

## Introduction

This special issue of the *International Journal of Sociology and Social Policy* focusses on the informal economy. The informal economy includes undeclared work (where the work itself is legal, but relevant taxes and social dues are not paid) and also illegal, criminal trade and work (such as trafficking in drugs, human beings and antiquities). All of these aspects of the informal economy have received attention from researchers. However, while much has been learned, research has generally been conducted within disciplinary silos, thus limiting opportunities for researchers to learn from each other and expand the theoretical, conceptual and empirical content of the research agenda. The primary aim of this special issue is to stimulate inter-disciplinary efforts to broaden and deepen inquiry into the character, consequences and regulation of the informal economy. The papers it contains were first presented at a conference hosted by the Centre for Criminological Research at the University of Sheffield, UK, in June 2015. The aim of the conference was to stimulate collaborative mapping of future paths for informal economy research and to transcend the “conversation gap” between disciplinary silos. The event brought together researchers from disciplines including area studies, criminology, development economics, geography, management, psychology and employment relations. This disciplinary diversity is reflected in the contributions to the special issue.

## How widespread is informal employment?

The definition of informal employment used by the International Labour Organisation is “the total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises or households, during a given reference period” (Husmanns, 2004, p. 5). Informal employment includes own-account workers employed in their own informal sector enterprises, contributing family workers, members of informal producers’ cooperatives, employees holding informal jobs in formal or informal sector enterprises, those working as paid domestic workers by households and own-account workers engaged in the production of goods exclusively for own final use by their household. The ILO considers workers to have an informal job if their employment relationship is, in law or in practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (e.g. advance notice of dismissal, severance pay, paid annual or sick leave). This category therefore includes undeclared employment (i.e. employment that is not declared to the tax authority and other relevant authorities) and workers who are entitled to statutory employment rights but do not enjoy them in practice. Many of these workers will be employed by the formal sector enterprises (i.e. businesses that are formally registered). Informality in such cases is a consequence of employers’ failure to comply with their statutory obligations (see Ram *et al.*, 2007, 2017).

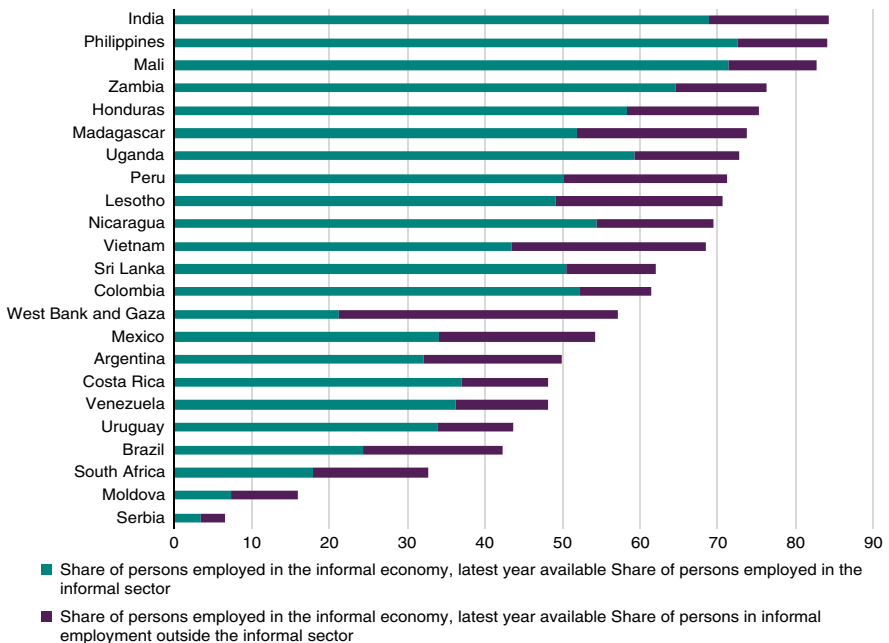
The measurement of informal work and employment is highly problematic. Few countries produce regular statistics on the extent and nature of employment in the informal economy. Unregistered businesses and undeclared employments are, by definition, difficult



to detect and their numbers cannot, therefore, be accurately reported in the official statistics. The problem is greatest in developing economies, which tend to have large informal economies but also substantial capacity constraints in terms of the ability of government agencies to collect and process data and conduct inspections of business premises. Figure 1 provides, for selected countries, recent International Labour Organization (2012) estimates of the extent of informal employment in developing and transitional economies[1]. In most of the countries shown, informal employment as a percentage of non-agricultural employment accounts for more than half of all employment. Typically, a majority of workers in informal employment work in the informal sector (e.g. in businesses that are unregistered), although informal employment in the formal sector (i.e. undeclared employment in formally registered businesses) is also widespread. Even these data, however, must be treated very cautiously, particularly when comparing countries. In addition to the intrinsic problems associated with detecting and measuring informal employment, data collection dates vary considerably, ranging from 2004 (e.g. Mali) to 2010 (e.g. South Africa).

### Causes and consequences of informal employment

The factors that give rise to participation in the informal economy have received a substantial amount of attention from researchers. Commonly noted causes in relation to workers' participation include lack of alternative employment opportunities, a need to supplement a low income derived from employment in the formal sector or a desire to supplement social security benefits with an undeclared income. The factors that are believed to encourage businesses to operate informally include the difficulties entrepreneurs may experience when attempting to navigate complex bureaucratic procedures associated with formalisation, a desire to avoid or reduce the costs associated with taxes and social security contributions and inadequate inspection services, implying a low risk of being detected.



**Figure 1.** Share of persons employed in the informal economy (excluding agriculture), latest available year

Source: Adapted from ILO (2012, p. 11)

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The relevance of these issues varies between countries. The factors that serve to perpetuate informal economic activity and influence the size of the informal economy reflect historically forged social and economic structures, the organisation, resourcing and orientation of the welfare state, the particular nature of tax regimes and so forth.

As Stark and Kirchler's (2017) examination of tax compliance in Austria and Germany demonstrates the perceptions of what constitutes acceptable behaviour in respect of economic activity vary between and within countries. Perceptions can also change over time and may alter according to changes in economic circumstances (e.g. the level of unemployment and the extent of opportunities to access decent work in the formal sector of the economy). On the other hand, in countries where the informal economy has traditionally been relatively large, a perception that undeclared work represents a socially acceptable practice may become strongly ingrained. However, as a number of the contributions to this volume make clear, an understanding of the informal economy in different countries cannot be achieved by focusing on national level institutions and policies alone. The drivers, characteristics and consequences of informality are influenced by social and economic factors that operate at sub-national level (reflecting, e.g., the regional distributions of economic activity) and across countries. Complex supply chains that link producers in different countries are particularly important in the latter regard. Furthermore, it is important that workers in the informal economy not be regarded as a homogeneous mass. The nature and severity of the constraints faced by men and women in respect of their ability to choose between declared and undeclared work may differ in fundamental ways, as might their experience of informal employment. For example, a study by Ogando *et al.* (2017) highlights the differences between men and women in relation to the ways in which their respective earnings from informal employment contributed to the income of their households, the various challenges that they were forced to confront in the course of their working days and their approaches to dealing with these challenges.

It is well understood that informal employment can have negative consequences for workers, businesses and governments. Workers will lack social protection and will be less likely to have their employment rights respected. Businesses that are compliant in relation to their tax and employment obligations will risk being under-cut by non-compliant rivals while informal businesses may lack access to sources of finance. Governments will experience lost tax and social security receipts while potentially directing substantial resources towards detecting and penalising informality (OECD, 2004). Moreover, vicious circles can develop. For example, low tax yields resulting from a large informal sector might result in increased pressure to raise tax rates in the formal sector of the economy so as to fund public expenditure. However, as tax rates increase, so potentially do the incentives that individuals face to avoid paying taxes.

Does this mean that informality is necessarily a "bad thing"? A number of the papers in this volume explicitly or implicitly address this question, but an initial answer is that context matters. As Pfau-Effinger (2017) emphasises, different types of informal employment are associated with different types of social risk, which also differ in terms of their severity. Work performed for friends and neighbours has a different significance to work that is undertaken to escape poverty. The former might take the form of unpaid favours or exchanges of gifts, with no substantial implications for workers' livelihoods. The latter, by contrast, may reflect the absence of social protection and routes into formal employment, without necessarily providing workers with a means of raising their incomes above poverty levels. Yet even where informal employment does not involve a "decent job", it might be preferable to the available alternatives (e.g. having no income, engaging in criminal activity). In principle, informal entrepreneurial activity can result in the creation of businesses that might eventually transit to the formal economy and some informal services (e.g. cash-in-hand childcare provided by a young neighbour) might be more affordable than

formally marketed services and, potentially, also of a higher quality. As Harriss-White (2017) argues, there are highly functional informal practices which are successful at the local scale, filling a gap in state provision and enabling people in difficult circumstances to meet their own needs. Indeed, the Indian informal economy around waste can provide a stepping stone, enabling some workers to ascend an “organisational” hierarchy allowing for some (albeit limited) improvement in standards of living. On the other hand, these standards of living remain far below the working conditions which formal employment and state recognition would provide.

In contrast, though, the informal economy, both in its licit and illegal forms, can also be a means simply to make far more money than is possible using formal legal means – though sometimes with potential very serious consequences for national economies and those working legally. Dobovšek and Slak (2017) show how the informal economy has not just “grey” and “black” elements, but also “white” elements, including the use of tax havens and insufficiently regulated trades on the financial markets to produce rich rewards for the few, but potentially serious financial instability (and indeed financial crises) for states and indeed globally. All of these financial mechanisms can be entirely legal, at least at present, and can be seen as regulation not necessarily keeping up with global financial patterns. They do though bear a suspicious resemblance to financial scams which have definitely been made illegal and fraudulent, and thereby to white collar crime. Saitta (2017, see also Saitta *et al.*, 2013), has also indicated how societal conditions can lead to a few using legal (and illegal) means to make money, leaving others, lower down the pecking order, to turn to the informal economy as “resistance” against official tax and employment social structures which do not provide means for the poor to earn an income.

### **Regulation of the informal economy**

The informal economy comprises activities that take place beyond the regulatory reach of the state. It is therefore most likely to thrive where government agencies (e.g. labour inspectorates, tax authorities) are unable to detect non-compliance and enforce legislation. In many developing economies, the capacity of regulatory agencies is constrained by a lack of funding. Yet regulation can be problematic in itself. Whilst directing coercive power at free-riders can increase trust and cohesion, the “iron fist” must be well targeted to protect rather than threaten society. Over-regulation can be self-defeating if it stimulates a search for loopholes and undermines trust.

A prominent theme in policy-oriented analyses of the informal economy is the desirability of the state enabling workers and businesses to make a transition from the informal to the formal economy. The International Labour Organization has been active in this regard and in 2015 took a substantial step in the development of guidance for member countries by adopting a new recommendation on the informal economy (R204 – “Transition from the informal to the formal economy”). The recommendation, the first ever international labour standard specifically aimed at tackling the informal economy, provides guidance for member states to help facilitate transitions and prevent the informalisation of formal economy jobs. Given that informality implies lost tax and social security revenues, the state faces an incentive to try to formalise the informal activities and many countries have taken steps to do so. For example, family carers in Denmark are employed by the municipality and family carers in Germany are granted fixed pay and social security benefits. But, the state can also be seen as facilitating the penetration of the market into the informal economy. For example, informal childcare in the UK and many European countries has been essentially made illegal through regulation, with market delivery filling this gap.

The state is, however, but one (albeit highly important) actor influencing the size of the informal economy, activities within it, the boundary between the informal and formal

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sectors and transitions from one to the other. Businesses have an important influence, reflecting the decisions that they make in relation to, for example, which activities to retain “in house” and which to outsource, whether to hire atypical workers or form durable employment relationships, and which suppliers they choose to contract with. The last of these issues raises a further set of considerations relating to the extent to which customers take responsibility for the labour standards of their suppliers and whether suppliers come under pressure to cut costs, perhaps by resorting to informal employment. These matters take on added complexity in the context of cross-border supply chains that might link a number of developed and developing economies. The respective roles and responsibilities of large employers, NGOs and supranational organisations (particularly the ILO), and the consequences for the maintenance of labour standards, are issues that are attracting an increasing amount of attention from researchers. As some of the papers in this special issue demonstrate, regulatory actors at the local level, such as community organisations and local authorities, are also important and may have more significance for the day-to-day activities of those who work in the informal economy.

### **Moving the research agenda forward**

The papers in this special issue are diverse in terms of their empirical content, dealing with matters that range from money laundering in Europe to waste picking in India. Taken together, however, they raise three important considerations for the future development of the research agenda relating to the informal economy. The first concerns the character of the informal economy. The papers highlight the breadth and depth of the informal economy and the diverse interrelationships between the formal and informal sector. There is no single informal economy, nor type of informal work. The formal and informal economies are best seen as a continuum rather than as a dichotomy (see the paper by Shapland and Heyes, 2017) and the two are by no means hermetically sealed. There are informal aspects of formal economies, for example, illegal cross-border trade that can be used to build up working capital for companies. Organised crime also enters the formal economy at various points. In some ways, the informal economy thus enables the existence of aspects of the formal economy. Integrated approaches to understanding the formal and informal aspects of firms are therefore required.

The second issue relates to the research methods. The articles in the special issue draw on a variety of data sources. Some make use of large-scale data sets while others have derived their findings from detailed ethnographic investigations. Each method allows for valuable insights, but no single method can be expected to provide a complete picture of informality. Potentially there is much to be gained from combining quantitative and qualitative methods and from multi-scalar research that seeks to uncover linkages between behaviours, outcomes and regulatory influences operating at different levels (e.g. local, national, cross-national).

The third and final issue raised by this special issue is the potential of inter-disciplinary research to pose new questions, reframe old questions and spur theoretical, conceptual and methodological innovation. Too often confined to their disciplinary silos, researchers of the informal economy have much to gain from inter-disciplinary dialogue and joint research endeavours that challenge received wisdoms and provide more nuanced analyses with the potential to inform policy and improve the lives of those who labour in the informal economy.

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**Note**

1. The ILO provides detailed statistics for 47 developing or transitional economies. These are available at [http://laborsta.ilo.org/informal\\_economy\\_E.html](http://laborsta.ilo.org/informal_economy_E.html)

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