mr. Neuwirth's argument is less persuasive. Building prosperous cities and countries requires more than creating jobs. Prosperity requires capital accumulation to finance investment in factories, power grids, highways and the like. System D simply cannot accomplish such things. The entrepreneurs that Mr. Neuwirth profiles are eager to invest in goods they can sell quickly, but they are unwilling to risk their capital on fixed investments that are forever vulnerable to taxation, regulation or outright confiscation.

There is no more sobering story in "Stealth of Nations" than that of Ugochukwu Eleazars. Mr. Eleazars imports windshields from China into Nigeria. He handles a single container at a time because he cannot obtain the credit required to import on a larger scale. It would be cheaper to manufacture the windshields in Nigeria, he says—if only Nigeria had reliable electricity. Here is where System D hits its limits. Windshields it can come up with, but the lack of credit and the lack of a dependable power grid are problems it cannot solve.

—Mr. Levinson is the author of "The Great A&P and the Struggle for Small Business in America."

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