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Note

1. www.un.org/sustainabledevelopment/

Publisher’s note
Introduction
This special issue of the International Journal of Sociology and Social Policy focuses 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” (Hussmanns, 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)
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
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

References


From the informal economy to the meaning of informality

Developing theory on firms and their workers

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Abstract

Purpose – The purpose of this paper is to assess ways in which informality can be understood and reviews an emerging area of management scholarship. The origins and nature of informality are discussed with the aid of two different theoretical tools: “workplace sociology” (WS) and “mixed embeddedness” (ME).

Design/methodology/approach – The analysis is grounded in empirical material reflecting different aspects of informality mainly within the ethnic economy, such as a study on the implementation of the National Minimum Wage regulations (Ram et al., 2007; Jones et al., 2004, 2006).

Findings – The authors argue that the combination of WS and ME provides a valuable means of content and character of informality. It can also help to explaining variations and patterns within the informal economy, as well as understanding new forms of informality in the ethnic economy and beyond in “superdiverse” contexts.

Originality/value – This paper bridges two different theoretical approaches to explain the interactions between the firm and state regulations, as well as the workplace relations between employer and employees.

Keywords Mixed embeddedness, Social theory, Firm, Informal, Workers, Ethnic economy, Formal, Workplace sociology

Paper type Research paper

Introduction

Mainstream entrepreneurship and management scholarship has traditionally had little to say about the topic of the informal economy. That fact inspired the conference theme of the 2012 Academy of Management Annual Conference, two pieces in the Academy’s Perspectives journal (Bruton et al., 2012; McGahan, 2012); and there are also other recent overviews (Godfrey, 2011). Entrepreneurship scholars are following suit (De Castro et al., 2014; Webb et al., 2013). These contributions underline the extent of the “informal economy” and the need to understand it better. Among other things, the informal and the formal intersect, with large “formal” firms depending on supply chains in which various “informal” practices can operate undetected.

We need to understand the origin, nature and extent of “the informal” in modern economies, not least because of the potential for sometimes ill-informed controversy. Unless carefully placed in its proper context, economic informality can easily be equated with...
criminality and rendered rather over-dramatically as a “shadow economy” (Schneider, 1997), a ghostly bogeyman lurking just around the corner. This is the more reason for further development of these themes, drawing upon various sources hitherto seen as peripheral to the discourse. Notable here are important works by earlier US scholars who have provided a great deal of basic definitional work in the field (Castells and Portes, 1989; Sassen, 1991; Waldinger, 1993). Additional strength might be derived also from a fast emerging European school (Edwards and Ram, 2006; Ram et al., 2001; Williams, 2006, 2014), a potential source of theoretical interpretation and empirical findings capable of enriching the insights from management theory highlighted by McGahan (2012).

Building on this, our purpose in this paper is to lay out some ways in which informality can be understood while also offering a synthesis of knowledge in an emerging area of management scholarship. We explain and apply two long-established theoretical approaches: “mixed embeddedness” (ME) and “workplace sociology” (WS). We argue that bridging these two influential theoretical tools will enhance the way informality has been analysed so far, and fill some of the aforementioned gaps. ME has had a powerful influence on studies of immigrant entrepreneurship (Rath, 2000) and it has been developed and integrated into more general frameworks that explain behaviour in small firms in a variety of contexts (Edwards and Ram, 2006). It encompasses three levels of analysis: the micro characteristics of firms themselves; the opportunity structure in which they find themselves; and the ways in which this structure is itself socially embedded (Kloosterman et al., 1999; Kloosterman, 2010). It offers a way of understanding the interplay of the firm and its environment. Hence, ME helps to understand informality as a result of the intersection between the regulatory framework, the market and the firms. Informality is explained as the product of exclusion from all but the lowest yielding markets, which tends to marginalise the smallest firms, creating a need for cost-cutting, which is often achieved by means of informal practices. However, ME does not account for the dynamics within the firms at the micro-level that create and sustain informal practices. It is silent on the institutional, social and individual relations between owners, workers and other relevant actors that might produce informal practices.

We argue that WS is helpful in explaining the mechanisms that (re)produce informality. WS has for many years discovered and analysed informality in the employment relationship. Lupton (1963), for example, explored “fiddles” in an engineering workshop. The most extensive treatment came from Mars (1982), who addressed ways in which workers secured illicit rewards. Despite the fact that WS theory has been embedded in the study of work relations since the 1970s, it is rarely used in the study of informality. The perspective addresses the meaning of conflict and co-operation; it applies even in “informal” activities even though these lack many of the formal structures, notably trade unions, usually associated with ideas of conflict and contestation (Thompson and Smith, 2009). A core insight of WS is the complex, widespread and heterogeneous nature of informal economic activity; and its intimate connection with the “formal” economy. This immediately renders problematic approaches to the informal economy that portray an informal firm as an entity that is wholly informal.

The paper synthesizes and builds on evidence published in core management journals (Edwards and Ram, 2006), organisational behaviour (Edwards et al., 2006), and work and employment (Ram et al., 2007). The studies documented in these sources take the form of intensive case studies and incorporated the neglected voice of workers as well as business owners.

It is organised in two major sections: the Origins of informality and the Nature of informality. We highlight how WS and ME have helped to explain different aspects of informality in small firms illustrative empirical material analysed using these two theoretical approaches. These examples analyse different aspects of informality mainly within the ethnic economy in the UK (Ram et al., 2007; Jones et al., 2004, 2006). Given the
overall marginalisation of these firms from the mainstream economy, immigrant enterprises prove a suitable case to look at the suitability of WS and ME to explain informality within small firms. However, this sample material does not preclude the extrapolation of these theories to understand processes of informality within small firms in the mainstream economy. We include a final section where we outline future directions of research.

Origins of informality

Bruton et al. (2012, p. 1) define informal firms as those that are unregistered but derive income from producing legal goods and services. Here it is important to note that the notion of economic informality covers the whole range of business transactions carried out on a non-contractual basis. These include such practices as recruiting workers via the community “grapevine” rather than employment agencies or carrying out what Williams and Windebank (1998) call “paid favours” for friends and family. Significantly these are absolutely non-transgressive in nature, without a hint of law violation. While we employ a variety of descriptive labels in the present paper – “informality”, “informal firms”, “informal practices”, etc. – these are purely rhetorical devices and we regret there is as yet no recognised terminology to distinguish transgressive from non-transgressive. Until the requisite neologism is invented, Bruton et al.’s (2012) offers a valid starting point in harmony with the prevailing view in social science, as expressed by Williams and Windebank (1998, p. 4), who describe informal employment as “the paid production of goods and services that are unregistered by, or hidden from, the state for tax, social security and/or labour law purposes”. Broadly echoed also by Grabiner (2000), Leonard (1998) and Williams (2004), this formulation explicitly distinguishes informal work from both formal activities on the one hand and criminality on the other. Closely bearing on the kind of research we ourselves have done on informal work (Ram et al., 2007), Williams and Windebank (1998, p. 4) proceed to expressly draw attention to non-registration as a means of “avoidance of labour legislation, such as employers’ insurance contributions, minimum wage agreements or certain safety and other standards in the workplace”.

The origins of informality were addressed powerfully by the marginalisation thesis, originally put forward over two decades ago by Castells and Portes (1989), which sees informal work as an inherent feature of advanced capitalism, attempting to explain this by reference to the chronic disequilibrium of the market, which forces many micro-firms to sell their product or service at below the “correct” price. Since they can only achieve this through severe cost-cutting, they are obliged to cut all manner of regulatory corners. All this is given a valuable historical context by Williams (2014), who examines the development of thought in this field from the early twentieth century to the present. Most pertinently he reminds us that before the 1980s the prevailing view was that economic informality was an obsolete and vanishing form, mostly confined to pre-modern regions of the world. Insofar as it continued in the modern economically developed world it could be dismissed as a residual “gradually disappearing from view as the modern formal sector became totalising and hegemonic” (Williams, 2014, p. 1). Yet, from the 1980s onwards the realisation began to dawn that this rather casual assumption was empirically flawed, that even in the most advanced economies the population of firms operating at least partially on an informal basis was not diminishing. In response to this emerged the political-economic perspective led by Castells and Portes (1989), maintaining that far from existing faltering as obsolescent residuals, informal economic activities are a congenital feature of advanced capitalism. Indeed, under the pressures faced by small entrepreneurs and workers in face of the “outsourcing, downsizing and subcontracting practices that have appeared under deregulated global capitalism” (Williams, 2014, p. 2), the conditions for informal activity have intensified. As Sassen (1996) has argued, much informal activity takes the form of self-employment as last resort survival for marginalised workers, who use their firms trading activities to evade all manner of regulatory costs (Slavnic, 2010; Ram et al., 2007).
From the start of the present century, this marginalisation thesis has almost inevitably come under challenge from the newly hegemonic neo-liberalism (Harvey, 2005), what Chang (2014, p. 70) regards as “the dominant economic view since the 1980s”. The neo-liberal interpretation stands the marginalisation thesis on its head, placing the entire necessity for evading regulations on the state itself (Becker, 2004; De Soto, 2001) rather than on the market’s creation of a disadvantaged sub-class of self-employed strugglers. Summarising this neo-liberal thesis, Williams (2014, p. 7) puts it thus, “workers […] in regimes where there is too much state interference in the workings of the market, high taxes and corrupt public sectors are making the rational economic decision to voluntarily exit the formal economy”. Tellingly this author has himself conducted exhaustive international tests on all the key neo-liberal hypotheses, coming to the conclusion that there is little or no empirical support for any of them (Williams, 2014). Yet even though it may be over-harsh to dismiss the evidence-free neo-liberal case as ideologically driven, we can hardly fail to note its reliance on faith rather than concrete proof. Whatever the truth of this, it is still the case that the controversy surrounding informal motivations remains alive, as we shall see later when revisiting our own work on UK government enforcement of regulations (Ram et al., 2007).

Further hampering any search for neat black and white interpretations is the realisation that informality is not a linear one-dimensional affair but one that is better seen as multi-factorial process. Accordingly, we ourselves adopt the “cocktail of factors” thesis developed by Williams (2004). Not only do a wide range of economic, social and geographical processes come together to nudge some individuals towards unorthodox working practices but the complex multiple causation also tends to create a broad spectrum of activities. Indeed these range from fairly hard-line regulatory evasion at one extreme to what he calls “informal social entrepreneurship” (Williams, 2004), the undertaking of paid favours for friends and neighbours.

According to this approach, a distinct “informal” or “underground” economy is a rather tiny fraction of the great range of actually existing informal activities. Indeed, Williams and Windebank’s (1998) rejection of the term “informal economy” in favour of “informal employment” expressly makes the point that formal and informal firms are not separate species. Much more common than the pure formal or informal firm is the dual identity firm and any temptation to search for binary distinctions must be resisted, when reality tends to resemble a continuum, further complicated by all manner of overlaps. In practice, informal operators may well adopt formal procedures in certain circumstances, while the converse is often true. Attempting to bring some sort of order to this highly variegated realm, Williams (2014, p. 3) maintains that at a broad level, there are three categories of interest in this field: (1) informal firms operating informal practices (2) informal firms operating some formal practices, and (3) formal firms operating some informal practices. Only Category 1 fulfils the conventionally accepted criteria for the “pure” informal firm and in practice it is comparatively rare, outnumbered in most places by Category 3.

Though this dichotomous framing of the formal vs the informal economy has still not been entirely abandoned in management and entrepreneurship studies, it is refreshing to note a dawning awareness of the limitations of binary formulations (Bruton et al., 2012; Webb et al., 2013). In line with Williams (2014), Webb et al. (2013, p. 611) note that “entrepreneurs can be fully compliant with certain legal definitions (i.e. labor regulations) while in conflict with others (i.e. trademark laws). Future studies, they argue, could examine “how entrepreneurs are both formal and informal and why, from a strategic standpoint, an entrepreneur would choose to be compliant with certain prescriptions while intentionally conflicting with others” (Webb et al., 2013, p. 611). These ideas featured in an inner city restaurant in Birmingham, UK, that we investigated in research on informal work (studied by Ram et al., 2007, with subsequent further contact). It was registered for tax and other purposes and had an up-market position. Yet it employed many of its workers “off the books” and evaded some regulations, notably the National Minimum Wage (NMW). In doing so, it was not simply
“exploiting” its workers. Rather, it was negotiating their consent, which embraces some autonomy in the labour process and leisure when the restaurant was not busy. It was thus formal and informal, it was embedded in the economy in particular ways, it had a distinct way of managing the labour process, and it illustrates a type of informality.

In explaining the extent of informal activities, ME is of value in spelling out the origin of informality as the interplay between firms’ own resources and the opportunity structure in which firms operate. This orientation can usefully address important questions that Bruton et al. (2012, p. 9) maintain are neglected: are “some individuals […] excluded from formal opportunities due to cultural/societal biases […] and pushed into informality?” “If so, does this business type form an opportunity for these individuals, or does it create its own barriers that limit the individuals from progressing?”, and “what are the motivations that cause a firm to transition from informal to formal”. We have, for example, studied the informality associated with firms’ evasion of the UK NMW and also the employment of workers in the country illegally (Ram et al., 2007; Jones et al., 2004, 2006) using ME. The main processes leading to these results were two. First, firms were under product market pressure to contain costs in the two sectors studied. Restaurateurs made repeated reference to the clustering of rival firms, commenting on the “cut-throat” nature of the competition and “trying to outdo one another”. And for nearly all employers in clothing, survival rested upon price-cutting, sourcing cheap imports, and a retreat from manufacturing. Second, the labour market continues to supply workers willing to work for extremely low wages. The reluctance of workers to challenge non-compliant employers has to be seen in the context of the paternalistic bargain prevailing in such firms; this bargain had its roots in familial and community links. This work also shows that the informal labour process varies quite markedly from one sector of economic activity to another, with workers in customer-facing jobs like restaurant waiting enjoying considerably more autonomy in personal time management than their more regulated counterparts in clothing factories. By linking ME with WS together, we capture not only the origin of informality but also its reproduction and sustainability.

Irrespective of sector, however, a key finding of that research is that, though this harmonious equilibrium is paradoxically unstable, it is constantly being remade, as for example with the use of new groups of workers to plug recruitment gaps resulting from growing dissatisfaction with wages and conditions. In the case of South Asian employers it is worth noting the acute contradiction between the need to recruit fresh labour from the homeland and the UK immigration laws which make this a legal impossibility in most cases. Hence the pressure to use irregular immigrants is intensified, a highly precarious “solution” very much regretted by many owners themselves. As explained by one of the respondents in our own survey of irregular immigrants, “If I could get workers who are legal, I’d prefer to. We need a new system whereby we can get workers from Bangladesh legally, because the legal workers no longer move into the restaurant business” (Jones et al., 2007, p. 413). Even though we need to guard against false protestations, nevertheless this quite typical statement strongly suggests that entrepreneurs who otherwise would prefer the psychological security of a law-abiding existence do not conduct regulatory evasion in an atmosphere of impunity but rather as a last resort imperative. Another respondent who laments, “I only employ illegals because you can’t get anyone else, casts further light on this. These days the youngsters want official jobs or they’re just into drugs and criminal activities” (Jones et al., 2007, p. 413). Such are the strains of the immigrant to British-born inter-generational shift. These examples illustrate the use of ME as a valid tool to capture the origin of informality through the interplay of the regulatory framework (i.e. immigration regulations in the UK) and the practices and mechanisms of the sector where the small firm is embedded.

Whatever the moral qualms of the participants interviewed for the study on NMW, these irregularities are reinforced by the absence of an effective external deterrence from the state.
Often the latter is torn between the need to impose its own authority and the need to conserve the socially valuable jobs created in impoverished neighbourhoods by informal employers (Freeman and Ogelman, 2000; Jones et al., 2007). ME also accounts for how the state structures the spaces and practices in the market for firms to operate. In this particular case, the state could be seen as a direct facilitator of informal economic activity. In effect, the more the state regulates, the more regulations there are to evade and each new regulation inevitably acts to criminalise those who simply carry on as before. In this sense the modern state is the virtual creator of the informal sector through its constant redefinition of what is non-permissible in the market place. Even so any political reluctance to crack down on informal evaders seems almost justified in the light of historical experiences like the 1990s Dutch attempt to enforce regulations on the Turkish-owned clothing industry of Amsterdam, whose only achievement was to bring about the near-total extinction of that industry (Raes et al., 2002).

Harking back to our earlier account of Williams (2014), we are reminded that all this is highly politicised, with far-reaching implications for the role of the state and its relations with the market. Consequently this line of argumentation needs to be carefully measured and contextualised. For example, Castells and Portes (1989, p. 27) state that, “Avoiding over-burdensome tax regulation provides an incentive for tax evasion, welfare benefit abuse and a multitude of other activities aimed at earning invisible income”. Taken without qualification, such a statement suggests extreme bias, aligning itself with neo-liberals like Lea (1996) for whom any kind of state regulation is an offence against rational free market economic behaviour, creating a vicious circle in which informality reduces the state’s tax revenues thereby leading to higher taxes and still more evasion. Yet a more balanced interpretation might be that, culpable though avoidance may be, its root cause is a macro-economy so skewed in favour of large corporations that many small enterprises are too marginalised to be able to earn an “honest” living (Jones et al., 2006). Judgementalism is hardly appropriate to such moral ambiguity, with value judgements about informal work appearing even more slippery than attempts to define it.

On transitions between the formal and informal, ME also helps us to account for the impact of regulations in the sectors, that push firms in both directions. On the one hand, firms can be pushed towards informality when squeezed by external pressures such as the UK NMW in the context of very strong market competition. Alternatively, the NMW can encourage formalization when it goes along with the opening of market niches that allow the production of higher-value added products. Once again, the very nuanced interaction between state policy and entrepreneurial practice is at the heart of this question, as became very evident to us during our investigation of 17 clothing and restaurant firms not complying with the NMW (Ram et al., 2007). From this exercise our key finding was that, in carrying on much as they had prior to this legislation, informal employers remained all but immune to the NMW, evading it by under-declaring the number of hours worked. Particularly in the restaurant trade, employers insisted that hourly rates were completely inappropriate to working times, which varied wildly according to fluctuations in customer numbers. Accordingly most of them echoed the respondent who dismissed the NMW as “having no influence at all. It’s just another level of bureaucracy we have to deal with”.

A small minority of firms in this study (Ram et al., 2007) did make the transition from informal to fully compliant businesses. Three factors were particularly important in effecting this transition. First, market context was crucial. The firms were intent on growing their businesses; their customer and supplier base comprised larger firms that often exercised some influence of the internal operations of the case study companies; and the formal and contractual basis of customer relations meant that there was limited scope for non-compliance. Second, compliance was also a product of managerial choice. Non-compliance was incompatible with the owners’ desire to grow the business, encourage
commitment and innovation amongst staff, and secure high value customers. Finally, a noticeable feature of the compliers was their active involvement in a variety of business networks. These owners: made extensive use of their local business advisory services, secured business-related grants from the local council, and were business owners were members of local employer associations.

These illustrations of the impact of NMW regulations demonstrate the value of ME in explaining the origin and informality. Linked with WS, it can also account for the process to more formal arrangements. The state and its diverse regulatory framework (i.e. immigration policy, NMW, enforcement of controls) explain the origin and perpetuation of informality.

Nature of informality
Whilst ME sheds light onto the origins of informality, WS helps us understand the negotiation of informal work relations. This is to say that ME accounts for the origin of the informal practices, but it does not have explanatory capacity to unveil the mechanisms behind informality. At the micro-level we ought to understand how entrepreneurs and workers comply, semi-comply or contest informality. Some scholars have speculated that the “whip of the market” (Burawoy, 1985) leads to autocracy in the labour process. Research finds, however, that work relations are often characterised by tacit negotiation and a degree of give and take. Reasons include: the absence of a Taylorized production process, which means that work is less rationalised and regulated than in some more formal contexts; close personal relations between manager and worker, which make harsh autocracy hard to sustain; and familial and kinship ties that cut across the wage labour relation.

Distinctive adjustment processes within small firms shape the way in which regulations are perceived and mediated. For example, “informality” – in the sense of management-worker relations based informally on unwritten arrangements and tacit understandings (Edwards et al., 2003, p. 20) – can mean that issues relating to pay and working practices are handled without resort to formal administrative procedures. In such a context, firms can be expected to behave in two main ways: to avoid formal procedures in such areas as discipline and dismissal, and more generally to rely on face-to-face understandings with employees. Crucially, such understandings eliminate any explicit statements of rights and duties, with the further implication that legal obligations will be ignored if they do not relate to the established set of informal norms. There were many instances of these informal norms in Ram et al’s (2001) study of restaurants, with the complex case history of one worker in particular, Baldev, incorporating almost every facet of the paternalistic informal working relationship. Having relinquished self-employment through ill-health, he found himself with nothing to do and so took up a waiter’s job with a restaurateur acquaintance. Typical of many curry house workers, he is prepared to rationalise paltry earnings – £3 per hour with no account taken of volatile working hours depending on how busy it is – in terms of the quid pro quo of intangible benefits. Particularly valued is the absence of rigid work discipline, so that “if I arrive late, the boss doesn’t say anything”. He also enjoys the sociability of the working environment and clearly feels that the boss has done him a favour by liberating him from enforced idleness. Part of this quid pro quo is that he would not consider asserting his legal rights and, though aware of the NMW, commented, “I do not get that […] I work here because I like it […] If I stayed at home, I would not know what to do”.

Baldev’s case also makes the point that the condition of low-paid ethnic minority employees has to be seen, not simply as an isolated workplace phenomenon, but also in an entire context of informal social networks. Such networks are crucial in facilitating access to work and providing a linguistically and culturally familiar environment in the workplace itself. The type of management approach experienced by Baldev was suggestive of the paternalist arrangements widely noted in small businesses in general (Ram, 1994; Wray, 1996), and specifically in ethnic minority firms (Bailey, 1987; Herman, 1979). The flexibility and apparent mutuality implied by
such work arrangements is suggestive of a certain “ethnic solidarity” (Zhou, 1992). However, the material substance of informal and personalised work relations should also be noted. For instance, close relationships between owners and workers tend to foster collusion and feelings of mutual inter-dependence between the two parties. When under these circumstances workers themselves are voluntarily relinquishing their own legal entitlements, it is easier to get away with breaches in tax and pay legislation (Bailey, 1987; Herman, 1979).

It is equally important to note that, though informal networks may facilitate employment opportunities, allowing people to draw on and exploit personal relationships and networks of existing informal workers, they can also limit the choices available (Leonard, 1998, pp. 139-140). Work in such circumstances can be riddled with internal equalities and abuses. This in turn often curbs the capacity of informal workers to experience these sources of employment as liberating as they not only are indebted to their employer but also to the friendship and other networks which facilitated their employment (Leonard, 1998, p. 139). The full force of this sense of entrapment was evident from the experiences of a homeworker, interviewed in a recent study of the NMW and small firms. It is worth quoting her experiences at some length (see Box 1).

**Box 1. A sewing machinist’s work**

*Background […]*

Badie is a “homeworker” sewing machinist with some ten years’ experience. She has been working for SweatCo for around two years; she has three young children. Although she works exclusively for SweatCo, she is not recognised as an employee, “I’m just working for him […] I’ve got no cards, no pension, no holidays […] I’ve got nothing like that”.

*A Typical Working Day […]*

“I get up at 7 am and get the kids ready, make sure they’re washed and ready; then I make their breakfast. I then make my husband’s breakfast and make his sandwiches for work. Then I have my own breakfast. I get to sit at the machine at 10 am, and I sew ‘till 12 pm’. I make my youngest girl lunch, feed her, and then take her to the nursery for 12.40 pm. I get back at 1.10 pm and sew till 3.15 pm. I then make the children’s tea. I have my own lunch at that time with them; I don’t bother having it earlier, because it takes up too much of my time. I am back at the machine at 4.30 pm, and I sew ‘till 7.30 pm non-stop. After 7.30 pm, I have to feed the kids and put them to bed; and then I have to prepare food for the evening. After I put the kids to bed, I prepare my husband’s dinner for when he gets back home after the pub, which is usually 10.30 pm. On Saturdays and Sundays, I do two or three hours if the factory needs the work”.

However these hours of work were not constant. Typical of the clothing industry the flow of work is seasonal and erratic, “When he [owner] needs the work, I sew ‘till much later’, up to 10 pm or 11 pm. On three times last year, I sewed right through the night. If I didn’t do it, he’d give the work to someone else”.

*Pay […]*

For the style of garment that she is currently sewing, Badie receives £2.25 per item. She regards this as a “good” rate, and compares favourably with the factory owner whom she previously sewed for “He [current owner] pays me well […] The one before paid me 32 pence for a garment that took me half an hour to make […] It was really hard work”.

Badie was aware of the NMW, although she was not sure of the rate. However, she claimed “I have to take whatever he gives me”.

“I sew because of the kids. I don’t like sewing, it’s horrible. You have to work too hard. The work is constantly on your mind. Even when you’re not sewing, you’re thinking ‘I should be sewing’; you’re worrying if you’ve made enough money. For some other machinists it’s OK. I don’t claim income support, others do. My cousin [who works for the same firm] claims incapacity benefit, but she still sews and makes £30-35 per day. It’s OK for people like that because they got money coming in from the side”.

Future directions
As we explain below, there is much scope for theoretical development building upon the ideas already discussed. We suggest some key areas for advancement of informality at conceptual, empirical and methodological levels.

Explaining variations and patterns. Explaining variation and nuance in the informal economy is a key concern for Bruton et al. (2012), McGahan (2012) and Webb et al. (2013). Taking up this important point, we can cite Mars (1982) and Edwards (1988) to identify two broad influences. The first, echoing Kloosterman (2010), is the opportunity structure: the degree of space available to workers to ignore or bend the rules. Tightly constrained work processes such as lean production assembly lines and call centres limit this space. Much of the "informal economy", by contrast is not so rigidly Taylorised, and hence there is the kind of space that we discussed above. The second set of influences cover workers' needs to engage in illicit practices, and these needs in turn are of two types. The first is the extent to which formal rules make it hard for workers to do their jobs effectively. A classic example is a health and safety rule that cuts across the need for production. Here, workers are bending the rules to do, in effect, what managers want them to do, while also bearing the risk if things go wrong. The second situation occurs where workers feel that the balance of effort and reward is unreasonable, and hence they act to correct it by reducing effort or securing illicit rewards.

We argue that models are beginning to emerge that begin to address this question. The Edwards et al. (2006) model provides a framework that incorporates a range of different contexts in which small firms are embedded; it also incorporates agency dimensions and the negotiated nature of social relations in even the most "informal" of firms. For example, it addresses firms' labour market strategies. Those that recruit openly in the general labour market are the most likely to be more formalized in their dealings with workers. Those that recruit in a more closed way, through ethnic communities for example, are more prone to personalised and informal relations. This dimension interacts with others such as the firm's strategic direction. Firms seeking growth and linkage with mainstream markets will be the most likely to formalize. The idea here is not to typologize firms. Typologies act as a useful benchmark. Paternalism, embracing a mutual sense of obligation between employer and employee, is one benchmark. Another is the sweatshop, based on harsh discipline and hire-and-fire. But many firms combine elements of these features. And the features do not derive in any simple way from external conditions; harsh product markets can be associated with negotiated paternalism. The point is to identify dimensions in which firms vary, so that individual firms can be characterised without reducing them to types. It is also possible to look at the dynamics here, charting how informality rises and falls over time as a firm negotiates its economic and social position.

Understanding new forms of informality in the ethnic economy and beyond. Prior to this, however, there is considerable need to update our empirical application of existing theory in the light of the rapidly changing entrepreneurial population emerging from the new "super-diversity" (Vertovec, 2007). In the UK, the nub of this issue is the so-called "new migrant" population, comprised of EU economic migrants from post-Soviet Eastern Europe together with asylum seekers/refugees from Africa and South West Asia. Though research on these groups is as yet in its infancy, a number of quite striking findings have already emerged, the most surprising being that, in respect of what they do and how they do it, new migrant entrepreneurs seem to be taking on the mantle of their early post-war predecessors. In the light of Judt's (2010) historical verdict on the fall of the Iron Curtain, "After 1989, nothing […] will ever be the same", the fact that everything about migrant entrepreneurs IS the same demands its own explanation. Up to this point, the continuing segregation of new migrants in the lowest value markets (Sepulveda et al., 2011) has been explained in terms of ME, with Jones et al. (2014) arguing that not even the re-drawing of the political map of Europe has altered political-economic fundamentals appertaining to migrant entrepreneurs.
Not surprisingly, the struggle for survival in under-rewarded labour-intensive sectors ensures that new migrants are just as much dependent on in formal cost-cutting practices as their predecessors. Indeed this dependency seems greatest for those who entered the UK as near-destitute asylum seekers and consequently compelled to start-up businesses in almost unimaginably straitened circumstances. As Sepulveda et al. (2006) explain, this kind of under-resourced self-employment is often the sole earning opportunity open to asylum seekers. Consequently informal practices are virtually indispensable in propping up such precarious ventures, with the Somali community in particular notable for several distinctive methods of providing both start-up and working subsidies. In the matter of start-up, we have encountered several Somali owners whose firms were informally funded through membership of rotating credit associations; and day to day working is frequently carried on by “helpers”, unwaged family members or co-ethnics who often see these jobs as a kind of unofficial entrepreneurial entrepreneurship (Jones et al., 2014; Ram et al., 2008).

However, we think that some of the findings emerging from the analysis of informal practices within immigrant entrepreneurship presented in this paper can be used to explain informality in the mainstream economy. Informality is not unique to the “ethnic” economy and some of the underlying causes and mechanisms might be shared with non-migrant firms. Advancing this line of research outside the ethnic economy would be mutually beneficial for the advancement of both the field of informality and of immigrant entrepreneurship. The latter would moderate the “ethnic exceptionalism” argument of informality as a distinguishing aspect of the ethnic economy.

Expanding methodologies to look at informality. Though stemming from qualitative enquiry, these ideas readily inform quantitative research. It is possible to identify key dimensions of firms such as the extent and influence of family control and their recruitment and other labour management practices. Degrees of informality on each dimension can then be measured. Various theories can then be tested, such as that labour practices are influenced but not determined by a firm’s product market circumstances and that the degree of embeddedness in networks increases informality on most dimensions.

Qualitative inquiry could track firms longitudinally, assessing how and why they shift between the formal and the informal.

Conclusions
In this paper, we have shown that many of the misgivings about economic informality expressed by management and entrepreneurship scholars are perhaps overstated to some degree. As suggested earlier it may well be that this stems from a failure to give full weight to the contribution of European scholars like Colin Williams whose output in this field can only be described as voluminous (Williams, 2004, 2006, 2013, 2014). Following from his insights, we have shown how powerful theoretical developments can explain different aspects of informality through the analysis of empirical data: ME enables us to understand the origin of informality as the result of the intersection between the regulatory framework, the market and the firms; while WS proves an appropriate approach to understand the mechanisms that reproduce, contests or semi-complies with informality within the firm.

At this point we should caution that, for all their widespread applicability, the principles outlined here fall short of complete universality and should be taken as for the most part applying to micro-firms in the developed world. In the light of the case studies discussed in this paper, it may be tempting to think of informality as restricted to migrant-origin firms but this is strongly contested by such studies as Jones et al. demonstrating native white British firms to be rather more informal than their South Asian counterparts. Ultimately we may regard work in this field as achieving a valuable broad coverage and it is somewhat regrettable that international scholarship has yet to achieve a similar unified scope. It is difficult to miss the irony of an unprecedentedly
inter-connected world, yet one in which two sets of researchers in the same field can be sealed off from one another by the Atlantic Ocean, a mutual isolation which can only act to undermine our attempts to get to the truth about economic informality. In the true spirit of international research, we would like to believe that the proposals outlined above for future progress in this field will be carried out co-operatively, relegating the ocean to its proper status as a mere geographic divide.

References


Informal economy to the meaning of informality

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Further reading


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How close are formal and informal work?

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Abstract

Purpose – Recent changes in the UK to the regulation and modes of work in the formal and informal economies are considered. Research in this field has tended to remain in silos (treating formal economy working conditions separately from research on the informal economy). The question is whether the means of work and benefits to the worker for formal and informal work are now as different as the former images of formal and informal economy work imply under a “jobs-for-life” economy. The purpose of this paper is to consider whether the current aim of government regulation of the informal economy – to formalise it – is actually of benefit to workers, as might be supposed.

Design/methodology/approach – This paper considers recent research findings on the formal and informal economy, using official government statistics for the UK and more detailed European studies on the informal economy.

Findings – This paper argues that formal employment in the UK is becoming more casualised, with less associated benefits to employees. Though it is still of benefit to the state to formalise informal work (to increase tax take), some of the links between formalisation and a good working environment for workers are being broken, which may lead to the informal economy becoming more popular and requiring different priorities in its regulation.

Originality/value – This paper argues that we need to change our assumptions and image of work in the formal economy, compared to that in the informal economy.

Keywords Informal economy, Employment conditions, Criminal economy, Formal economy

Paper type Conceptual paper

Introduction

The most accepted definition of the informal economy sees it as the shadow, or other, of the formal economy. Hence, the informal economy has been defined as a productive activity that does not fall within the ambit of a country’s GDP (International Labour Organisation, 2002). There have been differences amongst scholars as to whether it should be measured in terms of individual workers, or work or firms. However, the key distinction is between paid work which is declared (normally by firms/employers but sometimes by employees) to the state and on which state dues, such as taxes and insurance or pension contributions, are paid, and paid work which is not declared and on which no such dues are paid (European Commission, 1998).

In general, work has also been seen as falling into one of these two categories: formal or informal. It has often been assumed that a productive activity which is illegal, in the sense of being outside the criminal law, will then naturally fall within the informal sector. So, for example, it has been assumed that the importation, distribution and sale of illegal drugs and the illegal activities associated with prostitution (such as pimping, running a brothel or, in some countries, prostitution itself) will be in the informal economy. Doubt has been thrown
on this assumption by the recent instruction from the EU to its member countries, acted upon by the UK in 2014, that some of these criminal activities should be included within GDP so that the measurement of GDP includes a better representation of work activity. In the UK, this has been done by the Home Office estimating the size of the illegal drug and prostitution markets (Monaghan, 2014). It is less clear whether the corollary is that drug importers and dealers and pimps are now expected to declare their income and pay the relevant dues (or whether, if they do so, they may then escape prosecution, though presumably, they will not be pursued by the Revenue and Customs for VAT, etc.).

There have been similar assumptions that, in return for declaration, workers in the formal economy receive benefits from the state and also some from their employers. In contrast, workers in the informal economy are not seen as benefiting from the regulation imposed by the state, so they will not automatically receive sick pay, holiday pay, good employment conditions inspected by workplace regulators, pensions, etc. Continuing in informal work over a period of time can leave workers (and their families) in poverty and without long-term rights (Katungi et al., 2006; Godefroy, 2003). Moreover, their employment is not normally subject to a written formal contract, so they can be fired without recourse to tribunals, subjected to physical enforcement methods if they are not performing (e.g. beaten up), not paid on time, etc. The contractual and regulatory framework for formal work is obviously different amongst different countries, so these benefits may be more or less applicable.

These assumptions that workers in the formal economy receive greater benefits than those in the informal economy depend to some extent though, on equating “state” and “employer”. Hence, it tends to be assumed that if the state mandates or encourages particular aspects of employment law or employment relations, then employers will follow suit. Contractually, though, there is no such thing as a three-party contract, such that whatever one party requires, the other two obey. The state may wish for employer-employee relations to be of a certain order, but unless the state takes the powers to regulate that order and puts in mechanisms and funds to enforce the regulation of the order, it will not necessarily happen. As many have commented, regulation is only as good as its enforcement (Hawkins, 1984; Dickens, 2012). This implies a need for government agencies (i.e. labour inspectorates) that have the capacity to detect infringements of employment rights and take appropriate action against firms that are found to be non-compliant. Effective regulation also requires that workers (and other citizens) who suspect compliance failures are provided with means of alerting relevant authorities, and enforcement is much easier to attain for certain types of work and in certain types of environment. So, for example, there are clear standards for the guarding of machinery and holes in the ground, the pollution of rivers and the release of radioactive substances (see, e.g. Health and Safety Executive, 2015; Hawkins, 1984). It is much harder to measure and enforce the levels of stress in call centres or the risk of violence posed by the public in hospitals or shops (Health and Safety Executive, 2007). Furthermore, certain occupations, such as domestic workers and street vendors, and workplaces, such as family homes and micro-businesses, are particularly difficult to regulate effectively.

In this paper, we wish to raise the possibility that the assumptions that workers in the formal sector are better regulated and receive more protection in employment are increasingly being placed into doubt in England and Wales and some other Western countries by the changes in employment and the ways in which work is done. The distinctions between formal and informal work have arisen economically and sociologically in the last half of the last century (Verhage and Shapland, 2013), a time at which centralised forms of work organisation with predominantly formal employment (the so-called Fordist model of employment and work) were well established. The question is then whether such distinctions can still be applied with confidence to the world of work now? If, as a result, the benefits of formal employment for workers are less certain, does this
cast more doubt on the stability of the implicit triangle of influence and power between the state, employer and worker? Are formal and informal employment becoming much more similar to workers? And so, are they becoming more similar for employers, to the detriment of the state? Or is this purely a result of the current growing dominance of the neo-liberal project (backed up by the global influence of the IMF, WTO, etc.) and a consequent decline of the social welfare model (requiring national state funding), and so potentially reversible to restore benefits to workers and potentially stability to the triangular compact?

Patterns of work in the informal economy in the West

It is very difficult to make definitive statements about “the informal economy”, which apply to every activity under that heading, because there is such a variety of work and workers, as well as employers and consumers, involved in the different sectors. The informal economy spans across the transfer and sale of goods and a very wide variety of services, from the financial sector through construction, personal services and agriculture (such as fruit picking). For every statement about one kind of informal work, there is probably an example from elsewhere which countermands it. The continuing controversy whether the informal economy is primarily a survival economy or a playground for the rich bears this out (Saitta et al., 2013). Yet, there are some relatively general conclusions which we believe may be able to be drawn out about the nature of work in the informal economy because they stem from the informal (and sometimes illegal) nature of such activity.

Legal work in the informal economy (undeclared work) is typically concentrated upon service sectors, household work, entertainment and catering, retail, construction and seasonal work in agriculture, etc. It is common for much undeclared work to be a “bit on the side” – the undeclared work being additional to the formal work of a similar kind (such as in plumbing or construction) (Pacolet and De Wispelaere, 2013; Boels, 2013). Typically, workers work for themselves or are employed in small units, underpinned by the personal contacts and lack of contractual paperwork/invoices characteristic of the undeclared work.

Illegal informal economy work tends to be in the supply of personal services and goods to individuals (prostitution, drugs, etc.), though distribution networks for both may well involve a number of levels and organisations (drug importation, human trafficking, etc.). Again, however, contacts tend to be known and need to be trusted, which limits the size of the organisation. Some forms of illegal supply and work involve very significant amounts of money (e.g. art and heritage fraud (Massy, 2008) and also the illicit trade in animal parts (Van Asch, 2013) at the level near the final sale, as well as the supply of drugs (at the level of transnational importation)). The informal economy can definitely be about “getting rich” rather than “getting by” (Verhage and Shapland, 2013). However, most workers in the illegal informal economy (e.g. street-level drug dealers) earn very little money – and there is no minimum wage in the informal economy. This can encourage informal economic activities to be pursued as an additional income to more formal sources, and indeed illegal informal economic activity often mimics the trade routes and business methods of operation of more legal forms (Tarrius, 2003). It might be characterised as being parasitic on the formal economy (Nelen, 2008). So, heroin and cocaine travel in lorries carrying legal goods (Tarrius, 2003), or inside the furniture which is legally bought, etc. Stolen goods are sold in second-hand shops and on internet markets which exist primarily for legal sales.

Both legal and illegal work, though, need to be run through person to person contacts – whether face-to-face, telephone or electronically – because of the need to avoid records and surveillance by the authorities. Moreover, personal trust is required. Though trust is key in most businesses, it is very difficult to “check out” new business, suppliers or customers when one’s business needs to be kept under the radar. Due diligence requires a very different set of tools, largely dependent upon personal contacts and recommendations. We would argue that this has two consequences. First, businesses tend to be small.
(a set of trusted associates) or the work done on one's own account. Second, activities may be geographically limited because travel itself is risky and may attract notice. It is interesting in this regard that burglary in England is typically very local (one's burglar tends to come from the same town, indeed from the next few streets; Wiles and Costello, 2000), whereas there are much more long-distance burglars in mainland Europe (Van Daele et al., 2012). The difference lies in the proliferation of automatic number plate recognition cameras on English motorways and the barrier of the Channel, compared to the perceived lesser probability of recognition over long distances in mainland Europe.

The suggestion is, therefore, that overall informal work will tend to operate through small firms, geographically limited, or through self-employment. Expansion in size is difficult if there is effective regulation and scrutiny because work in the informal economy cannot rely upon documents or legal contracts and so depends upon face-to-face, largely personal, contacts. Though this is the case for illegal (criminal) work, we would venture to suggest that it also applies to undeclared work.

Changing patterns of work in the formal economy in the West

This pattern of working, which we have argued is the characteristic of informal work, is different from our image of the typical structure for formal work in Western countries. Here the constraints of illegality have not countered the pressures of capitalism, so companies seek to grow and indeed to monopolise. Though the majority of companies which are registered are small companies, if they are commercial entities (as opposed to partnerships), then typically we see such small companies as fledgling in one way or another. They may be new, small entrepreneurial outfits, or they may be struggling or the owners may have simply decided not to strive and to remain small – though this may not be a successful strategy.

The image that some (perhaps most) people have of the successful Western company is of a medium or large company, preferably a PLC (in UK terms: a public limited company). Though the company may have several workplaces, factories or shops of varying sizes, it will have many employees. Efficiency demands productivity and routinisation, so some large workplaces will be common. The image is essentially Fordist, based on the assembly line, whether that line be manufacturing, assembly or call centre. The growing use of electronic control has tended to shrink workforces, but these are still volume enterprises (at least in terms of product).

Elements of the Fordist model remain important in the UK, particularly in the services sector where companies such as Amazon rely on relatively routinized, intensively time-managed operations and where many call centre operatives experience “an assembly line in the head” (Taylor and Bain, 2003). The Fordist model of employment relations (as opposed to work organisation), however, involving relative job stability, joint regulation of wages and conditions, and wages that rise in line with productivity, no longer reflects the experience of most workers. A number of developments since the 1980s have resulted in greater employment fragmentation and insecurity. Some of these tendencies were exacerbated by the economic crisis that began in 2008.

If we consider the data provided by the Labour Force Survey, just looking at the headline rates of employment indicates that there appears to be relatively little effect of the recession. There was a slight dip in the employment rate from 2008 to 2010, followed by an increase that has continued to 2015 (Figure 1; European Commission, 2015). However, the distinction between “in employment” and “unemployed” hides the changes within working practices towards, essentially, “less employment”.

First, the search for cost savings has led many organisations to rely on independent contractors for service support in areas such as finance, HR, IT, cleaning, reception, security, servicing, even mowing the grass. Those personnel may sometimes be based within the company’s premises, but their line managers will be others. Although the proportion of
workplaces that subcontract some activities appears not to have increased over the past ten years, contracting out of certain functions, notably security, has increased (Van Wanrooy et al., 2011, pp. 42-43). Outsourcing has become particularly prevalent in the public sector, where bodies such as the courts, police, prisons and health use agency or privately employed staff. This development can be traced back to the 1980s and the introduction of compulsory tendering requirements in England and Wales. Privatisation since the 1980s has also encouraged a proliferation of different contracting arrangements. If we think of a railway station, for example, the train crew, signallers, platform staff, café staff, shop staff, ticket sales, car park staff and engineers are all likely to be employed by different companies.

Second, it is well known that the growth of service sector employment since the 1980s has been associated with an increase in part-time employment and variable hours contracts. Much of the growth took place in the 1980s and early 1990s, and since the late 1990s, the proportion of UK employees in part-time jobs has been relatively stable (around one-quarter). There was a slight increase after the start of the crisis, from 24.2 per cent in 2008 to a peak of 26 per cent in 2012[1], since when there has been a slight fall. More significant, however, has been the increase in underemployment since 2008. The proportion of those working part-time because they could not find a full-time job (i.e. those in involuntary part-time employment) increased from 10.6 per cent in 2007 to 20.3 per cent in 2013, which is by far the largest proportion since the early 1980s.

Further evidence of the growth in underemployment is provided by the Bell-Blanchflower Underemployment Index, which measures the excess supply of hours in the economy, adding the hours that the unemployed would work if they could find a job with the change in hours that those in work would prefer, expressed as a percentage of the sum of hours worked and surplus hours. If one considers Bell and Blanchflower’s (2015) plot of both underemployment and unemployment, the graphs, seasonally adjusted, run almost exactly in parallel between 2001 and 2007, but then start to diverge in 2008 (although still showing similar peaks and troughs). Underemployment, since the start of the current economic recession, has become a much more major element in excess hours available in the economy.

It has been argued that there may also be an increase in portfolio employment (Sennett, 2011), in which one worker may have several jobs at one time. Unfortunately, although the Labour Force Survey counts the number of workers with a second job, it does not count the number of paid jobs per worker, so we cannot be certain. It is possible, however, that recent shifts towards more casualisation and underemployment may have led to an increase in
multi-employment, which has echoes of the nineteenth century and before, when every cottage in a village tended not just to be, for example, a small farmer, but also a brewer and alehouse keeper, seamstress, etc.

Third, the perceived experience of many within the labour force has definitely been a harsher one and a more precarious one over the last few years. There has been a decrease in public sector employment, compared to private sector employment (with jobs in the public sector tending to be less risky in terms of hours than those in the private sector). The decline in trade union presence within workplaces, coupled with a permissive legal framework, has also enabled employers to engage in practices aimed at maximising the numerical and temporal flexibility of their workforces, resulting in work that is highly insecure. The apogee of part-time, more risky formal employment is exclusive zero-hour contracts, in which the company does not guarantee any paid working hours to the employee, and which also prohibit the worker from obtaining jobs elsewhere. Although recent changes to the law mean that exclusivity clauses in zero-hour contracts have been unenforceable since May 2015[2], the basic form of employment remains entirely legal and indeed formal employment (the employer pays the state all necessary moneys for the hours actually worked by the employee). The Office for National Statistics (2015a) has estimated that 697,000 people were employed on zero-hour contracts as their main job between October and December 2014 (2.3 per cent of the UK workforce). However, potentially, such a contract means that the employee is withdrawn from formal employment if the company does not choose to employ them in any particular week and if they are unable to obtain work from an alternative employer. If the worker does obey such a contract and the company does not provide the hours, in fact, the public sector and/or the charitable, voluntary sector are subsidising the company, through benefits payable in the case of very low wages and through food banks, etc. Very similar effects pertain if companies do not obey the minimum wage limit, rendered more likely if there is poor enforcement of such limits (or contracts).

Fourth, are the workers we can see in company premises actually employees at all, or are they self-employed? Self-employed people of course bear the brunt of paying welfare elements of state taxation themselves, and have to provide their own pensions, sick leave, holiday pay, etc. Since mid-2010, there has been a growth in jobs, but a significant number of these jobs have been self-employed jobs – self-employed persons account for one-third of the additional employment created between spring 2010 and autumn 2014. However, it is clear that though self-employment is a positive choice for some (as indeed are zero-hour contracts for a few), many would prefer actually to be employed on a normal contract of employment, and much of the new self-employment is low paid and precarious (Heyes, 2015; D’Arcy and Gardiner, 2014). Overall, the number of those self-employed in the UK has grown by 650,000 since 2008, to reach nearly 15 per cent of all employment in 2015 (Office for National Statistics, 2015b). Most of these self-employed workers have no pension.

Fifth, young workers have been particularly hard-hit by the economic crisis and continue to experience substantial difficulties in making the transition from education to work. The unemployment rate for workers aged 15-64 years increased from 5.3 per cent in 2007 to 8.2 per cent in 2011, before falling to reach 6.3 per cent in 2014. By contrast, workers aged 15-24 years experienced an increase from 14.3 per cent in 2007 to 21.3 per cent in 2008, falling to 16.9 per cent in 2014[3]. Although the position of young people has clearly improved compared to the height of the economic crisis, their connection to the labour market is more uncertain than that of older workers, and gaining a foothold remains extremely difficult for many. Apprenticeships offer one route and the government has committed to increasing the number of apprenticeship places available in the economy. Some of these places are being snapped up not just by school leavers but those in their 20s. In some sectors in the UK, unpaid internships are the only way in (media, international bodies, PR, etc.), and patronage is rife. Some occupations require a period of
self-employment before a semi-permanent contract may be acquired (e.g. in professional orchestras). Entering work is becoming a less well-paid, more precarious matter – and entering some work is really only possible with family support.

Sixth, exiting work has also seen major changes. Retirement on a full pension which provides enough to relax upon is becoming rarer and is likely to phase out for the majority of workers in the next 20-30 years in the UK. In order to live (given that parsimonious states are unlikely to be profligate with state pensions), workers are likely to be faced with working longer into their 60s, 70s and 80s. The jobs available then, though, may not be the same jobs as in the prime of life. Supplementing pensions, workers are likely to take on part-time work, possibly less exacting work. Having a portfolio of income is likely to occur for the elderly as well.

Seventh, if one looks inside a building, one may also find few, if any, employees there. Since offices are expensive, equipping employees to work from home may be cheaper – or just expecting them to work from home, coming in to work for periodic meetings. Evidence suggests that there has indeed been an increase in the extent of employees working from home. An analysis of Labour Force Survey data undertaken by the Trades Union Congress (2013) found that a little over 4 million employees normally worked from home in 2012, an increase of 470,000 since 2007. The ability to work at a distance afforded by IT is changing the landscape of companies towards hot-desking and home working. It is also making worker-manager relations more distant, which will tend to depersonalise contacts and reduce workers’ inclinations to “step in” and help when other employees have difficulties, etc.

The combination of all these factors may have lessened the dominance of centralised forms of work organisation in the UK economy and weakened the ties that bind employees and employers. We may, in some sectors where there is not a need to gather employees together, be moving back fast to the era of piece work and home working. Communication between workers (and bosses) may not even be face-to-face, but electronic, at a distance, with periodic face-to-face encounters.

Another factor linked to the increasingly distant workplace, and which may also be promoting the informal economy, is the state’s need to check on these elusive workers. States and employers are colluding to require employers to undertake more checks of workers before formal employment can commence. In the UK, these include checking nationality documents (for border control and immigration reasons), checking that the employee does not have a criminal record and checking educational and skills qualifications, as a normal part of due diligence by employers before hiring. The latter has ramped up employers’ requirements for potential workers to be able to show pieces of paper proving their qualifications, rather than just possessing those abilities with them being tested over probationary periods. Probationary periods would of course have been paid periods. The need to be able to show documents is a disadvantage for those whose education or training has been difficult (including those who have been excluded from school) or who have not been able to afford the qualifications. This substantially disadvantages those who are trying to desist from crime or have criminal records (Farrall et al., 2010). It also, though, renders it difficult for those who come from poor backgrounds without much social capital to acquire the papers, or the internships, or pull themselves out of the not-in-work underclass. Though employers have (rightly) protested at the extra burdens state imposition of these checks have created, they do actually lower the risk of taking on unqualified staff for the distant workplace, where probationary periods have become more difficult to provide because they involve supervision by trained workers.

Though the concurrence of these changes may be a peculiarly British phenomenon, the pace of change in the formal workplace has been fast. Though employers may have been
propelled to consider change because of the economic recession and its pressures, some seem eagerly to have embraced the changes in work towards flexible contacts and subcontracting. A logico-rational economic response would be, "Of course, it is in businesses' financial interests to have more flexible arrangements". However, what is most financially advantageous at one moment in time may not be most beneficial in the long term. The downside of flexibility is the potential for a greater turnover of workers and the loss of skills and institutional memory. If training costs are minimal and the supply of workers is good, then turnover may not be problematic (namely, in call centres and in hospitality, where turnover is expected). However, there are clearly greater potential risks in greater turnover to high-quality production or service delivery.

The other notable element to the fast pace of change in formal work patterns is that employers do not seem to have been held back from moving to lower wage rates or zero-hour contracts by any perceived dissonance with employer-employee workplace culture. The International Labour Office has drawn together a cluster of attributes of what it calls "decent work", including adequate and safe working conditions, reasonable and reasonably stable incomes, definite working status and accessibility to labour protection legislation[4]. These can also be represented as elements of what one might term a "decent working culture", which would be seen as part of a compact between the employer, worker and state. Here again, we have seen an erosion, exacerbated by recently enacted government policies. Beginning with the "bonfire of the quangos" in 2010, the current Conservative government and the coalition government that immediately preceded it have weakened the content of employment protection legislation and the mechanisms through which it is enforced. For example, in April 2012, the minimum period one needed to have worked for an employer to be protected under the unfair dismissal rules was increased from one year to two years. The fees for a worker taking cases to Employment Tribunals (which deal with unfair dismissal cases) have substantially increased. As a consequence, the number of applications to Employment Tribunals has massively decreased (Ministry of Justice, 2015), raising concerns about the extent to which workers are being denied access to justice. In addition, the government has made it easier for employers to dismiss staff who are deemed to be "under-performing" by introducing measures to facilitate "consensual termination" of the employment relationship through ACAS conciliation, settlement agreements and "protected conversations" between employees and employers[5].

What is notable is that recent shifts in formal employment have occurred without any particular soul-searching among employers about departing from that decent working culture. There has, of course, been adverse comment, but this has been in the media and to a limited extent in Parliament, not amongst employers. The interesting element for employers in departing from such a decent working culture is that it is likely to have ramifications for their business. One such corollary is that they may develop in essence two workforces producing their product or working on their premises – a full-time workforce employed directly by that employer and within the decent working culture, and a more part-time or casualised workforce which may be employed directly or employed by agencies or a subcontractor, which does not benefit from the decent working culture. This bifurcation is not a recipe for continuing workforce harmony, though it can sometimes be used to drive down any demands by the permanent workforce to improve their conditions (by threatening them with demotion to the other workforce).

A second corollary is that workers who are not tied into the decent working culture may not feel any allegiance to that employer or need to deliver high standards, if they can get away with it. This is in essence continuing the process noted by Sennett (2011) about the move to portfolio careers with less loyalty to one employer in the long term. It is effectively compressing the attributes he noted into smaller time spans, or even simultaneously, where the worker is working for several employers or has several contracts.
Third, a lack of loyalty felt by the workforce, because it is not a decent working culture, may in fact loosen any perceived barriers to engaging in the informal economy for workers’ own benefit. So, doing a “bit on the side” — using the firm’s contacts and equipment on work which employees do themselves without informing managers — may be promoted. Changing workplace cultures can promote those aspects of the informal economy which involve those in formal work. We have known for a long time that some management cultures (those which emphasise outcome over method, ultra-competitiveness between staff and high rewards) promote corruption, fraud and financial scandals[6]. We are arguing that other management cultures, and particularly those which move, without regret, away from a decent working culture, may promote other forms of the informal economy.

We have argued, therefore, that there has been, in certain respects, a decisive shift in formal employment in the UK away from centralised forms of work organisation with a stable formal employment relationship to older traditions of more part-time, sub-contracted, geographically separated work. We also suggest that this is being accompanied by changes in the work culture which demote long-term loyalty and face-to-face care between the employer and worker, and promote short-term ends for both, as well as a more remote pre-employment checking of workers. We have seen some of the advantages and disadvantages of this for the employer.

If we consider, then, the advantages for the worker in formal employment, the much acclaimed advantages of the formal seem to be less viable and present. Long-term pension benefits are falling with the changes in pension provision, and greater mobility throughout careers. Out of work benefits are being squeezed by states. Short-term employer-provided benefits (sick pay, holiday pay) are not always available on flexible contracts. There are health and safety dangers in a distance working and home working (from stress, being a lone worker and less safe offices) — but they typically have not been as researched or enforced as health and safety dangers in large, particularly manufacturing places of employment. It is also not clear whether employers can exert control over health and safety at home.

The third partner in the worker-employer-state compact exemplified by the decent working culture is the state. It is not clear that the state has been affected very much or certainly very adversely by these changes in formal working. Smaller businesses and more at a distance working may cause slightly more work for the state in administering taxation, but they also create less work for the state in undertaking enforcement. Many regulatory measures, though they apply to all sizes of business, are only enforced for medium and large companies and for higher risk occupations and buildings (one example is health and safety inspections). The key issue for the state is the tax take — and any form of formal employment produces very similar tax takes in relation to taxes based on workers[7]. The direct interest of the state may then be neutral — which may explain why there has been relatively little governmental interest in these changes in formal employment.

Should there then be a move towards formalisation?
The emphasis on controlling the informal economy, as far as legal work is concerned (undeclared income), has, in recent years, been on formalising the informal, rather than trying to remove it entirely (International Labour Organisation, 2014; Barbour and Lilanes, 2013). In contrast, the rhetoric of dealing with illegal work (drugs, prostitution, trafficking, stolen goods market, counterfeiting, etc.) has continued to be about war and control, at least at the political level. However, action at the operational level of policing and regulation has shifted to management and enforcement driven by risk (Seddon et al., 2008). Both control and management, though, seek to minimise the extent of occurrence of the informal work, rather than to transform it into legal work.
Whilst illegal criminal work continues to be seen as criminal (e.g. as opposed to just detrimental to health), this is unlikely to change. Where there have been changes in how the work is viewed in a normative sense, enforcement has however changed. So, for example, the regulation of prostitution in towns in which the authorities do not seek to stop it entirely has moved to trying to ensure the safety of the workers (and surrounding citizens) (Boels, 2015).

In relation to undeclared work, it is becoming less clear to us whether the emphasis should be on all aspects of formalisation, if formalisation means becoming like formal work. Some aspects of formalisation would clearly be of benefit to workers, employers and the state (e.g. better ways of enforcing contracts than shouting and blows, and some regulation by state-linked agencies). However, since formal work seems, in other aspects, to be moving away from a “decent working culture”, do we want to promote uncritically formalisation which produces this kind of work? For the state, any effective kind of formalisation produces benefits because formalisation increases the tax take. Formalisation hence promotes an effective redistribution of wealth, provided that taxes are used to reduce inequality, rather than promote it. That is a significant normative argument for promoting formalisation.

For workers, though, more impersonal, document checking but equally precarious formal work may actually not have many more benefits (if employer and employee are in harmonious relations) than the person-oriented, informal work found, for example, in more lower-class areas by Williams and Windebank (2001). For employers, without reducing the paper burden, there would seem to be both cost and time disadvantages to formalisation. It may be time to try to pry apart the various strands behind formalisation and see which are beneficial and to whom.

Some of the major disadvantages of informality, however, remain and distinguish the informal from the formal. As indicated above, one key disadvantage of informality is the risk of corruption, bribery, brutality and simple non-payment for the work done by employers where there can be no recourse to formal agencies or regulators. There are corresponding risks for employers if workers denounce them to regulators. These advantages of the formal stem largely from the fact that formal work is registered with the state. The question is then whether such registration is worth the costs and work involved. The answer to that lies in whether the state is prepared to intervene where abuse is reported – i.e. whether registration does actually lead to investigation and action if abuse is reported. The ability and wish of state regulatory agencies to intervene to stop malpractice are not clear in all areas because, currently, regulation of the informal is controlled by top-down policies and strategies of inspection, which tend to serve state ends. It may be that, in this new era of work, if formalisation is to succeed, its regulation may need to move away from top-down, state-promoted uniformity and inspection towards a more responsive mode of intervention if contacted in relation to abuse.

Notes
1. Figures are from EU Labour Force Survey data reported by Eurostat. Data are for workers aged 15-64 years [lfsa_eppga].
2. The relevant legislation is Section 153 of the Small Business, Enterprise and Employment Act 2015.
3. EU Labour Force Survey data, reported by Eurostat (European Commission, 2015: lfsa_urgan).
4. We are translating these from their list of “acute decent work deficits”, which they see as characterising the informal economy: “most people engaged in the informal economy are exposed to inadequate and unsafe working conditions, and have high illiteracy levels, low skill
levels and inadequate training opportunities; have less certain, less regular and lower incomes than those in the formal economy, suffer longer working hours, an absence of collective bargaining and representation rights and, often, an ambiguous or disguised employment status; and are physically and financially more vulnerable because work in the informal economy is either excluded from or effectively beyond the reach of social security schemes and safety and health, maternity and other labour protection legislation” (International Labour Organisation, 2014, p. 3).

5. Where an employer offers to end an employment relationship on agreed terms (i.e. for financial compensation), the details of the “conversation” cannot be used as evidence in an Employment Tribunal, should the employees subsequently wish to claim that they were unfairly dismissed.

6. See, for example, the Treadway Report (1987). Recent examples of such cultures, coupled with lack of regulation, are in the trading scandals affecting the setting of financial exchange rates in the financial sector.

7. Capital taxes and corporation taxes will be affected by the size of buildings and companies.

References


Formal and informal work


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Informal employment in the poor European periphery

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Abstract
Purpose – During the transition from socialist to post-socialist regimes, many Central and Eastern Europe societies have developed a broad sector of informal work. This development has caused substantial economic and social problems. The paper aims to discuss these issues.
Design/methodology/approach – This paper aims to answer two questions regarding European countries with a relatively weak economy and welfare state: what are the differences in the social characteristics between workers in formal and informal employment? And how might they be explained? According to the main assumption, a key reason why people work in undeclared employment in such countries is that they are in particularly vulnerable positions in the labour market. This paper uses the example of Moldova. The empirical study is based on a unique survey data set from the National Statistical Office of Moldova covering formal and informal employment.
Findings – The findings show that, in informal employment, workers in rural areas, workers with a low level of education, young workers and older workers – in the final years of their careers and after the age of retirement – are over-represented. It seems that a significant reason why these workers are often engaged in informal employment is the lack of alternatives in the labour market, particularly in rural areas, compounded by limited social benefits from unemployment benefits and pensions.
Originality/value – Research about social differences between workers in formal and informal employment in the countries of the European periphery is rare. This paper makes a new contribution to the theoretical debate and research regarding work in informal employment.
Keywords Poverty, Welfare state, Informal employment, CEE countries, Social characteristics
Paper type Research paper

Introduction
Informal employment constitutes a relevant and problematic phenomenon in European societies in general and in the Central and Eastern Europe (CEE) countries in particular (Renooy et al., 2004; Surdej and Slezak, 2009, European Commission, 2014; Williams, 2014). By evading both official statistical coverage and the payment of taxes and social security contributions, informal employment causes considerable harm to national economies. Its undermining of wage and price standards distorts competition and puts pressure on those market participants who comply with state regulations. The relatively large scale of informal employment in CEE countries is seen as an obstacle to substantial modernisation of the economy and society (Renooy, 2008).

According to the definition of “informal employment” used in this paper, the term describes those remunerated activities that are legal in principle but are hidden from the state in practice, in that they are not declared to the public authorities even if their
declaration is required by the regulatory system of the state (ILO and Daza, 2005; Renooy, 2008, p. 250; Thomas, 1992; Williams and Windebank, 2005, p. 83). The paper is based on the case of Moldova, a CEE country at the European periphery which has both a weak economy and a weak welfare state.

This paper aims to answer two questions concerning CEE countries with a weak economy and welfare state: what are the differences in the social characteristics of workers between formal and informal employment? And how might these differences be explained? According to the main assumption, in the context of such countries, workers with vulnerable positions in the labour market, defined as workers who have less opportunity to find formal employment than others, are over-represented in informal employment. The main reason that they take up informal employment is hypothesised to be that social benefits for the unemployed and retired are below the poverty level, so informal work enables these benefits to be supplemented. It is also assumed that factors such as age, education, gender and type of area (urban/rural) are relevant for the degree of vulnerability of workers in the labour markets (Pfau-Effinger, 2009). The empirical study analyses a unique set of data from a module on informal employment in a data set from the Labour Force Survey (LFS) 2008 from the National Bureau of Statistics (NBS) of Moldova (Pfau-Effinger et al., 2010). The data offer the opportunity to gain insight into the ways in which informal employment in a CEE country is embedded in its social structures. Until now, there has been little research about social differences between workers in formal and informal employment in CEE countries. This paper makes a new contribution to the theoretical debate and research with regards to work in informal employment.

The second section of this paper debates the social differences between workers in formal and informal employment, and the factors which lead to the over-representation of workers with specific social characteristics in informal employment. The third section introduces the theoretical framework and the methodological approach of the empirical study and describes the LFS of the NBS. The fourth section provides a short introduction to the society and economy of Moldova, the role of its welfare state and introduces the findings of the empirical study. It also explores the main factors which cause workers with specific social characteristics to be over-represented in informal employment, both in general and in specific forms of informal employment. The paper ends with a summary and conclusion.

State of the art
In the debate on the development of welfare states, which is partly influenced by neoclassical economics, state regulation is seen as the main cause of the increase in informal employment. Informal activity is seen as the result of over-regulation and heavy state intervention in the economy through tax and social security systems. According to this argument, both workers and employers/contractors jointly create an “informal economy” with the main aim being to avoid paying taxes (Kirchgässner, 2011; Schneider and Enste, 2000). The authors who apply an institutionalist approach counter this assumption with the argument that the risk that work is organised in terms of informal employment is higher in weaker welfare states due to these welfare states having a low level of political regulation, trust and social security. This assumption is also supported by empirical studies (Kus, 2010; Renooy, 2008, Pfau-Effinger et al., 2009; Williams, 2013).

With regard to the main social characteristics of the workers in undeclared work, some studies have found that male manual workers with relatively low skills are the dominant type of workers in informal employment (Reidmann and Fisher, 2007, p. 29; Portes et al., 1999; Renooy et al., 2004), while other studies suggest that highly qualified craftsmen and male professionals also engage in undeclared work (Kimmel/Conway, 2001; Renooy et al., 2004, p. 7). It has also been established that migrants are over-represented in informal employment and that such work is more common in rural areas (Plaquer and
Escobedo, 2009; Belev, 2003). Pfau-Effinger (2009) argues that undeclared work covers several distinct types of employment relations which develop on the basis of a differing logic. The paper shows how the development of the different types of undeclared work can be explained by the ways in which they are embedded in a variety of institutional, cultural and socio-structural contexts.

Since informal employment is clandestine, outside the remit of formal employment and based on illegal work relations, there are few studies that explore in depth how informal employment deviates from formal employment in less affluent European societies with regards to the social characteristics of the workers, and the differences between different forms of informal employment, as far as they are measured in the available data. This is the contribution of this paper.

The theoretical and methodological framework of the study

Theoretical approach

The paper relates its argument to a classification of informal employment by Pfau-Effinger (2009). The approach distinguishes different types of informal employment through their exposure to varying degrees of social risks, and different types and motivations of the workers and employers. According to this approach, specific types of informal employment such as the “moonlighting type” and the “social solidarity” type are associated with relatively low social risks for the workers. The “moonlighting” type of informal employment is based on a second job which supplements a full-time job in regular employment (Kimmel and Conway, 2001). These workers have usually already paid social security contributions through their regular employment relationship, and are not interested in paying additional taxes and contributions.

Their main motive is to provide a little extra income – for example, to afford a few luxuries – rather than to escape poverty. Work in the “solidarity-based” type of informal employment is based on an exchange of services among acquaintances such as relatives, friends, colleagues or neighbours. For example, friends help each other to renovate their flat or house. The main motive is mutual support within social networks, rather than monetary gain. Some welfare states treat this type of work as paid employment and tax it (Williams and Windebank, 2001; Pfau-Effinger et al., 2009). The “poverty escape” type differs from the previous two types in that it is the main source of income for the workers. The workforce engaged in this type of informal employment comprises people who are restricted from entering formal employment and who have an income below the poverty line (e.g. unemployed people on benefits or retired people with pensions below the poverty level). The main motive of this group is to escape poverty in a societal context in which they do not have acceptable alternatives in formal employment or on the basis of social security benefits. This type is mainly promoted by weak economies and weak welfare states. Strong welfare states such as Denmark, which offer relatively high unemployment benefit and pensions, have largely eradicated this “poverty escape” type of informal employment, as Jensen and Rathlev (2009) show.

The social risks that are related to the three types of informal employment differ substantially. High social risks for workers are particularly associated with the “poverty escape” type, since there is a high risk that these workers do not have another source of income to bring them above the poverty level. This is less problematic for workers who act as “moonlighters” or who provide the “solidarity-based” type of informal employment. Typically, their primary job in formal employment provides these workers with social security and an income above poverty level.

The paper argues that, in the context of less affluent CEE countries, the combination of a weak economy and a weak welfare state supports the development of the “poverty type” of informal employment and leads to the over-representation of workers with specific social characteristics in informal employment.

It is assumed that it is mainly young adults during the transition from school to work, older workers, workers with a low educational level and people in rural areas who have a higher risk
than other workers to be informally employed. Young adults who enter the labour market have a particular risk to be unemployed, since the offer of jobs in weak economies and times of mass unemployment is relatively low (Pfau-Effinger, 1988). For older workers, the risk of long-term unemployment once they have lost their job is high, since the likelihood of finding new work is very low. Many workers of retirement age in countries with a weak welfare state are forced to work since the income from their pension is below the poverty level. However, such people have even less chance of finding a job (Pfau-Effinger, 1988). Furthermore, in labour markets with high unemployment rates, the chances of workers with a lower educational level finding a job are particularly remote (Renooy et al., 2004). Finally, workers in rural areas have a higher risk of unemployment, as jobs in formal employment are found predominantly in urban areas (Belev, 2003). Such workers have less opportunity to be employed in formal employment than others, and for them the option not to work is not viable as they lack the safety net of a welfare system that would keep them above the poverty level. They therefore have little option but to take up informal employment[1].

It is argued that within the field of informal employment distinctions need to be made between dependent informal employment in enterprises, and independent forms of informal employment in self-employment or in the subsistence economy of rural households[2]. The distinction works as follows: at times where there is an unbalanced labour market and mass unemployment, there is not only a shortage of jobs in formal employment, but in informal employment as well, which is mainly caused by low demand for consumer goods. This was, for example, shown in a study in North-West Germany in the 1980s (Siebel et al., 1988). It can, therefore, be expected that in the situation of a weak labour market and a low level of social security, people try to escape poverty through informal employment based on self-employment. Another option which is mainly only available for people living in rural areas is work in the subsistence economy of rural households, which means that family members provide agrarian work in their family-based small farm households.

Methodological approach and data base

In principle, data based on questionnaire surveys such as those carried out by the Rockwool Foundation (Pedersen, 2003) and the Special Eurobarometer 284 on informal employment that were carried out in 2006 and 2014 (Reidmann and Fisher, 2007; European Commission, 2014) can deliver more reliable data compared with indirect approaches. However, these international surveys do not offer in-depth analysis of the structures and the types of workers in informal employment (Pfau-Effinger, 2009). Because of such problems, the ILO has developed a concept for the measurement of informal employment and the informal sector and introduced international measurement guidelines. The Republic of Moldavia was tested within this framework, along with Brazil, Georgia, India and Mexico (Hussmanns, 2008). As a consequence, unique and relatively precise data sets exist for informal employment and the informal sector in the Republic of Moldova (in the framework of the LFS from the National Bureau of Statistics of Moldova (NBS)).

The LFS is a nationally representative sample survey that offers statistics on the labour force. It was designed and launched by NBS specialists in cooperation with experts from the ILO and has been conducted continuously by the NBS since 1999. The survey includes data about the employed, unemployed and economically inactive population. In addition, the LFS of 2008 included modules on informal employment which contain precise data. These data offer a unique chance to gain insight into the structures of undeclared work in a CEE country and the social mechanisms that lead to the over-representation of workers with specific social characteristics in informal employment. Nevertheless, some methodological problems remain. The data may not always be reliable; for example, they may underestimate the scale of undeclared work, since this is a clandestine and forbidden economic activity (National Bureau of Statistics of the Republic of Moldova, 2009a).
On the basis of the LFS data, this study analyses the role of age, gender, educational level and rural/urban area of the workplace for the participation of workers in undeclared work. In a first step, it analyses the differences in structures between formal and informal employment with regard to working times, to their location in rural or urban areas, and to the form of employment (dependent employment, self-employment and unpaid employment family work). It then explores how far the social characteristics of the informal workers differ from those in formal employment and the different forms of informal employment in relation to gender, age, educational level and if they work in a rural/urban area, and how the differences can be explained.

Main features of the Republic of Moldova
This section introduces the main features of the Republic of Moldova in the late 2000s when the LFS was conducted. Moldova is a South Eastern European post-socialist country, and a direct neighbour of the EU since Romania joined in 2007. The 2008 population was 3,792,142 [3]. The World Bank classified Moldova as a low-income economy. In a cross-national comparison, the GNI per capita was comparatively low – at US$1,470, ranking 153rd out of 210 World Bank Atlas economies, lagging far behind other post-socialist countries from the region (the Russian Federation ranking 75th at US$9,620, Romania 81st at US$7,930, Belarus 98th at US$5,380, Ukraine 125th at US$3,210). The Moldovan economy depended heavily on agriculture and fishing, with the share of the agricultural sector in GDP in 2008 being 17.3 per cent. The economy was strongly based on the income of emigrant workers, whose remittances represented nearly one-third of GDP (31 per cent) (The World Bank and the International Finance Corporation, 2009). Moldova received the largest flow of remittances in the region: contrasting with Romania (5.6 per cent), the Russian Federation (0.3 per cent), Ukraine (3.9 per cent) and Belarus (0.8 per cent) (National Bureau of Statistics of the Republic of Moldova, 2009b). There was a significant imbalance between demand and supply of work in formal employment in that jobs in formal employment were relatively rare, particularly in rural areas.

Furthermore, Moldova has a relatively weak welfare state. At the time of the study (2008), it offered very low unemployment benefits – far below the poverty line – with similarly meagre pensions. The low level of unemployment benefits contributed to the weakness of the bargaining power of the labour force [4]. The findings of a September 2009 report prepared by the NBS on the quality of employment in Moldova indicated that although unemployment benefits increased by 40 per cent from 2006-2008 and by 20 per cent compared with 2007, they still continued to be relatively low, at about 26 per cent of the 2008 average wage. In addition, access to unemployment benefit was limited: the share of people receiving unemployment benefit amounting to around only 10 per cent of the total registered as unemployed. These benefits obviously did not offer significant financial support to the unemployed people (National Bureau of Statistics of the Republic of Moldova, 2009b).

During the socialist regime in Moldova, levels of informal employment were comparatively low. Informal activities were treated as illegal and forbidden. With the transition to a market economy, and the deep labour market crisis that developed in this context, informal employment and informal enterprises became widespread, particularly in agriculture and trade (ILO, 2004, 2006). In the early 1990s, the demand for labour decreased substantially, a large number of workers were dismissed, and since then the labour market has been characterised by a fundamental imbalance between relatively low demands with an extremely large supply of workers.

Size and structures of informal employment in Moldova
This section introduces the findings of the analysis of differences in size and structures between formal and informal employment in Moldova, on the basis of the LFS of the NBS of Moldova for the year 2008.
First, the structures of informal employment are compared with formal employment and the differences between different forms of informal employment are analysed, on the basis of size, main forms of work contract, economic sector, working times and how far they are provided in urban or rural areas.

The data indicate that the workers in total employment numbered 1,251,000 in 2008. Nearly one-third of the employed population (31.1 per cent or 389,600) were working in some kind of informal employment (Table I).

Informal employment can be disaggregated into three main types of job, each of which forms an approximately equal part:

1. Dependent informal employment in formal enterprises (35.1 per cent).
   In this case, an officially registered firm, for example a firm in the construction sector, which usually employs workers on the basis of formal employment, hires a worker without registering the employment of this specific worker with the public authorities and without payment of taxes and social contributions:

2. Informal employment in informal sector enterprises (32.5 per cent).
   In this case, the worker in informal employment is hired by an unregistered firm that operates on an informal basis, for example an informal taxi agency, or a worker starts his or her own small business, for example in trade, on the basis of self-employment, without registering this with the public authorities and without paying taxes:

3. Informal employment in the agricultural subsistence economy of rural households (31.3 per cent).
   In this case the workers are members of a family which is an active small rural household and produce agricultural goods exclusively for their own consumption, working at least 20 hours per week. By definition these persons are considered to be informally employed.

It is clearly easier for people to begin undeclared self-employment than to be hired by a firm. Since purchasing power in a poor European country with a relatively weak economy is also relatively weak, it is plausible to expect that informal self-employment of vulnerable labour market groups is a relatively precarious type of work and often does not help the workers to escape poverty. It should also be considered that work in the agricultural subsistence economy of rural households is only available for people who own land or at least have access to land.

Officially employed workers work predominantly in public administration, education, health and social assistance (28.7 per cent), followed by approximately equal numbers (16-18 per cent) in construction, industry, agriculture, forestry and fishing (see Table II).

<table>
<thead>
<tr>
<th>Total employment</th>
<th>Total formal employment</th>
<th>Total informal employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,251,000</td>
<td>861,300</td>
<td>389,600</td>
</tr>
<tr>
<td>% of total employment</td>
<td>68.8</td>
<td>31.1</td>
</tr>
<tr>
<td>% of total informal employment</td>
<td>100.0</td>
<td>32.5</td>
</tr>
</tbody>
</table>

Table I.
Total number and proportion of workers in formal and informal employment

Source: LF in the Republic of Moldova, Employment and Unemployment, NBS, 2009, and own calculations
In contrast, informal employment is strongly connected with the traditional branches of agriculture, forestry and fishing. The majority of informally employed workers – about two-thirds (63.2 per cent) – work in these sectors, compared to only 16.5 per cent of formally employed workers. In the more modern sectors of public administration, education, health and social assistance, in which 28.7 per cent of workers in formal employment have a job, only a rather small proportion of informal workers are employed (3.4 per cent).

However, there are substantial differences between the different forms of informal employment. Nearly all workers in rural households (97 per cent) work in agriculture, forestry and fishing. In comparison with the share of workers among the formally employed, those who work in dependent informal employment in formal sector enterprises are also over-represented in this sector (52.7 vs 16.5 per cent), and also in construction (27.4 vs 4.5 per cent).

In contrast, the share of those who work in agriculture, forestry and fishing among the informally employed workers in informal sector enterprises is clearly lower, but they are still more often employed in this sector than workers in formal employment (33 vs 16.5 per cent), and this relates also to the sector of trade, hostels and restaurants (32 vs 17.9 per cent) (Table II).

Jobs in informal employment in Moldova largely provide the main share of income of the workers: the great majority of informally employed workers (71.2 per cent) spend 30 hours or more per week doing informal work while informal employment on a part-time basis, i.e. less than 20 hours per week, is uncommon (4.6 per cent). This finding indicates that a large amount of informal employment in Moldova is based on the “poverty escape” type of informal employment (Table III).

The distinction between formal and informal employment shows that the majority of work contracts in formal employment are based on dependent employment in enterprises (89.8 per cent), while this relates to only about one-third of informal employment (31.6 per cent). The majority of workers in informal employment work in independent forms of informal employment such as undeclared self-employment (37.1 per cent) and family work in the subsistence economy of rural households (31.3 per cent) (Table IV).

Some studies have found that in the CEE countries, small, unregistered firms have established themselves as a principal feature of the rapid process of economic

<table>
<thead>
<tr>
<th>Sectors of economic activity</th>
<th>Total formal employment</th>
<th>Total informal employment</th>
<th>Employment in informal sector enterprises</th>
<th>Informal employment in formal sector enterprises</th>
<th>Informal employment in households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry and fishery</td>
<td>31.0</td>
<td>16.5</td>
<td>63.2</td>
<td>33.0</td>
<td>52.7</td>
</tr>
<tr>
<td>Industry</td>
<td>13.0</td>
<td>16.8</td>
<td>4.6</td>
<td>10.3</td>
<td>3.0</td>
</tr>
<tr>
<td>Construction</td>
<td>6.6</td>
<td>4.5</td>
<td>11.1</td>
<td>6.2</td>
<td>27.4</td>
</tr>
<tr>
<td>Trade, hotels and restaurants</td>
<td>16.6</td>
<td>17.9</td>
<td>13.9</td>
<td>32.0</td>
<td>8.4</td>
</tr>
<tr>
<td>Transport and communication</td>
<td>5.6</td>
<td>6.6</td>
<td>3.3</td>
<td>5.4</td>
<td>4.3</td>
</tr>
<tr>
<td>Public admin, education, health and social assistance</td>
<td>19.8</td>
<td>28.7</td>
<td>1.8</td>
<td>3.4</td>
<td>1.9</td>
</tr>
<tr>
<td>Other</td>
<td>7.4</td>
<td>9.0</td>
<td>2.1</td>
<td>9.7</td>
<td>2.3</td>
</tr>
<tr>
<td><strong>Total %</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: LF in the Republic of Moldova, Employment and Unemployment, NBS, 2009, and own calculations
transformation in those systems, remaining undeclared and hiring informally employed workers as their survival strategy (Belev, 2003; Renooy et al., 2004; Surdej/Slezak, 2008). However, I found that “informal sector enterprises” with dependent employees barely exist in Moldova. Instead, the economic units that are active in “black market” activities are nearly exclusively workers who work on the basis of informal self-employment in order to escape poverty. A key reason why the business remains informal is that they cannot afford to register as a formal enterprise or to employ other people as workers.

Comparison and explanation of differences in the social composition of formal and informal employment

*Differences in the social characteristics of workers between formal and informal employment*

Table AI in the appendix provides insights into the main social differences between workers in informal and informal employment. With respect to the gendering of work, women represent about half of the workers (49.7 per cent) in formal employment and also in informal employment (47.1 per cent). However, social characteristics of workers such as urban/rural place of work, age and education seem to influence whether they work in formal or informal employment.

The data show that informal employment is mainly a rural phenomenon: the great majority of informal workers (77.4 per cent) work in rural areas, while the majority of workers in formal employment in Moldova work in urban areas (54.7 per cent). There are also differences between workers in formal and informal employment with regard to age. Younger workers in the early stages of their working lives, older workers in their last years of their careers and retired people are more frequently found in informal employment. The share of workers aged 15-34 is 28.9 per cent in formal employment and 33.3 per cent in informal employment. The share of workers aged 55 and older is 15.5 per cent in formal employment and 19.4 per cent in informal employment, and 1.6 per cent of the workers in formal employment are aged 65 and older, compared to

<table>
<thead>
<tr>
<th>Hours worked</th>
<th>Total employment</th>
<th>Total formal employment</th>
<th>Total informal employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 20 hours</td>
<td>5.6</td>
<td>6.0</td>
<td>4.6</td>
</tr>
<tr>
<td>20-29 hours</td>
<td>11.4</td>
<td>6.8</td>
<td>24.2</td>
</tr>
<tr>
<td>30-39 hours</td>
<td>16.2</td>
<td>10.2</td>
<td>26.2</td>
</tr>
<tr>
<td>40 hours and more</td>
<td>66.8</td>
<td>77.0</td>
<td>45.0</td>
</tr>
<tr>
<td>Total %</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*Source:* LF in the Republic of Moldova, Employment and Unemployment, NBS, 2009, and own calculations

<table>
<thead>
<tr>
<th>Employment status</th>
<th>Total employment</th>
<th>Total formal employment</th>
<th>Total informal employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>83.0</td>
<td>89.8</td>
<td>31.6</td>
</tr>
<tr>
<td>Self-employed</td>
<td>14.3</td>
<td>10.2</td>
<td>37.1</td>
</tr>
<tr>
<td>Unpaid family workers</td>
<td>2.7</td>
<td>0.0</td>
<td>31.3</td>
</tr>
<tr>
<td>Total %</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*Source:* LF in the Republic of Moldova, Employment and Unemployment, NBS, 2009, and own calculations
6.8 per cent of the informally employed workers. Furthermore, informal employment is more common among workers with a relatively low level of education. While 89.4 per cent of workers in formal employment have at least finished a secondary education, this contrasts with only 67.4 per cent of those in informal employment. Altogether, the study finds that there are considerable differences in the main social characteristics between workers in formal and informal employment.

Differences in the social characteristics of workers in different forms of informal employment
The social profile of the workers differs substantially between the three forms of informal employment (Table A1):

(1) Informal employment in formal sector enterprises.
This is the least common form of informal work in which the majority (59.2 per cent) work in rural areas. Mainly concentrated in the younger age groups, 43.5 per cent of the informally employed in this group are less than 35 years old. The share of workers who have at least finished secondary education, at 73.8 per cent, is clearly higher than in the independent forms of informal employment (65.1 per cent among workers in informal units and 62.7 per cent for unpaid family workers in rural households). Formal enterprises recruit and employ some younger workers informally. The firm-specific skills of this group of workers are less developed than those of the older workers, and it is therefore easier for the enterprises to apply a “hire and fire” policy. Some informal contracts may be transformed into formal employment after a certain period of time working in these firms:

(2) Informal employment in “informal sector enterprises”.
As stated above, the majority of informal workers who work in “informal sector enterprises” are self-employed (90.9 per cent). This type of informal employment is particularly common in rural areas where three quarters (76 per cent) of these workers gain their livelihoods in this way. Two-thirds of this sector are male. The share of older workers is clearly higher than in the formal sector (17.7 per cent in informal self-employment compared to 10.4 per cent in formal employment) and the share of workers who have finished at least a secondary education is lower as shown above. Older workers with a relatively low level of education generally work in undeclared self-employment since they have relatively little opportunity to find a job in formal enterprises. It also seems that undeclared self-employment is one of the few options in which retired people may make an income and potentially even escape poverty, since the likelihood of obtaining a pension which offers a standard of life above a subsistence level is low:

(3) Informal employment in the subsistence economy of rural households.
Informal employment in the subsistence economy of rural households is nearly exclusively based on unpaid work within the family. Women are somewhat over-represented in this group (55.9 per cent). What is evident here is that the share of older workers who are 65 years and older – and may be considered “retired” – is relatively high (31 per cent). The share of workers who have at least finished secondary education is particularly low in this group, as is shown above. It can be assumed that this type of informal employment is often used as a survival strategy by workers in rural areas with a relatively low level of education and low social benefits, as employment in formal enterprises is relatively rare.

Factors explaining social differences between workers in formal and informal employment
These findings show that the combined weakness of the economy and the welfare state has led to a high proportion of informal employment in Moldova, covering about one-third of
total employment and being particularly common in rural areas. It is mainly based on self-employment (68.4 per cent) and is likely to be dominated by the “poverty escape” type of informal employment (according to the typology of Pfau-Effinger, 2009), in which this is the workers’ main source of income, and is connected with particularly high social risks for the workers, since informal employment is not connected with work-related rights to social security or employment protection.

Moldova’s widespread informal employment is mainly a reaction to the low demand for workers and to the low level of benefits provided by the welfare state. Formal sector enterprises use a limited degree of informal employment, and informal employment in formal enterprises does not compensate for the considerable lack of jobs in the economy. The majority of informal workers – about two-thirds – work in independent forms such as self-employment or in the subsistence economy of rural households with the objective of escaping poverty, or, failing that, of survival. Since the social security systems do not offer social benefits above the poverty level, people are obliged to work in order to make an income, even if the formal employment system does not offer them jobs, and even if they are unemployed or retired.

Workers with a low level of education in rural areas, who are either at the start of their working life or in the final phase, seem to have a higher risk than others of being employed informally. However, while young workers engaged in informal employment are sometimes later employed in formal sector enterprises, and are sometimes offered a formal working contract, for the majority, independent employment is often a dead-end street which offers no transition to formal employment nor to a better income or social security benefits.

Conclusion
The study shows that in informal employment, workers with a low level of education, young workers beginning their working lives, older workers in the last years of work and those who have already retired, as well as workers in rural areas are over-represented. It seems that a significant reason why these workers are more exposed to informal employment is the lack of alternatives in the labour market, and the poor provision of unemployment benefits and pensions, and that informal activity is more necessary than voluntary. These workers are engaged mainly in independent forms of informal employment such as undeclared self-employment or informal employment in the subsistence economy of rural households, for which the entrance barriers are particularly low.

Altogether the data indicate that there is a clear segregation of the working population, where better educated people in urban areas have better chances of formal employment – often after a short entrance period of informal employment in a formal sector enterprise. By contrast, less educated workers and those in rural areas are often faced with no alternative but to remain permanently in informal employment, which carries high social risks, the workers being ineligible for social security benefits and employment protection.

The still-substantial share of informal employment may be expected to diminish with an improvement in the economic situation in the CEE countries. However, as long as the CEE welfare states are weak and do not offer social security systems that help people avoid poverty, informal employment will remain a significant economic and social problem.

Notes
1. It should be noted that although this situation may also relate to migrants, they have not been included in this study, since corresponding data are not available.
2. Pfau-Effinger (2009) stresses that also the distinction between firms as employers and private households as employers or contractors is important for social characteristics of workers. However, it was not possible to make this distinction on the basis of the available data.
3. Not including the population of the eastern part of the country.

4. Taking into consideration that people in informal employment are in their main activity, it reveals a significantly higher level of informal employment compared to EU countries (Pfau-Effinger, 2009).

5. Based on the LFS terminology, employment in the households sector comprises all persons engaged in the production of agricultural goods exclusively for own consumption by their household, if they worked for 20 or more hours during the survey reference week in this activity, as well as paid domestic workers employed by households. Thus, by definition these persons are considered to be informally employed.

6. Among these, 97 per cent work in households which produce goods for own consumption and 3 per cent work in households which employ unpaid domestic workers.

References

Belev, B. (2003), “The informal economy in the EU accession countries – obstacle to European integration or bridge between the EU member states and the accession countries?”, in Belev, B. (Ed.), The Informal Economy in the EU Accession Countries, Center for the Study of Democracy, Sofia, pp. 3-22.


Further reading

### Appendix

<table>
<thead>
<tr>
<th>Social characteristics</th>
<th>Total informal employment</th>
<th>Total formal employment</th>
<th>Total informal employment</th>
<th>Informal employment in formal sector enterprises</th>
<th>Informal employment in informal units (mainly self-employment)</th>
<th>Informal employment in households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work in urban/rural areas</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Urban</td>
<td>44.7</td>
<td>54.7</td>
<td>22.6</td>
<td>40.8</td>
<td>24.0</td>
<td>2.6</td>
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<tr>
<td>Rural</td>
<td>55.3</td>
<td>45.3</td>
<td>77.4</td>
<td>59.2</td>
<td>76.0</td>
<td>97.4</td>
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<td>Gender</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Male</td>
<td>50.3</td>
<td>49.0</td>
<td>52.9</td>
<td>48.8</td>
<td>64.9</td>
<td>44.1</td>
</tr>
<tr>
<td>Female</td>
<td>49.7</td>
<td>51.0</td>
<td>47.1</td>
<td>51.2</td>
<td>35.0</td>
<td>55.9</td>
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<td></td>
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<td></td>
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</tr>
<tr>
<td>15-24 years</td>
<td>9.9</td>
<td>9.0</td>
<td>12.0</td>
<td>18.9</td>
<td>9.3</td>
<td>7.5</td>
</tr>
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<td>25-34 years</td>
<td>20.3</td>
<td>19.9</td>
<td>21.3</td>
<td>24.6</td>
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<td>17.0</td>
</tr>
<tr>
<td>35-44 years</td>
<td>24.6</td>
<td>25.2</td>
<td>23.3</td>
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<td>45-54 years</td>
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<td>65 years and over</td>
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<td>Higher education or secondary vocational education</td>
<td>37.2</td>
<td>47.1</td>
<td>14.0</td>
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<td>Secondary professional education</td>
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<td>25.5</td>
<td>27.5</td>
<td>29.1</td>
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<td>Complete general secondary education</td>
<td>20.1</td>
<td>17.5</td>
<td>25.9</td>
<td>25.7</td>
<td>27.6</td>
<td>24</td>
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<td>Incomplete general secondary education, primary or no education</td>
<td>17.3</td>
<td>10.5</td>
<td>32.5</td>
<td>25.7</td>
<td>34.4</td>
<td>36.9</td>
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<td>Total %</td>
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Source: LF in the Republic of Moldova, Employment and Unemployment, NBS, 2009, and own calculations

Table AI. Main social characteristics of workers in formal and informal employment in Moldova in 2008 (percentage)

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Practices of subjectivity: the informal economies and the subaltern rebellion

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Abstract

Purpose – The purpose of this paper is to explore the links between “informal economies” and the concept of “resistance.” The author argues that the petty illegalities of the dominated and subaltern classes should be seen in their connections to the illegalism of the elites and the state. Within this framework, the informal economy is seen as both the outcome of a set of material conditions aiming at the subordinated inclusion of entire classes of citizens, and the mark of the willingness by these same subalterns to evade the bonds imposed on them by the legislations and the social hierarchies.

Design/methodology/approach – A review of the ethnographical and socio-economical literature on the issue of informality, accompanied by ex-post reflections on pertinent studies conducted in the past by the researcher.

Findings – Against the dominant public rhetoric, the informal economy is here seen as a particular space of enactment by the dominated and subalterns aimed at self-producing paradoxical forms of inclusion within social contexts characterized by barriers to access integration within mainstream society. It is argued that in consideration of the power relations that structure the “field,” researchers themselves become part of the struggle counterpoising individuals and institutions, and should thus make a choice among the clashing parties.

Originality/value – The paper draws on a vast body of literature that appears to go in the same direction. However, it radicalizes the instances proposed by previous authors and studies, and draws conclusions concerning the nature of the object and the ethics of research, that are opposed to the prevalent approaches to the subject.

Keywords Neoliberalism, Resistance, Informal economy, Subjectivity, Legal pluralism

Paper type Conceptual paper

Resistance and informality

The aim of this paper is to investigate the connection between “informal economies” and “resistance.” At the center of the analysis there will be, above all, those informal and not too profitable activities that characterize the lower classes and segments of the urban population – the same that grapples with periodical campaigns of law and order, and experience stigma and incarceration. On the basis of mainly ethnographical information, it is possible to say that petty kinds of informal economies – especially, but not only, those small illegal activities related to public space and streets, such as the vending of counterfeited goods, food, and also soft drugs (all of them, ultimately, at the center of periodical campaigns that aim at providing a type of city characterized by the Disneyfied ideals of “security” and “cleanliness”) – are part of a wider struggle between individuals and social classes with different powers and status, within the worlds of life and production. This paper also suggests that these struggles are not only a means for acquiring the necessary resources for subsistence, but that they are essentially a political practice, a form
of strategic interaction that often involves real conflict, either between society and state or between classes.

An example of the first case is the conflictual relationship between illegal immigrants and governments, and of the second, the difficult relationship between the workers and employers involved in “dirty jobs” with a high turnover. In short, as suggested by the seminal works of Hobsbawm (1959) and Scott (1985), the view expressed here is that the informal economy should be seen within the framework of “subaltern rebellion” struggles of low intensity and visibility. In this context, and following Gramsci (1971, p. 52), subaltern stands clearly for dominated groups. That is, those groups of people excluded from the possibility of “writing history,” and determining the effects of public discourse, wisdom and policy on themselves. Yet, those groups whose chances of having an impact and revenge on the social organization normally lie either in the occasional revolt (the jacquerie being the most known and criticized example of such rebellion in historiography), or in a number of invisible (informal) activities aimed at reducing the impact of inequality linked to the action of the state within the normal functioning of economic relationships (resistance) – especially, but not only, under capitalism.

First, it is worth noting that both these expressions – “informal economy” and “resistance” – present various problems as far as their definition and meaning is concerned. Beyond the many criticisms implicit in the idea, the term “resist,” as it is commonly used in most international literature on sociology and anthropology, is problematic in that its etymology implies the idea of “staying still or standing firm[1]” and therefore, by implication, it underlines the static nature of social processes. Here, however, we intend resistance to mean more specifically “moving forward” rather than “staying still.” A liberation movement does not generally aim to become ensnared by the oppressive regime that generated it in the first place, in the same way as economic migrants do not envisage being sucked into the same conditions of poverty and deprivation that led them to leave their home in the first place. In this sense, it would be better to talk about “evasion” or “escape” from an order rather than resistance to it.

Then, a generic use of the word “resistance” implies reducing the scope of the dynamics at work, by narrowing the meaning to a simple clash of wills. Although it may only be partial, this often implicit way of looking at a question by reducing its scope is based on the idea that sometimes conflict that takes place in the field being studied is not really aimed at upsetting existing relations, but at simply keeping things the way they are (Ortner, 1995, p. 175). For example, the majority of illegal parking attendants or similar unauthorized workers are unlikely to contest the actions of traffic wardens or local councils who are intent on “re-establishing legality” because they want to overturn a system whose inequalities force them to live on the survival line, but just so they can guarantee themselves the minimum income necessary to live on.

Of course, as often happens during a theoretical study, there are only ideals and simplifications and we cannot exclude the possibility that the different actions might come together at some point, and the “fugitives,” who are intent on making their escape from a social structure that places them in a position of subalternity, will eventually have to renounce their ambitions, either for good or for a while, thus becoming “resistant” and people whose main activity is guaranteeing themselves a subsistence-level income. Or perhaps these “resisters” and “individualist” fugitives will start to organize themselves into groups (e.g. the sans papiers movement in France, or the “organized unemployed” in Naples)[2], and create social movements involved in the silent or open invasion of public space, asserting their rights and challenging the establishment they hold responsible for their marginal status.

But as Bayat (1997) says, even the “resisters,” however disorganized and separate, have the appearance of a “movement,” involved “in the quiet encroachment of the ordinary.”
More precisely, they are a movement of practice, a “social non-movement,” in which politics is recognized as being an everyday action not just moved by conscience, but by structure. And again, if disobedience is just one of the political techniques involved in dissidence (Sharp, 2011), how is it possible not to give an implicit political value to non-cooperative actions designed to get around restrictions put in place by regulations that are considered as suffocating and unfair?

On the other hand, the use of the expression “informal economy” is no less problematic and often creates a great deal of uncertainty. It appears to be both an all-encompassing term—which includes all forms of deviance or violations of the rules—as well as a way of indicating very different cases, which may include legal or semi-legal activities, but in any case unauthorized ones, including the sale of counterfeit goods, prostitution, dual employment, etc. (Losby et al., 2002). Moreover, under the umbrella of informal we can find both those activities that relegate the individuals involved in them to a marginal position, giving them just enough for a life of subsistence, and at the other extreme, those that generate substantial earnings.

Also, formal and informal, legal and illegal tend to become blurred and difficult to distinguish. It is not surprising that, in the words of Hansen and Vaa (2004, p. 8), the informal economy is an “interface,” or rather “a surface that forms a common boundary between two parts or areas, or a point of communication between two different systems.” In fact, the wealthier sections of the urban population also appear to be involved in illegal or irregular activities which can offer opportunities for making a quick profit; and their employees, on the other hand, are often highly exploited and work in conditions where there are no legal guarantees or any form of security (Portes and Castells, 1989; Marcelli et al., 1999).

The rigid dualism of the original models—for example the early approaches of Lewis (1954), the ILO (1972) and Hart (1973)—that underlines the opposition between legal and illegal, and is embedded in the imaginary and perhaps also in policy, does not represent the reality of the situation. For example, the case of the Italian fight against counterfeiting and street vendors is based on the assumption of a rigid division between the legal production of luxury goods and counterfeiting. This hypothesis deliberately ignores the fact that the number of informal contracts granted to small manufacturing businesses (especially those producing clothing and leather goods) by luxury goods producers is growing, and it therefore ignores the existence of a continuum between undeclared and official work, market and commercialization, that is linked to productivity cycles, and which makes it impossible to talk about counterfeiting (Palidda, 2013).

However, we should not be too quick to discard old conceptualizations and logic divisions before noting that—as Hart (1973) and Scott (1998) observe—to the regime of informality belong all those activities that policy makers exclude from their definitions of reality, and are aimed at evading the state’s projects and schemes of territorial legibility pursued through the use of maps, fiscal control, civil registries and the development of biometric technologies. That is, notions and uses of the word informality are interesting descriptors of institutional and societal logics and cultures.

It is also useful to underline that these logic divisions, especially in the case of subordinate relationships, are not always as simple as the opposition between “rich” and “poor.” For example, if it is true that in the field of subcontracting, the “bosses” are often exploiters ready to forgo salaries and safety procedures, it is also true that their circumstances are often far from easy, and are characterized by high levels of dependence on and susceptibility to banks, other contractors, suppliers, tax authorities, etc. (Saitta, 2013). This raises further questions concerning both the relationship of the informal economy with the notion of resistance, and the discourses of order produced by institutions: what does it mean to be “the strongest” in these interactions? How can we interpret the relationship between the different networks of dependence and subalternity which characterize everyday conflicts? In what way does formality protect people? And, conversely, in what way does informality make the actors
involved only more vulnerable, and exposed to different threats over the course of their biographical trajectories – in spite of a temporary reprieve from shortages and pressures of different kinds?

Finally, it is important to highlight that much of these reflections have matured within a specific context – the Southern Italian one – and that they implicitly reflect situations, policies, and debates that are located in a specific corner of Europe. Some countries within the same continent and elsewhere might find themselves at a later stage of their governmental process of deviance. However, the possibility of applying notions and concepts developed elsewhere – in the western metropolis as well as in the post-colonial environments that produced much of the literature on which this essay draws – makes me think that, in spite of (self-)representations, there are several communalities between countries, and that different experiences are shaped and characterized by similar drives, pressures, legislative “fashions,” vested interests, and class stratifications that allow a certain degree of generalization. A globalized world as we know it is in fact a polarized model of society, based on modes of production and dependence that, far from making instances and functions homogeneous in each country, produce nevertheless common ways of perceiving security and insecurity, equality and inequality, and also common methods of dealing with such sentiments and material situations due to the circulation of ideas, transnational institutional pressures to conformity, political tools, and people (the elites as well as the lumpenproletariat).

As to the structure of this paper, the next section provides an analysis of the dynamic relations between informal practices and legal systems – that is, social and legal changes in a context driven by economic interests. Over the course of the following section, such a nexus will be deepened and analyzed within the neoliberal (or late-liberal) context of the present days and cities, with examples drawn from a large body of literature on the urban, the economic and crime. Later, an analysis of the postmodern notions of autonomy, subjectivity and resistance, and their links to the issues of informality and social control will be provided. Finally, a concluding commentary and synthesis of my findings will be proposed.

Public order and legal change

Over and above its criminal nature or the way in which it originates, informality is a political, symbolical and rhetorical process that creates reactions, arrests, and various forms of political and civil activism. Rudolph Giuliani’s “Zero tolerance” policies in New York in the 1990s, for example, were emblematic of the government’s fight against so-called forms of “incivility,” from illegal sales to any other form of irregular street activity (Wacquant, 2010; Duneier, 2001). The number of arrests carried out during those years was, as we know, extreme (Jacobson, 2005). But Mayor Giuliani’s policies were aimed at producing a sanitized urban environment that served the interests of commercial chains, leisure entrepreneurs, and real estate owners. This type of public order management in the interests of economics soon became the example for a large number of states and cities both in Europe and elsewhere.

Over the last decade these motives – particularly on issues related to security – have become an integral part of both right and left wing policies. This discourse has also given rise to various forms of “civil” mobilization: committees, movements and patrols made up of citizens who are generally reluctant to be involved in mobilization, but are nevertheless sensitive to the call of the “race war” and opposition to the hordes (Foucault, 2003; Delanty and Kumar, 2006).

The informal economy, then, belongs as much to the political and social political realm, as it does to the economic realm and the realm of penalties. If we return to and broaden a classic motif in the sociology of law, such as “legal pluralism,” which aims to investigate the mutual relationship between normative production and society, we could also state that informality is part of a “war,” as old as regulation itself, between “organized law” and “unorganized law,” and that the former, “in its reflected schematism can never entirely express unorganized law which
is more dynamic and richer in content” (Gurvitch, 2001, p. 222). In general, the history of sovereignty is, after all, only the history of a war against the customs and the non-formalized codes that ruled social relations and competed with the interests of an emergent new powerful class – not necessarily a history of rationality. But only if any kind of formalism is excluded, and there is an opening toward “legal polycentricty” (Petersen and Zahle, 1995) by which law is basically spread across society, can the informal become a space for the public authorities to learn and carry out regulatory reform (Rios, 2014; Mukhija and Loukaitou-Sideris, 2014, p. 7). These authors find that it is not uncommon for informal solutions to be more rational and efficient in the ways they are organized, provide services and utilize spaces, than officially regulated ones, or at least how these might be if they were properly set up. And because often they are not insecure, for example regarding hygiene (although, naturally, there are many cases to the contrary), the study of these activities (which are a response to the social needs of the people who use them, as well as to the entrepreneurs who organize them) could well help the legislator to see existing regulations in a new light and to purge them of the many irrationalities they commonly present.

From this point of view, the informal economy can also be seen as an “experimental field,” a social space in which to apply new and different forms of management of disorder that are more suited to the changing needs of the elite. If we looked back, we would see, for example, that the appearance of the modern prison between the seventeenth and eighteenth centuries, the sudden criminalization of certain practices (peddling, counterfeiting, etc.), the changes in the taxation system or the application of liberal principles to “developing” economies are just some of the tactics that were introduced at different times during the evolution of political systems, and that were implemented to deal with different types of informality or with the new characteristics of old and consolidated irregular practices in the context of current economic changes (Foucault, 2004).

However, this way of describing the phenomenon is still limiting, as it continues to depict informality in essentially dualistic terms: on the one hand, the state and the elite and, on the other, the “resisters” (the poor, marginal people, etc.). But a real subversion of terms should include the authority in the group of subjects who produce deviance and informality, starting from the observation that the legislative and fiscal processes are some of the channels which fuel such behaviors (Frey, 1989; Johnson et al., 1998; Wintrobe, 2001).

Shapland (2009) has observed that the countries more likely to experience a higher growth in the irregular economy are those in which there is a high taxation of services and products, accompanied by the widespread use of subcontracting and outsourcing of work, together with inefficient regulation and low levels of controls. Similarly, Vande Walle (2008) has discussed what happens when regular businesses enter a substantially informal market, like the ones produced by the Free Trade Zone, or those special economic areas where there are no commercial barriers and bureaucracy is reduced, created by states and supranational entities to promote business in depressed areas. Designed specifically to make underdeveloped areas more dynamic, they rapidly became free zones also as far as exploitation and guaranteeing workers’ rights were concerned, with the complicity of the authorities that helped set them up. Free zones, therefore, become those areas that, in the name of the development imperative, accept and formalize the otherwise deviant instances of the economic “elites” – both producers and traders – who feel the weight of the fiscal pressure, and that, subsequently, in their everyday practice produce informality as a way to escape impositions. However, if such zones are the “injection rooms” of late-liberalism, aimed at reducing the harm stemming from fiscal losses and favoring “development,” they are not victimless mechanisms. If Vande Walle is right, in fact, workers are, as always in such a context of the progressive weakening of guarantees related to labor, the victims of the complex intertwining of state (legislation, objectives, enforcements etc.) and private enterprise, within a milieu characterized by deep asymmetries in favor of the powerful.
The same intertwining, after all, that we see in action in the streets of the European city (certainly, the Italian one), and that is generally aimed at hitting the most visible and weakest rings of a long chain of production and commercialization of goods, counterfeited or not: the vendors. For example, according to the figures provided by the Italian Department of Prison Administration (DAP), only 6 percent of the inmates are imprisoned for economic and fiscal crimes (mostly, for fraudulent bankruptcy)[3]. In the light of these observations, how can we therefore ignore the fact that informality is also a space in which, beyond exploitation and violation, there are different types of arbitrariness? A space where, not so much the elite, but the “street-level bureaucrats” (Lipsky, 1980), or simple law enforcers, officiously carry out their duties in the way they believe to be best, most convenient, and which reflects their ideology (Bacon, 2013). An ideology, moreover, reflects a common wisdom and a whole tranche of feelings that are produced elsewhere, mostly in the higher ranks of society and government. That is, in the same lieu where vested interests meet through the legitimate practices of political representation and lobbying, and the laws and the regulations are made. Laws, finally, are applied by the control agencies with a certain degree of freedom, thus adding further interests and objectives to those already present in the field. When faced with trafficking, officers might decide to overlook any misdemeanors, either out of simple kindness and humanity or in exchange for money or useful information, or they may feel it necessary to do their duty by harassing, beating or mistreating in the name of the law they themselves represent (Smith and Gray, 1983; Waddington, 1999; Fassin, 2013; Goffman, 2014).

In any case, the role of the state in creating deviance is not limited to legislation and the way rules are applied. Any transformation of the terms of the discourse, rather, should aim to shed light on the links between the institutions and narrow business circles. In fact, tenders for the building of infrastructure or providing services, contracts and subcontracts, the organization of so-called “big events” (sports events, religious ceremonies, etc.) or disaster management are all sectors where, historically, public and private interests meet, and often clash, and are resolved in ways that are not always in the public interest (Klein, 2007). Again, the history of Italy in the matter of disasters – for example, the massive earthquakes of Campania in 1980 and L’Aquila in 2009 – or infrastructures – for example, the infamous speedway Salerno-Reggio Calabria, started in 1964 and still partially unfinished[5] – is one such case of frequent convergence of bureaucracy, patronage, political economy, rhetoric on modernity, and organized crime that did not seem to work in the general interest. It was a complex of events and related policies, moreover, which did not only affect labor, but also public health and security in broader parts of the country (Palidda, 2016). In this context, to focus only on the heinous crimes of the underclasses (i.e. the soldiers of the mafias, their killings, and the emulative behaviors of the many who aspired to join the legions of organized crime) which were the outcome of decades of such intertwining of political and economic levels would be rather myopic and formalistic.

In this respect if, over the last few decades, the social sciences have voyeuristically observed the poor, supporting what are fundamentally either paternalistic or conservative visions of social organization (Wacquant, 2009), it seems to us that the appropriate step should rather be to make a close investigation of the public powers, so as to de-structure both the elite’s order of discourse and their notions of legitimacy, legality, and underdevelopment. The study of the informality and resistance of the people who happen to be on the lowest rungs of the hierarchical ladder, then, should not be a way of dissecting the “culture of poverty” (Lewis, 1966), but a way of exposing the links and the parasitic or reciprocal relationships between the “city and its shadows,” that is, the official and the unofficial, the well-to-do and the thugs (Dal Lago and Quadrelli, 2003).
Informality and neoliberalism

In short, what stems from the previous sections is that a discussion of the informal economy at a given time should insert such objects within the organizational, political and ideological framework active in the considered moment. For such reasons, as well as being a form of resistance and evasion from power, informality should also be seen a sign of the state’s inability – or perhaps lack of will – to bring some classes of citizens into its sphere of influence and protection (Shapland, 2009). This statement is embedded in the framework of “neoliberalism,” which emerged toward the end of the 1970s with the aim of promoting an agenda that was more focused on global and domestic market relations. To summarize rapidly what the reader already knows perfectly well, this movement considers market freedom as a model and even a substitute for political freedom. Neoliberalism is an attempt to extend the range of market logic, by applying it as an organizing principle for all the other social and political relations. It is also an attempt to mobilize the state to the benefit of the market and to give it the appearance of a “quasi-market.” Contrary to classic liberalism, in fact, neoliberalism does not perceive the market as the natural result of human relationships, but as something that needs to be actively constructed; in the same way, the behavior that is compatible with this type of market needs to be learned, and then extended to other areas (Soss et al., 2011, 20 passim). Moreover, this occurrence would be a precursor to political and social changes, which range from the democratization of nations to the emergence of a new ethic based on individual empowerment and the substantial privatization of social provision (through the liberalization of these services, allowing the “private social” to supply them, and an economic assessment of the services provided).

Liberalizations are therefore fundamental instruments for extending markets, market behaviors, and compatible systems. Some critics, however, have noted that in practical terms, “actually existing neoliberalism” (Bremer and Theodore, 2002) has indeed produced results that are quite different from what was expected. To begin with, the introduction of neoliberal policies has certainly not produced an increase in equality; in many countries free trade has not stimulated growth, but seems, actually, to have reduced it, whilst employment has become more sensitive to market contractions, going down for long periods of time and then going up at others, and in these latter phases actually getting worse in terms of working conditions and the related social guarantees (Gilbert, 2004, 39 passim). Also, as observed by Farinella (2013), from the 1970s onwards, international capitalism has had to face a series of recurring crises that have been overcome by injecting increasing doses of informality into the system. As we know, since the 1980s, the European and American labor markets witnessed a growing erosion of the guarantees related to labor – what Beck (2000, p. 1) has called the “Brazilianization of the West.” In this perspective, short-term contracts, destandardization of labor, cuts to public administration, flexibility, and the possibility given to firms to proceed with massive dismissals of individuals or groups of workers are some among many examples of the changes in the structural organization of labor, in the public ethos, and the rhetoric of work. With important differences from country to country, the whole of the policies aimed at dismantling the set of guarantees emerging from the Second World War has contributed to polarize wealth, increase inequality and precariousness, halt social mobility, and project many of the European societies into unprecedented levels of occupational insecurity (at least since the 1940s). Paradoxically, such processes of “destandardization” have formalized the existing informality, and, at the same time, have produced new informality. It is also undeniable that from the beginning of the 1980s the central and decentralized levels of the economic system – the center and the periphery – have undergone some important transformations, and have become more intertwined and dependent. One of the most significant aspects noted by Farinella (2013, p. 97) relates to the increased importance of elements such as: reciprocity, aimed at introducing intangible resources into the economic cycle; relationality, which ensures that
individual skills become a “collective good” which can help to improve competitiveness in territories; and flexibility, or the ability to adapt to production needs. In the opinion of the author, and following Castel (1995) and Sennett (1998), people become “subjectivity at work” (either “deflated” or “inflated”), exposed to the “corrosion of character,” and to higher rates of substitutability and, therefore, occupational blackmail. Further emphasis on the “cognitive” and “intangible” side of capitalism also implies the fact that the shift toward the tertiary sector and services brings with it a growing polarization and wide diffusion of “bad jobs” – especially if compared to expectations concerning study, types of occupation, social mobility, stability, wages, medical care, and retirement, which characterized previous cohorts of workers and aspiring workers in post-war societies (Turner, 1992; Bertaux and Thompson, 2009). While people’s mentality has certainly changed, and there is today a broader acceptance of precarity than in the past, such change implies chiefly an ethos, a life style, and a re-organization of economic structures sought and imposed by the elites rather than the workers (Ho, 2009). Moreover, as many other researchers have noted, flexibility can then easily turn into informality and exploitation. The ambiguous nature of informality, like that of development and underdevelopment, mostly derives from the fact that it is a discursive-instrumental practice used to qualify bio-political arrangements where it is not the human content that matters, but the form they assume and the effects of reality they produce. Just as the production of criminality was useful to the calculations of the dominant classes, so the production of informality has been useful in alleviating pressure on the social services and the costs of welfare (Farinella, 2013, p. 96).

In those countries where development was seen as a cogent imperative – including European nations like Italy, which have grappled since their foundation with extensive depressed areas – irregular jobs and informality were widely tolerated, and seen as a way to favor growth and the circulation of incomes among the lower classes. Irregular workers, moreover, do not receive the dole and other similar transfers for unemployed persons, and this allowed the national social security mechanisms dramatic reduction in costs. In Southern Europe, families became the main social safety net, and the savings of older generations have helped younger cohorts to navigate the crisis and the shortage of regular jobs (Mingione, 2001; Morlicchio, 2011). Likewise, in addition to the institutional savings on the dole and related measures, the injection of irregular immigrants in the irregular labor market – especially in agriculture and construction – has guaranteed the possibility of dismissing people and limiting the costs of injuries at work, and reducing medical expenditure for injured workers to virtually zero (except for immediate care right after the incident, if the worker goes to hospital) (Ribas-Mateos, 2005).

To complete the picture, one should add the usefulness and importance of political patronage in determining such a structure and social organization – something that has guaranteed for decades the reproduction of the system, its social stratification and the consolidation of irregular labor markets. This is without taking into account how, over the course of the years and with the massive arrival of immigrants, these dynamics have translated into the securitization of public space – even in the face of an objective reduction in violent crime, for the sake of consensus, to suppress any form of revolt in the public space, and, above all, to produce a docile and invisible reserve labor force to be underpaid, dismissed at the best convenience of the entrepreneurs, and at no costs for the states.

In the light of what has been observed, we might still be tempted to think of part of the population as “marginal” (Alsayyad, 2004, p. 9). More particularly, the less qualified members of the national and immigrant work force (habitual offenders, illegal immigrants, and unskilled nationals) would, from this point of view, form a surplus that cannot be included, unless in terms either of extremely precarious occupation or detention. Notwithstanding that, this does not mean that we can assert that the subjects on the lowest rungs of the ladder of informality are all marginal, but rather, that they are integrated in a
subaltern way. They are, in other words, absolutely necessary to production and even to the consumption of material and immaterial goods (e.g. security and related services), but it should be possible to dismiss them as and when required.

On this particular type of integration, Hobbs (1988, p. 117) makes an observation about the huge suburban, ultra-working class area of East London during the 1970s and 1980s, where the resident population felt a strong physical and symbolic proximity to the capitalist heart of the city, and began to use the language and ethics of business, adapting it to their daily lives and using it to find their way around the changes brought about by the new capitalism. “The culture that emerges is essentially entrepreneurial since the particular economic structure of East London has needed generations of individuals to acquire and internalize the essential characteristics of entrepreneurship, while continuing to operate in line with capitalism” (Hobbs, 1988).

As Merton (1968, p. 212) had already observed in his strain theory, those groups situated at the margins of capitalism are transformed and integrated by capitalism itself up to the point that the differences with regard to values and goals are residual and “resistance,” if there is any, is mostly about means – in other words the symbolic and material obstacles that prevent them from reaching their goals, which might be consumer goods, leisure time and available economic resources.

Despite the continued use of the expression marginality, more or less up to the present, subaltern inclusion was already a theme in literature from the late 1970s onwards, when a series of studies about developing countries – amongst which Perlman’s (1976) on Brazil, with its already explicit title – began suggesting that “marginality is a myth” and, as we have already said, that the urban poor and disenfranchised in general are, on the contrary, fully integrated into society, but in such a way as to be economically exploited, politically repressed, socially stigmatized and culturally excluded (Bayat, 2000, p. 539; Alsayyad, 2004, p. 9). This is a situation that would increasingly become the same in the global north and south and which, from the beginning of the 1970s, would lead to a reduction in social spending to the benefit of penal class and prison policies, which would in turn lead to what we can call a situation of “hyperincarceration” (Wacquant, 2010): to that mass phenomenon, albeit extremely selective in terms of class and race, which deals with issues such as subordinate inclusion and excessive workforce mainly in terms of detention[6].

Incidentally, one may also notice that this is a combination of elements that brings about a strange cognitive short-circuit, caused by the demolition of time and space. In less abstract terms, if the arguments used to deconstruct the myth of marginality are constructs designed to explain the situation in a “third world” country such as Brazil in the 1960s and 1970s, and if the idea of a relationship between prison sentences and work comes about within the framework of early capitalism (Rusche and Kirchheimer, 2009), the European and the American present seems, on the one hand, to cancel out the differences between the areas, and on the other, to turn back the clock to the eighteenth century and the origins of the modern penitentiary question, with its concern with labor, dangerous classes, race, and punishment. Indeed, this is something that Stoler and Cooper (1997) and Mezzadra (2005) have already observed when talking about colonies as the “laboratories of modernity” so that we see a retroaction from the periphery toward the center, and the process of colonization and stratification of social relations in the western capitalist democracies[7].

**Autonomy, subject, and resistance**

In analytical terms, an issue that emerges from the previous section relates to the forms of reaction and adjustment, openly oppositional or “tactic,” generated by the neoliberal transformations of policies in the matters of labor, mobility, crime, and welfare. Another issue concerns the emergence of the “willing subject” meant here as the process that leads individuals “to believe” and “to build” – that is, to build themselves as thinking subjects,
“constituted in the datum”, inserted within structures of opportunities, and “practical” in their being in the world (Deleuze, 1991).

Moreover, to use, as I did above, a Mertonian perspective to interpret informal practices in the neoliberal context means above all to suggest that the social response to neoliberalism moves from the level of a collective and open mobilization to an individual and covert one (Merton, 1968, 212 passim). In other words, it is plausible that today, even more than when Merton wrote, the “struggle” against the new social order is conducted by “innovators” that do not employ organized and collective forms of mobilization to claim their right to exist, nor affirm alternative values (even though, clearly, this does not mean that classic and collective practices do not exist any longer). It is also possible to argue that, in the case of these actors, their practices outstrip ideology, even though this does not imply that they do not have political visions, or that such visions cannot compete with the hegemonic ones. However, at a superficial level, one notices certain paradoxes that only an emic knowledge of the meanings conferred by the subalterns to their actions can explain. In other words, to develop an analysis it is necessary to leave out normative approaches to the subject matter and deploy perspectives entirely centered on the actors, their processes of signification, and their intimate ways of assessing the surrounding world.

Returning to the problem of those reactions that reflect changes in the control apparatus and that the reorganization of social relations has generated among the most vulnerable segments of the population, the simple and neutral point for my reflection is that “where there is power, there is resistance, and yet, or rather, consequently, this resistance is never in a position of exteriority in relation to power” (Foucault, 1984, pp. 94-95). Within this framework, one should remark again that power is not exercised by the state only—it is rather “microphysical” and scattered. In more direct terms, if the neoliberal order sketches a new system of social relations, such changes will determine new forms of adaptation, and these adaptations will be connected to the new design of society and will depend on it, up to the extent that they will partially reproduce it, even when they are meant to be a critical response to it.

The informal economy, therefore, can be a practice of reproduction, resistance, and emancipation from many types of force or coercion, situated on the borders between public and private authorities. As part of this discourse, we can translate the expression “autonomy” as generally meaning the individual or collective (as in families, small or large communities) desire for self-determination and the freedom to pursue objectives either from a directly personal point of view, or from the point of view of a reference group. Objectives are fixed within the limits and possibilities set either by their own or an external social system, but that are influential nonetheless (let us think of the role of international relations and the imposition of restrictions on migration to Europe from underdeveloped countries). Other objectives may overstep these limits, although still be strongly conditioned by them, as might be the case for those wishing to escape from an over-enclosed or traditional environment. “Subjectivity,” the process of emersion of the individual will, then, appears as negotiation that is either successful or a failure, that is achieved to some extent or rejected, of moments when the self is at stake: a self portrayed both in the relationship the individual has with himself or herself, and at the same time, with his or her reference group (Mead, 1972, 273 passim). This process evidently includes integration and belonging, as well as disaffiliation and alienation: the chance not to do, as well as the chance to do; hence the chance to violate certain rules because they are considered alien to one’s own values and wishes, or because, despite considering them valid, they are secondary to another, more morally binding stake.

From the many possible examples illustrating this is perhaps the extreme case of the Congolese street children, who are involved in any and all types of trafficking and irregular activities, and who, in their definition of themselves as niama, or animals, express their pride in their hard won autonomy and freedom from orphanages or abusive families (Hendriks et al., 2013).
In line with this argument, and to use another extreme example, female sex work can, in certain circumstances, be considered a manifestation of opposition to male or family domination and a way of getting round structural limitations (Pateman, 1999). If the dominant tendency in politics and common discourse is to see the question of immigrant prostitution within the framework of human trafficking, a great deal of literature shows, on the contrary, how the organizations involved in aiding and abetting exploitation (not just through prostitution, but male and female work in general) are just an answer to the entrenched position taken up by the European states, and the need for mobility for economic, political, or simply expressive reasons.

Within the framework of aiding and abetting clandestine immigration, even when this takes place within a regime of strong personal debt or even coercion, the decision to be involved in trafficking[8] has some varied and ambivalent resistance values that are also extremely problematical. First, it expresses resistance to international and migration policies, and can be seen as a direct challenge to state border closures. Second, it is a common response by both genders to the need to make a rapid accumulation of capital to re-invest in their native country. Finally, it may be, as in the case of other types of migration, albeit with great relativity and depending on personal and individual characteristics, a need to escape from a patriarchal order, or at least from the family, and perhaps even a personal desire to see the world (similar to a western concept of tourism, or experiencing the world) (Agustín, 2007)[9].

In her ethnography on prostitution in England, Day (2007, p. 76) also – and she has always been fairly prudent about using the term resistance in previous work – compares market (prostitution) and state (repression and social services), collocating prostitution in a sort of middle ground between the public and private spheres. In this way, the author is suggesting that prostitution is an activity in the informal economy which produces conflict with many other areas of life, but that has important connections to the theme of female autonomy. Yet, there are similarities here with the study made by Bourgois and Schonberg (2009, p. 51) on a community of homeless drug addicts, where for Tina, one of the protagonists, sexual exchange is a way of gaining independence and escaping the abuse she suffered at the hands of her family of origin.

On a different level, for the “1.5 generation” immigrants of Mazara del Vallo studied by Saitta (2010), “entrepreneurship” (although not very remunerative, and consisting mostly of activities such as music, craftsmanship and drug dealing) is connected with pride and the self-esteem of the actors involved in their capability to elude low salaries and the exploitative forms of labor in services, construction, and agriculture.

For Holston (2007), the illegal selling and buying of land and housing in São Paulo, in the context of a dramatic disjunction between democracy and equality, has been one of the paradoxical tools through which some of the disenfranchised of the Brazilian metropolis have experienced access to house property and to citizenship – this latter meant as a participatory process that uses both illegality and the interstices of the law as a way to claim old and new rights.

Finally, between the late 1970s and the early 2000, when the arrival of Ikea determined an acceleration of urban processes which had remained latent for about three decades, for the Southern-American food entrepreneurs of Red Hook, Brooklyn, studied by Zukin (2010, 170 passim), illegality, beyond being a way of self-subsistence, represented for the vendors as well as for their customers, a way to produce a “Latin” space and to intervene from “the below” into the requalification of a sub-urban space abandoned by public authority, and denied to the fruition of citizens.

In sum, far from representing only a space of exercise of illegality, which shows a paradoxical conformity to dominant values, or a “material” setting connected either to subsistence or to the satisfaction of secondary needs, the informal economy is a complex realm
related to the self and to ambitions that are both individual and collective. It is a practice in which, besides forms of structural and symbolic violence are also found instances of liberation from a plurality of bonds connected to market access and the free circulation of people, as well as to the expression of the self. This does not take into account that the informal economy and practices can also play public functions, related to the positive rewriting and revitalization of spaces abandoned by the authority. Finally, informality appears as an implicitly political and conflictive ("resistential") space, for it challenges public powers from a plurality of angles and rejects social stratifications imposed by regulation.

**Conclusion**

In an enlightening book about the informal city, which will guide us toward our conclusions, Laguerre (1994, p. 24) observes that “informal practices provide a corridor for the protection of the self against regulatory structures.” This is, however, an optimistic point of view which does not take into account the fact that informality can also be a trap. It may, in fact, represent the space in which exploitation practices reproduce those found in the formal sector, with no indication of resistance and freedom. However, despite the risks, informality certainly implies the possibility of a liberation “not so much against a certain class or group but against forms of power which deny the individuality of the subject” (Laguerre, 1994, p. 2). More especially, though, “its meanings [of informality] can be constructed in terms of both its genealogy and its relations to the contextual condition of the formal system” (Laguerre, 1994).

This means, amongst other things, that some activities are informal because there are no rules to regulate them, while others are informal precisely because there are laws which create the conditions for this to happen, or that expressly try to prevent them from emerging.

Laguerre (1994, p. 7) also defines informality as a framework for action, which requires: the existence of a place where the work can be carried out (a house, street, shop and, today, simply the internet); actors, whose actions are wholly or partially informal; a formal system which can be distinguished from other systems, making them informal by definition; the intention to evade or avoid tax systems and regulations by necessity, either as a way of refusing to submit to impositions or for ideological reasons.

It is important, nevertheless, not to see informality only as a form of conflict, because the presence of limited degrees of informality appears to be crucial, also, to formal organizations, whether they are socio-political or economic. Economic relationships, as well as those that are merely "relational" between individuals and internal areas of official organizations, almost always present minimal degrees of irregularity, which are necessary to the smooth running of the system, to release tension, or to signal the fact that it is really impossible to control every single function.

In any case, informality is, above all else, a social construction, sensitive to changes in legislation and to the behaviors and “functions” in use at the time. What is illegal at one moment can be perfectly legal at another, which can mean that entire sectors emerge and are regularized. Wallerstein (1976, p. 58), moreover, has clearly shown how capitalist forms of production have led to the informalization of traditional domestic economic activities. Indigenous economic activities in the colonies have suffered the same fate. This process has determined, both in the country of origin and in the colonies, the informalization and criminalization of minorities. From this point of view, the “genealogy of the informal system cannot be understood outside the framework of the genealogy of the formal system” (Laguerre, 1994, p. 17).

As we have repeatedly observed, the informal seems to be strictly related to the formal. On a collective level, the communities that are defined as informal by the dominant groups are, in a certain sense, produced by them in order to manage the resident groups’ relationships with the formal institutions. The tolerance shown by the powers toward these
informal spaces is a sign of their evident or latent functionality. Precisely “because it is so much linked to formal space, informal space is not only a social construction, but also a social phenomenon” (Laguerre, 1994, p. 42). This phenomenon, which arises from the desire to subjugate, produces instead reactions, emotions and knowledge which, in opposing the force that created it, develop a non-cooperative relationship.

As Scott (1990, 108 passim) put it, the informal space tends to become the expression of a “dissident culture”: a culture that is not actually so different from the dominant one, but different enough to not resemble it, and also to generate in those who belong a range of negative feelings that are largely caused by the awareness of their position and options in society. And it is here that the informal space becomes a space for subaltern “politics,” expressed through different languages, styles, ideas, passions, and above all, practices, that are either partially or radically different from the dominant ones, and that appear as the only viable solution to the problem of making ends meet and guaranteeing the right to life and joy.

Finally, if all this is plausible, a parallel risk to the one recognized by critics of the concept of resistance might be to define as romantic all those narratives that do not use the language, expectations and ideologies of the institutions to describe biographical details and meanings, but try instead both to use and legitimate the language of problematic individuals, adopting their interpretive categories to narrate and explain the ways in which subalterns act, using their own wisdom to rewrite the world in the name of re-appropriation and “robbery.” It is at this point, then, that informality becomes, so to say, a total social fact – that is, a specific element of a culture that has implications throughout society with regard to all the spheres that compose it (Mauss, 1990). And the very same act of writing becomes thus “political,” “subversive” and “partisan,” forcing the investigator to make a choice: writing either in the interest of one of the parties, or another.

Notes
1. At least according to the Etymological Dictionary of the Italian Language by Ottorino Pianigiani. The same origins are also clear in the French and English variations of resistance. And the same meaning is to be found in the German word widerstehen. My thanks to Silvia Pitzalis for encouraging me to think about the etymology and the inconsistencies in the use of the term “resistance” in the social science literature.
2. On the sans papier and organized unemployed see, respectively Simone (2002) and Basso (1981).
4. For an extended discussion of these events and others which have occurred in modern Italian history, see the many essays collected in Saitta (2015).
5. On the story of this strategic and yet troubled infrastructure, connecting the south of Italy to the rest of the country, see D’Antone (2008) and Mangano (2013).
6. Although “hyperincarceration” is a tag apt to describe the Northern American situation, the 2015 Penal Reform International’s report indicates that, currently, there are more than ten million prisoners in the world, and that there are huge differences between countries. However, the report also outlines that the prison population is growing in all five continents, and that “In the last 15 years the estimated world prison population has increased by some 25-30 per cent but at the same time the world population has risen by over 20 per cent. The world prison population rate has risen by about six per cent from 136 per 100,000 of the world population to the current rate of 144” (Penal Reform International, 2015, p. 8). In addition, the English-speaking countries lead the charts – the USA being the biggest “incarcerator” in the world.
7. See Milanovic (2012) for some data on the scale of global economic inequality.
8. Trafficking, not simply people “smuggling,” a term which is in my view a rhetorical device useful for introducing the difficult and contradictory idea that one can be both exploited and consensual.

9. Agustín, who is the author of a widely contested book, gives a long list of authoritative essays that all express vastly different views from the dominant ones regarding the problem of trafficking. A problem, moreover, that should also be seen through the anthropological framework of the myth of white slavery. On this, see Morin (1982).

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Further reading


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Formality and informality in an Indian urban waste economy

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Abstract

Purpose – The purpose of this paper is to contribute original evidence about the conditions for formal and informal contracts for commodities and labour in the waste economy of a South Indian town.

Design/methodology/approach – Field research was exploratory, based on snowball sampling and urban traversing. The analysis follows capital and labour in the sub-circuits of capital generating waste in production, distribution, consumption, the production of labour and the reproduction of society.

Findings – Regardless of legal regulation, which is selectively enforced, formal contracts are limited to active inspection regimes; direct transactions with or within the state; and long-distance transactions. Formal labour contracts are least incomplete for state employment, and for relatively scarce skilled labour in the private sector.

Research limitations/implications – The research design does not permit quantified generalisations.

Practical implications – Waste management technology evaluations neglect the social costs of displacing a large informal labour force.

Social implications – While slowly dissolving occupational barriers of untouchability, the waste economy is a low-status labour absorber of last resort, exit from which is extremely difficult.

Originality/value – The first systematic exploration of formal and informal contracts in an Indian small-town waste economy.

Keywords India, Informal economy, Business, Waste, Labour

Paper type Research paper

Introduction: global and local in India’s informal economy

This special issue links the global with the local. If India’s informal economy is defined as activity unregistered by the state, it is thought to be the largest in the world, consisting of about 60 per cent of GDP and no less than 83 per cent of all non-agricultural livelihoods (International Labour Office, 2012). That component of its competitive advantage makes India’s informal economy of some global consequence; but the narrow alleys and gulleys of its towns and cities also have direct links with the global commodity economy through the production of an estimated 40 per cent of India’s manufactured exports (National Council for Enterprises in the Unorganised Sector, 2008). India’s informal economy is bound into the global service sector not just directly through the contractually vulnerable cyber-coolie labour force (Ramesh, 2004) but indirectly through the mass-multipliers of informal livelihoods servicing the booming IT sector (Harriss-White et al., 2013). It is through slumps in global demand for labour intensive products and services that the global financial crisis has affected India’s informal economy (Harriss-White et al., 2013). But India’s informal economy is also linked to global finance through unrecorded capital fleeing to offshore financial centres, some of which returns, laundered and readied for investment subsidies (Kar, 2010). Last, India’s informal economy has been a testing ground for the global concepts in which it is framed. There is a large Indian literature tracing the concept’s mutating
meanings and relating them to changing material conditions – or to changing understandings of them (see the reviews by Basile, 2013; Basile and Harriss-White, 2010; Chen, 2007; Kaman, 2008). Despite criticism of the crudity of the dichotomy (Raj and Sen, 2016), the concept has common currency and remains useful in identifying the limits of state intervention – both in principle or intention and in practice. The boundary between state and non-state regulation has been identified as “blurred” by the anthropologist Akhil Gupta (1995), while recently Aseem Prakash has rearticulated the “blurred boundary” as a political space (Prakash, 2014). We can ask what kinds of politics traverse this space and police the boundaries.

In trying to answer this question, my paper introduces a relatively neglected aspect of the informal economy: waste. Waste – material and substances without value (for, however, brief a time) – is produced by all human activity (Centre for Environment and Education (CEE), 2014; Dinler, 2014). India currently has one of the fastest-growing waste economies in the world, argued to be driven by its urban middle class, in which some waste regains value through recycling and re-use while social resources are devoted to the disposal of the significant residue. India as a whole generates 2.6 m tonnes of solid waste a day, of which 36 per cent is organic/agricultural waste, 30 per cent is industrial, 0.5 per cent is thought to be hazardous and the rest is from consumption (CEE, 2014, p. 4). Each day urban India discards roughly 250,000 tonnes of solid waste, approaching what the entire global urban population is estimated to have produced in 1900. India’s “peak waste” – the point beyond which resource efficiency will drive a decline in absolute waste generation – is predicted to lie approximately a century into the future (Hoornweg et al., 2013). Meanwhile, the contribution of waste to the material balances of the economy is expected to do nothing but rise. Waste generation has been variously problematized as a problem of technology, management and planning; of land-use and the need for the permanent sequestration of spaces; of costs (and benefits) to the economy (CEE, 2014) (including the disposal costs of waste generated elsewhere: see the example of shipbreaking (Demaria, 2010)); of threats to public health, of poverty and oppressive, humiliating caste relations of ragpickers and scavengers (Gill, 2009; Human Rights Watch, 2014) and of aesthetics (Hodges, 2015).

This paper contributes to an empirical literature currently dominated by city research sites, a field examination of the local waste economy of a small, anonymous town of some 70,000 in South India (Harriss-White and Rodrigo, forthcoming). It explores the conditions of formal and informal contracts in a sector heavily regulated by the state. Not confined to labour arrangements, it also examines commodity transactions where relevant. Over and above the polar classes, Indian capitalism is distinctive in having generated an array of forms that combine both capital and labour on a continuum from “disguised wage work” (livelihoods that are apparently independent but in practice lacking in economic autonomy), through petty commodity production and trade (or self-employment – the commonest form of livelihood) to petty and intermediate capitalism (small family businesses, 95 per cent of which have a labour force of under 5, the all-India average being 2.4) (Harriss-White, 2012).

For reasons of tractability, however, the waste economy will be described through the heuristic device of the sub-circuits of capital and the processes of labour. It covers the structure, processes and formal-informal social relations of waste generated in production, distribution and consumption (which is how waste is generally made visible), in the production of human beings and labour, and in the day-to-day reproduction of society.

The empirical evidence results from interviews with 85 workers in the sub-circuits of the waste economy interviewed at first-hand in 2015 and 2016. Since much of the waste economy is unregistered and its totality is unknown to any single individual, qualitative exploratory fieldwork ventured from the formal municipal labour force into the informal economy of waste using a snowball sampling method plus early-morning traverses of the
town, with a minimum of two respondents for each of the many livelihood niches discovered. Lawyers, activists, politicians and officials in positions of regulative power in local government were also interviewed – over a 100 respondents in all. Nonetheless, the material is presented as a qualitative analytical narrative, with an invitation to develop the exploration in future.

The production of waste in commodity production

Over and above greenhouse gases which are out of this paper’s scope (White et al., 2012), factory production generates waste that is liquid, solid, biodegradable and non-biodegradable. The town generated case material of all types.

Industrial alcohol

On the edge of the town, a registered industrial alcohol factory[1] uses molasses[2], water and fossil-fuel energy to generate alcohol plus liquid waste, in principle non-toxic and biodegradable, in practice neither. Untreated molasses sludge is piped to a river bed from where evaporation solidifies the waste, and percolation contaminates the water table while unattended blockages and leaks further pollute the land and water nearby. Facing protracted, multi-level, critical, party-politicised campaigning, the factory was eventually forced by the local Pollution Control Board (PCB) to install a treatment plant converting waste into organic manure. In turn this created a by-product of waste dust which settled on, and irritated, plants and humans alike. The plant broke down and stopped work. Waste from this factory has negative social value and, unlike other processes inside the factory, is subject neither to records nor regular inspections.

Local ex-untouchable labourers (Dalits[3]) were evicted without compensation to provide the factory land. Under 10 per cent of the factory’s labour force is registered and permanent – very few from the locality. Local Dalit workers are being “constantly sacked” from its casual labour force, have declined from 50 per cent 20 years ago to 12 per cent in 2015, are disproportionately concentrated in dealing with effluents and paid at an average of Rs 6,000 per month (one-third below the average for low-skilled labour and the 2015 unskilled Minimum Wage which are both Rs 9,000 per month). As a family wage these informal earnings are seriously inadequate[4].

The “heavy regulation” of industrial alcohol was described as involving a nexus of corrupt interest between the regulators, local politicians and the owners. Labour is also deliberately informalised both to contain costs and to express the owners’ contempt for Dalits.

Rice mills

The 50 rice mills[5] ringing the town produce several kinds of solid waste: husk, bran, broken rice and ash – all theoretically biodegradable – all recycled, revalued as raw materials and sold through local wholesalers. Husk is used as fuel on site – and surplus is sold to factories with boilers from which burnt husk ash is abandoned on verges (“free for farmers” explained a miller, 2015). Bran generates edible oil, soap and paint in a solvent extraction process the waste from which is sold as cattle cake. Black and broken grains supply the intensive chicken industry. Bran sales alone are receipted as the solvent plant is accessible to the commercial taxes and food inspectorates.

In an industry undergoing massive concentration, expansion in capacity, capital intensity and logistical reach, it is only the small skilled labour force (of about 4 per mill) that is registered “and whenever we need a loan we’re ‘bonded’ ” (said a machine operator). While two to three Dalit women sweep the mill premises, waste work proper is one of the tasks for a migrant casual male labour force (numbering 10-15 per mill), paid in cash on a daily rate totalling Rs 6,000 per month. Most of this is remitted home leaving daily (food) allowances and discretionary perks to underwrite day-to-day existence.
Clothing accessories

A clothing accessories industry[6] produces metal, plastic and cloth waste. Inside the factory, waste is marshalled alongside raw materials and equipment in a specialised supplies department. The stage of zero value is internalised. Factory waste is then sold as raw material to metropolitan re-processors with a paper trail of receipts marking its price.

The need for records explains the high proportion of the permanent labour here (25 per cent) while the factory average is 7 per cent. Of the total labour force of 810, 93 per cent are casual. Contact with waste metals and plastics is associated with a much higher proportion of Dalit casual labour (53 per cent) than in the machine rooms (5 per cent). Dalits are engaged in separation and aggregation and paid daily amounts totalling Rs 5-7,000 per month. In this case, permanent labour tracks transactions, while casual Dalit labour is used to contain costs.

Waste in systems of distribution

Distributive activity is of two kinds. One is physical and logistical: our case is Indian Railways (IR)[7]. The second is economic, consisting of the marketing and circulation of commodities: the wholesale vegetable market was selected[8].

Waste on Indian Railways

“The problem of waste is cultural. Even educated people use the station as a dustbin” (IR Health Inspector). Railway transport generates solid and liquid waste as well as human waste, much of it combined at its spaces of generation – tracks (the territory of the engineering department which occasionally throws lime or bleach onto fouled ballast) and stations (the territory of the medical department). The latter has a wide brief, responsible for public health and disease prevention on railways as well as the health of the workforce, station cleanliness and the monitoring of water and food quality.

Recently, the control of station cleanliness was ordered to be subcontracted from direct management by IR to a private company – on terms generating a private rate of return on capital which may approach 33 per cent. Its labour force of 33 waste collectors (mostly women, mostly Dalit – with 14 in supervision and administration) is organised in shifts, and provided with uniforms, equipment and contracts. From public to registered private employment, wages have dropped by two-thirds to a daily rate of Rs 210 (Rs 5,500 per month – with less complete entitlements to occupational welfare than in the public sector). The deterioration in earnings requires an informal supplement and the working shift is stretched by extra hours spent separating (paper, plastic, card and glass), bagging and hauling station waste to sell, un-receipted, to wholesalers for an income supplement of about Rs 50 per day. Success in this self-employment will raise their total incomes to Rs 6-8,000 per month. Residual waste goes in two directions. First, as part of their unregistered work gatherers also screen and collect items from the “waste-waste” dumped in the station yards. Second, residues from this double screening are then regularly collected by a municipal truck crew and taken to the municipal dump-yard on the edge of town. There, another set of families informally screen it, prior to compacting by municipal JCBs and (illegal) firing. Meanwhile human waste from IR is supposed to be treated in a siltation tank but is in fact released into a ditch joining other wet waste from wedding halls, and thence to a foul marsh.

Here, there is a top-heavy super-structure of secure labour and a differentiated set of more or less formal wage and self-employment relations that are dominated by Dalit women. The structure of returns to formal labour is predicated on additional un-receipted earnings.
in the informal economy. And the formal-informal labour process generates the raw material for a further two tiers of socially stigmatised and – as shown later – severely pauperised waste hunter-gatherers.

**Wholesale and retail vegetable markets**
Meanwhile the town’s vegetable markets generate uncontrollable quantities of edible and biodegradable waste. The town is a regional hub, dominated by an oligopoly of ten wholesale firms with licenced stores – expanding their reach nationally, experimenting with global exports and co-existing with over 400 retailers who rent flimsy stalls and who find accumulation much more difficult. The latter net about Rs 2-300 per day or Rs 6-7,000 per month. The preserve of backward caste men, Dalits and women are conspicuous by their absence.

Vegetable marketing generates waste in many ways:

1. cuttings (from processing vegetables on site): stems, outer layers, leaves;
2. perishables: tomatoes and brinjal are carefully harvested early in the day to avoid rotting. But damaged tomatoes or bruised carrots may not even be unloaded – the crates they are stacked in are worth more than a damaged load – so they are dumped on the edge of town;
3. unloading hooks can also damage vegetables which quickly rot;
4. white mushrooms discolour rapidly, cannot be sold and switch category to waste; and
5. packaging also goes to waste.

But, though figures of 40 per cent waste have become commonplace (Food and Agriculture Organisation, n.d.) traders estimate that the proportion wasted in marketing is very unlikely to exceed 20 per cent, even for perishable vegetables.

Unable to cope, the municipality returns responsibility for vegetable waste to the market shopkeepers who supply it as a free good to the informal economy. Waste is recycled to commercial “white pig” farms, to rearers of black pigs and several big herds of cows. One wholesale dynasty has a portfolio containing multiple vegetable firms, transport businesses, a rabbit farm and cattle herds. Most vegetable waste, however, is raw material for the urban animal economy and is free, collected by petty producers and petty capitalists for stall-fed animals. The town is thought to have about 15 herds of six to eight adult cows. Meanwhile about 200-300 cows belonging to the poorest owners stray in bands of four to six throughout the town, running the lethal risk of eating plastic waste. The vegetable market also supplies free feed to 10-15 herds of urban goats and numberless chickens. Unused waste is packed onto lorries to be fly-tipped at the edge of town or delivered to the dump-yard.

With the exception of chicken, mutton and fish which have special marketplaces and weekdays, the slaughter of other animals (cows and pigs) takes place in the residential quarters where they are reared – and beef and pork are sold on makeshift stalls. Evidently, hundreds of unregistered or minimally registered, unregulated livelihoods (not all of which are low income) are generated directly and indirectly from the waste of the vegetable market alone. This workforce also shifts the types and sites of public health hazards from waste, dispersing it from marketplace nodes to alleys, domestic courtyards and compounds.

**Waste generated in consumption**
Throughout the settlement, all day but especially at night, waste is heaved from residential buildings onto common land, private vacant lots and verges – sometimes broadcast, sometimes strewn in the vicinity of municipal skips[9]. Apart from food waste, an entropic profusion of paper, plastic, polythene, card, glass, metals, cloth and consumer durables amasses: solid, non-biodegradable, re-usable and recyclable – or useless. To focus on the
relation between formal and informal activity, this account of the consumption waste economy outlines four major types of livelihood: the formal municipal sanitation labour force[10], that of the private formally subcontracted company[11], the semi-registered wholesale hierarchy[12] and tribal waste collectors[13].

*Municipal sanitation work*

Domestic consumption waste, commercial waste and waste from public buildings are formally the remit of the municipality – the local state. But the mass of solid waste has grown by factors of eight to ten in the last quarter century, a rate incommensurate with that of Municipal resources. With little industry to tax, local government is penalised by a culture of fiscal non-compliance and is starved of revenue (see Jairaj and Harriss-White, 2006)[14]. Meanwhile the Municipal Sanitation Workforce (MSW) has declined by some 40 per cent, with no change in technology to increase productivity. The composition of waste has been revolutionised by the arrival of many kinds of plastic, by medical waste from private clinics and poorly biodegradable sanitary pads and nappies/diapers. Waste has spun out of municipal control and has required a vast increase in the army of unregistered workers who are encouraged to survive from engaging with it.

“We are machines” (female MSW). With 125 registered workers and 4 supervisors, the MSW has become severely understaffed. Official estimates of unfilled vacancies vary from “60” through “80 women alone according to the rules” to “an actual need of 400 more” (female MSWs). The workforce reports to a Commissioner who delegates this responsibility to engineers “more concerned with roads and construction” (Jairaj and Harriss-White, 2006), themselves understaffed and unable to exert close vigilance or prevent the deterioration of urban public land into un-clearable dumping grounds.

Once a position reserved for Dalit women (Thorat et al., 2016), after manual scavenging was abolished in the 1990s[15], defecation work was de-reserved, its local government posts were effectively disinheritied, the gender composition was passively masculinised through selective failures to replace female staff, and the MSW face constant attempts to replace them with casual labour on ad hoc contracts. Apart from drivers and helpers on trucks and tractor-trailers, the municipal workforce is formally organised in teams in which men collect “wet waste” and women sweep “dry waste” – though during the Monssoons the distinction vanishes in flooded urban alleys. After heaping, waste is heaved into tractor-trailers and at least 20 tonnes a day is taken to the municipal dump-yard. This place is no ordinary landfill in a remote valley or former quarry but consists of several acres on the southern edge of town confined by three to four metre-high corrugated-iron walls and literally full to bursting. Well over 1,000 tonnes is deposited there each month. Because by this stage the town’s organic waste is mixed with non-biodegradable waste, the practice of composting in pits has stopped. While municipal supervisors have formal responsibility for the zoning and compressing of dump-yard waste, they informally organise its burning as well – thereby releasing toxic smoke into the atmosphere but enabling strata to be compressed for decomposition while cattle, pigs, goats and dogs forage on the smouldering surface.

The vast majority of municipal workers (70 per cent) are Dalits and Scheduled Tribes, a minority coming from backward castes. “No Muslim would do this work” (male MSW)[16].

All sanitation work is physically hard, smelly, disgusting and often dangerous: 90 per cent of municipal sanitation workers die before the retirement age of 58, most from occupation-related health conditions (Human Rights Watch, 2014). Notwithstanding, this workforce is the “aristocracy” of waste labour. Men and women are paid equally at salaries three to four multiples of those without formal contracts (Rs 15-25,000 per month according to seniority of service) with rights to Employee State Insurance and medical treatment, with Provident Fund for retirement, half final salary pensions, weekend leave, 12 days’ other leave per year, maternity leave and provision for work-related accidents and death.
Unionised at 90 per cent, they are nonetheless unable to strike about injustices (lack of changing and washrooms, lack of uniforms, protective clothing and equipment which many have to purchase privately, unfair promotions) since the scarcity of municipal revenue is commonly known and this workforce is constantly confronted by the alternative forms of livelihood in consumption waste.

Even the formal “gold standard” contract is arbitrarily incomplete and full work rights are denied. For example, though entitled to outpatient hospital treatment, inpatient entitlements are denied to MSWs. Informal practices are permitted: the dump-yard fires are one such. Another is an arrangement at dawn when, after clocking-on but before the MSW embark on their routes, tribal Irular[17] are allowed to make the first of their several daily rounds, scavenging the town’s streets. In a third instance, despite MSWs being forbidden to pick waste privately while they perform work for the municipality (a stricture collectively observed), women’s official pay is supplemented by informal work cleaning private wedding halls while men will privately clean septic tanks. Technically unable to cope with present levels of waste production, this formal system sets the existence conditions for the informal economy of waste.

**Private subcontracting**

Acute revenue stress and practices of new public management have forced the municipality formally to subcontract one-third of the town to a private registered company, to which it transfers a much lower sum for the same services as it organises directly. The company’s private business model combines technological upgrades (semi-automatic waste-compacting lorries and roadside skips capable of bulking and delivering 15-20 tonnes a day to the dump-yard) with a massive deterioration in labour conditions.

Families of labour, all Dalit and organised through an informal labour contractor, are effectively bonded for a period of three years, brought in long distances from another state, unable to communicate with local people, paid at the minimum wage without perks (earning a third to a quarter of the MSW salaries) and housed on common land in tent-like shacks. Naturally this already informal labour force supplements its exiguous income with “side-work” and its residential patch is piled high with white cement bags of segregated waste. Informal activity is hard-wired into the business model of municipal subcontracting.

**The waste wholesale hierarchy**

“There is money in waste” (wholesaler). In the informal economy of waste, after gathering and segregating, waste is sold to a dealer. The town has 15-20 dealers, not clustered as is usual in Indian towns (Stanley, 2015), but spaced evenly throughout the urban fabric to minimise the effort of transport, since so much waste is hauled on foot.

At this point consumption waste is re-commodified and gains value. Prices are formed outside the town. Dealers are price-takers for their own sales, deduct a minimum net mark-up and beat their purchase prices down. Large premiums from price differentiation reward waste collectors who segregate with precision. There are six common forms of paper, five grades of card, four types of plastic (whose purchase prices range from Rs 2 to Rs 18/kg); polythene is classified by micron (Rs 3-15/kg), glass bottles are bought in six grades for return to bottling factories, metals (and cables) are most valuable, varying from iron (Rs 20/kg) to copper (Rs 380). Each wholesaler aims to keep four to six suppliers “loyal” – effectively bonding them by loans, by the gift of gunny bags and cement sacks and by lending cycle-carts to suppliers. “Re-cyclists” have up to ten times greater productivity than those who collect and haul on foot, for not only can they transport heavier loads, they are also able to complete multiple rounds of their routes each day. Informal waste collectors/suppliers, mostly Dalit, earn between Rs 150-300 per day (Rs 4,800 per month).
Wholesalers may sell with receipts, directly “on trust” at long distance to recycling and reprocessing firms with instant electronic bank transfers from the purchaser, or via itinerant agents who broker deals and advance payments. But at least half the town’s “raw material” is delivered, un-receipted, along networks of caste, kinship and debt to an immense monopolist depot covering several acres of peri-urban land and managed by a multi-generation joint family of Nadars, a highly enterprising and upwardly mobile (toddy tapping) caste. “We are professionalising” (said a co-owner). Indeed their portfolio involves vertical integration and upgrading — extending to land for stocks, two metropolitan scrap yards and fleets of trucks and lorries.

From this firm comes the authoritative estimate that the informal urban work-force generates about 700 tonnes of recyclable waste and up to two million bottles each month.

With increasing scale and with management of the diversity of the value chains in which waste enters as raw materials come local monopoly returns. At this point a micro-precise sorting takes place for receipted sale at long-distance. “We deal in hundreds of categories” (co-owner). Aluminium vessels full of mother boards, wire, or plastic bangles, heaps of reinforcing rods, baled cardboard boxes and drifts of plastic flagons all await “export” for reprocessing. It is also at this stage that certain components re-enter newly developing second-hand markets, as commodities rather than raw material, e.g. auto components, hi-fi equipment and architectural/construction waste.

Informal transactions are selectively confined to labour and to relations of bribery and fraud with officials of the sales tax department and the police. According to a supplier, an “immense fortune” results from receipted, under-receipted and un-receipted transactions: this wholesale hierarchy also launders stolen goods. Harassment from the police and municipal officers, replaces physical hazards as the main risk in this part of the waste economy.

This scrap-yard employs a migrant workforce approaching 500 wage workers, imported for up to two years on verbal contracts from Hindi speaking states. Fed and housed in primitive conditions, women are paid under half the minimum wage (Rs 150/day or Rs 4,000 per month) and men slightly below (Rs 260/day or Rs 7,000 per month) without any further entitlements.

Tribal collectors
Although their work overlaps with that of others, Irular waste collectors, who may number 150-200, are distinguished here because they are distinguished by all the other elements of the workforce. “We never talk to them” (Dalit female MSW). “We have no contact with them” (scheduled tribe caste association official) “They are not really humans” (Female scavenger). “We are treated like animals” (self-employed Irular). Other scheduled tribal people called them “beggars” and “drunkards”. Of the Irular, we were told “a dog is still a dog even if you bathe it”.

While other waste workers also make bricks, knot garlands, clean wedding halls, fish in water holes and make several daily rounds of the waste-routes that are far from cleared by the official labour force (all gaining daily between Rs 50 and 300 (Rs 1,300 to 8,000 per month)), the Irular hold the informal monopoly over the final screening of consumption waste at the foetid dump-yard. Dump-yard territories are allocated between families in a way they describe as “amicable”. “We are united” (Irular dump-yard worker). After the lengthy morning shifts, pickings are heaped and left over several days for classification and bagging without fear of theft. Then sorted waste is heaved onto cycle-carts and taken to a particular dealer, who, unlike other scrappers, gives clothing and food at times of festivals. Here they are discriminated against in price, receiving about half what other suppliers obtain for identical items: Irular waste work generates half the income of the similar work of other castes. Despite most also being bonded to this dealer by loans, sacks and cycle-carts, they report daily average incomes of about Rs 150-200 per day (Rs 4,600 per month).
These incomes are in decline. An influx of temporary, destitute, migrant, waste workers coupled with the unofficial licence given to the privately subcontracted municipal labour to screen as they collect means that recyclable waste, itself expanding in volume, is being shared by ever larger numbers of people. The Irular have no social organisation above kinship through which to mobilise opposition to this encroachment onto their territories. So the economic roles of non-waste work, where they are in direct competition with higher status workers, become ever more important to their survival.

Consumption waste is disproportionately the economic territory of Dalits and tribal workers, naturalising the way they are stigmatised and discriminated against, in and outside work, justifying the exclusion of many from rights to even the minimal social security benefits accorded “untargeted” to the poor (Desai et al., 2010). Informal waste work is also the safety net for vagrant people disenfranchised from dependence upon others by cross-caste elopement, addictions, certain diseases, disability and crime. The lack of extortion meted out by local government officials and the police to “temporary-permanent” verge dwellers and their verge economy is a powerful indicator of the social importance of their work – despite their deep poverty and compromised citizenship[18].

The production of labour and human waste

The production of labour power involves the production of labour and this in turn involves human waste[19]. Despite the relatively early abolition of manual scavenging and the installation of septic tanks in Tamil Nadu – starting in the mid-1990s – none of the town’s human waste is treated. Since much of the residential fabric is congested, and since the subsidies provided do not meet the total installation costs, only half the houses have septic tanks. But the positioning of septic tank waste ducts is explicitly encouraged by the municipality to syphon liquid and semi-solid human waste into open drains. From the remaining dwellings, human waste is tipped or deposited alongside the other kinds of consumption waste and animal manure in the inadequately and unreliably flushed drains and urban gulleys where pathogens such as rotavirus, campylobacter and human roundworm flourish (Coffey et al., 2015). From this distribution system, untreated human waste is deposited either alongside other waste or in river-bed pools so close to the town’s drinking-water pumping-stations that the latter are being relocated. Only in the rainy seasons is human waste flushed away from the town’s territory. The authoritative Human Rights Watch Report on Open Defecation corroborates the implications for livelihoods of the sorts of conditions of human waste found in this town:

“Urbanization has increased open defecation that needs to be cleaned. Where people used to go to the fields, they now defecate in the roads. The drains have to be cleaned” […]. “(The) manual cleaning of open defecation from roads and other areas, remov(es) excrement flushed into uncovered drains by private households in rural, semi-urban, and underdeveloped urban areas, or manual cleaning of private and government septic tanks (persists)” (Human Rights Watch, 2014, p. 32, p. 14).

(PEople are employed as manual scavengers to clear open defecation areas and pour-flush toilets in public places, to provide sanitation in hospitals and nursing homes, and to clean sewers, septic tanks, drains, and railway tracks (Human Rights Watch, 2014, p. 66).

But far from being stigmatised manual scavengers, their replacements are formally contracted municipal workers/sanitation workers with some of the rights of the civil service and a de-reserved job.

Although the municipality, the colleges, schools, hospitals and police stations commission private tanker businesses[20] to void their septic tanks of faecal sludge, these also operate in the informal economy. “They often require us to do it for free” (septic tanker owner). Owned by one Dalit and one scheduled tribal entrepreneur and operated by Dalit and tribal kinsmen, the town’s two fleets of five tankers face low capacity
utilisation and fickle returns to investment due to lack of demand. Property owners forget to
void the tank or seek to evade the private costs of cleaning (Rs 1,200). “An average septic
tank should be cleaned once every 3-5 years but here people tend to contact us once in a
generation or in an emergency when their tank overflows” (septic tanker owner).
Fleet owners are harassed and fines are extorted by the police for dumping the contents of
septic tanks, untreated, in a local water body. “What’s the alternative?” one owner asked.

Here formal waste-work is essential to the disposal of human waste in conditions which
break many sanitation regulations. None the less, a small informal labour force structured
by family and kin is strategically deployed in septic-tankering without which the town’s
public hygiene would be non-existent.

The production of waste in the reproduction of society
The biological reproduction of the urban population is part of a wider process of social
reproduction across the classes and generations. Although it is agreed that gender relations
and the family play a key role in both types of reproduction, there is no scholarly consensus
about the other institutions indispensable to social reproduction. In most capitalist
societies, over and above the production-distribution-consumption system described here,
social reproduction requires basic utilities: electricity, water, communications; the provision
of infrastructure for basic needs and capabilities: schools, colleges, tutoring and training
institutes, clinics, hospitals and banks; and the provision of protection and legal order: the
police and fire services, courts and defence – and the state’s fiscal, developmental and
regulative administration. Many of these conditions are provided by the state, some in a
combination of state and private capital. All, even the infrastructure for waste disposal
itself, produce waste. In this last empirical section, we select first the public and private
 provision of health care without which labour cannot be reproduced – biologically and
socially[21] and second the alcohol (“liquor”) industry[22].

The latter requires some explanation. Throughout India, alcohol suffers from a
tension – and is vulnerable to accusations of political hypocrisy. On the one hand it is
regarded as a social evil and to be dis-incentivised or prohibited. On the other it is a
welcome source of revenue for cash-strapped states (Kim, 2008). Neither quite describes
the ambivalent role of alcohol in the reproduction of the waste economy. On the one hand
in being a necessary therapy before and after work (very few formal and informal workers
of either sex being able to abstain here), it is an essential component of the reproduction of
labour power. On the other hand it pauperises in several ways. As an essential item of
expenditure it reduces the value of the wage, and incentivises informal “side-jobs”,
lengthening the necessary hours of the informal working day and reproducing the
conditions it alleviates. “Alcohol is a regular expense for women and men because of
the smell and maggots – many of us get addicted” (Male MSW). The ill-health that
follows from addiction also reduces life expectation.

The waste economy of healthcare
The town is something of a health hub with a large public hospital, a dozen private hospitals
endowed with wards only one of which has intensive care, plus several dozen smaller
private clinics, many diagnostic labs, drugstores and non-allopathic health services.

Public healthcare waste:

Yes, we are called “dirt-dealers by patients” (PHFK[23]).

In the public hospital, waste is highly organised. With nearly 300 “housekepers” who clear
waste inside the building, plus 15 supervisors plus sweepers for the outside grounds and
over 50 security men who, inter alia, stop night-time fly-tipping, the hospital’s sanitation
labour force far exceeds the municipality’s whose responsibility covers the entirety of urban public space.

Wards are known to housekeepers by their waste-generating capacities. Maternity is by far the most productive of waste (“the town produces 800 children per month” (medical doctor)) followed by fire and accident, casualty/intensive care and surgical theatre/medical wards. Since the burden varies greatly within the hospital, housekeepers are constantly shifted around. The work involves cleaning lavatories, separating and transporting ward waste to skips classified for general and food waste (green); bloody waste, wound and other dirty waste (red); “biomedical” waste (sharps, syringes, pills, etc.) (blue); and body parts, limbs and placentas, etc. (yellow). Though separated, the first two kinds of waste (some 10-20 tonnes per day) are taken in municipal trucks to the dump-yard. Blue-labelled biomedical waste (about 50 kgs a day, details of which are carefully recorded) enters a separate “sealed” disposal system managed by a private oligopoly and intended to feed a distant incinerator. This has been closed by the PCB owing to its own toxic effluent gases and biomedical waste is currently buried in pits. Inadequate capacity and “leakages” fuel an informal economy of (infectious) plastic and metal biotrash (Hodges, 2013, 2015). “Some hospitals violate procedure and corpses are carried to the dump-yard in an open truck. The alcohol they provide to sanitation workers incentivises us to do this – it’s the same with body parts, placentas, stillbirths and aborted foetuses” (female MSW). Urine and faeces are stored in a battery of septic tanks and voided regularly though informally by the private septic tanker service.

In total, 75 per cent of the workforce consists of women from Dalit and tribal castes, supplemented by a few Christian and backward caste workers. As with the municipality and IR, strained financial resources plus government orders to subcontract services have forced the hospital to lay off a previously unionised, formally registered, public sector labour force which was rehired un-unionised with private formal contracts. “We are under contract these days” despaired a PHMHK. Privatisation lowered average monthly wages from about Rs 12,000 to Rs 4,200 (after Rs 700 deductions). Male and female pay is equal. These are so far below living wages for families that they incentivise moonlighting and informal supplements. Yet, the long shifts are incompatible with other activity. The formal contract is also incomplete. While provident fund and employee state insurance are provided, there is no medical insurance – sick leave and holidays are taken without pay. While uniforms, gloves and masks are provided, there are no changing rooms and only rudimentary hand-washing facilities.

Inside the hospital the work is hard and long, heavy, smelly and nauseating. It also exposes the workforce to infection. Outside the hospital in public space, night-time security is so dangerous to female housekeepers that the night shift is male.

Private health care waste:

“Health is big business”[...] “My relatives ask me why I do such a filthy job, but this hospital is my ‘parent-home’. I am proud of my reputation in the hospital and I am grateful to its owners”. “This work is not compatible with family life” (PvHFHKs).

In two ways – through ownership and the labour force – private hospitals are linked to public ones. They are owned in meshed combinations of moonlighters from public hospitals and private partnerships with overlapping specialist portfolios and links to the insurance industry. Their workforces have been formally trained at public cost and may also be drawn from the pools of young trainee labour waiting for government jobs and of retired public health care workers unable to live on their pensions. There is no retirement age in private health care.

Social relations of waste in private hospitals are characterised by flexibility, discretion and patronage. Illiterate “housekeeping” labour cleans wards (and lavatories) and sorts waste but may also be asked to perform nursing and other paramedical tasks (dealing with
drug bottles, “dressing wounds”, “personal services”, patients’ faecal relief at dawn), clothes-
washing services and medical equipment washing, theatre assistance and portering. Of medicines: “people have described the labels to me and now I know their contents”. “I get used to the English instructions”. “Nurses read me anything I can’t understand” (PvHFK). Most private hospital housekeepers are Dalit, female, illiterate or poorly educated.

The contract is on the informal end of the formal-informal continuum. A typical wage is Rs 6,500 per month. “I have been on a verbal contract for 20 years” (PvHFK). This verbal contract may entitle the housekeeper to free medical treatment (but subsidised for their family), subsidised private education fees for their children, festival bonuses and access to loans of up to a month’s salary. The very long shifts (10-12 hours) and leave are also negotiable. Maternity leave is generally granted without pay but with assured return to work. Uniforms, masks and gloves are usually supplied but, as everywhere, sanitation for sanitation workers is conspicuously absent. “If no-one watches – we can sneak in to the labour ward staff toilets” (PvHFK).

Waste may be classified differently from in the public health system in a detail that does not match the formally state-regulated one: “needles and sharps; syringes; blood transfusion and blood products; drug bottles; saline and glucose bottles; dirty cottons; plastic tumblers, paper; food waste” (PvHFK). Housekeepers may even sell some waste privately into the informal wholesale hierarchy. But biomedical waste tends to be treated separately: “The collectors ask us for proper packaging so they do not have to touch it” (PvHMHK). Even so, both the Irular dump-yard workers and the MSWs testified to the dumping of hazardous biomedical wastes by some of the town’s private hospitals/small clinics. And one PvH HK rapidly retracted a statement that some biomedical waste was burned in the hospital grounds.

Hospital waste is handled by workers hired under a great range of contractual forms and work rights revealing how the loyalty of labour and the discretion and patronage of employers replace state entitlements and regulation. But in this formal-informal continuum, it seems that the more dirty and dangerous the work, the lower the pay and the more physically taxing the work conditions.

**Alcohol and waste**

“Selling alcohol is such heavy work” (Liquor man). “Alcoholism is almost normal – such a horrible job handling stinking maggoty waste” (Male MSW). “My store produces 3,000 empty bottles a day” (Liquor man)[24].

The days of toddy tapping and arrack distilling are long gone – liquor is dominated by beer and brandy and is heavily state-regulated. Public and private breweries and distilleries supply a state retail monopoly (“Tasmark”) where prices are fixed at rates that pour tribute into the public fisc. Two of the hundred employees of Tasmark’s stores estimated that the town’s liquor consumption has increased by a factor of about 30 in the decade from 2005 and that the social composition of drinkers has cosmopolitanised – extending from lawyers and policemen to construction, brick, timber, sex and waste workers.

Both men and women waste workers drink before and after work: “before” in psychological preparation; and “after” to mask the physical pain in their joints and muscles. Brandy is commonly purchased in quarter bottles[25] and thrown down the throat for an immediate “punch” with a slower pain-diffusing after-effect. An average waste-worker will earn the sobriquet “alcoholic” by spending Rs 90-150 per day on alcohol – often shared with a spouse, but reducing their joint income by approximately one-third. The free rice ration is thus a vital compensation in which the food subsidy and alcohol tax mutually complement each other.
In this town, alcohol outlets generate about one million glass empties per month which enter the waste economy to be repatriated to their factory of origin, each type embossed with their trade-mark, each having well-known prices[26]. All types of waste worker will recycle glass bottles, gathering and classifying them, washing them if possible, prior to re-valuing them through sales to the wholesale scrapping hierarchy, or to specialised bottle-men with crates and vans. Nearby, four “chemical washeries” each employing about 40 Dalit women will then flush residues from bottles before launching them on another cycle.

The circuits of liquor also lock an informal and illegal commodity economy into the formal, legal one. For 12 hour shifts and seven day weeks the Tasmark salaries are extremely low: between Rs 3-5,000 per month plus basic benefits. But this job is so highly lucrative that many endure “formal casual” status indefinitely. Each bottle yields a legal Rs 5 commission which can increase the salary tenfold. Beside each shop is a bar, rented out at 2.5 per cent of its gross output. A typical rent will be Rs 180,000 per month. Out-of-hours drinking in the bar fuels a black market in which “quarter bottles”, formally fixed at Rs 90, will fetch up to Rs 200. Black market rents will be added to salaries. Illegal wholesale purchases for village retail sales plus the adulteration of regulated alcohol with illegally supplied rectified spirit expand informal markets and incomes further.

The waste from alcohol consumption is dangerous. Broken bottles around retail liquor outlets are a hazard to any of the general public foolish enough to stray into these spaces. “At least two thousand bottles are thrown around the site of my shop daily. Most won’t break. But broken glass is exacerbated by fights around bars” (liquor-man). At night broken glass is a hazard to prowling animals. By day most broken glass is collected by formal MSWs and informal waste gatherers, added to general waste and offloaded onto the dump-yard to be avoided by workers there: Irular gatherers and their children, MSWs and herdsmen.

While formal procedure is violated, the state-regulated liquor economy requires the informal economy of bottle-recycling for it to operate. Informal transactions are not simply the repository of poverty, they may generate lucrative livelihoods.

Conclusions

Mainstreaming waste: what waste confirms about informality

The case of waste confirms the vital economic importance of registered private firms in an economic sector formally dominated by institutions of the state. The largest local firms are formally registered intermediate capitalists employing family and wage labour on casual or verbal contracts. While registered and as a result able to establish and operate bank accounts, these firms flout the laws regulating labour, the environment and tax. Informal fines replace legal enforcement. Registered firms profit economically from the debt-tying of many waste-gatherers; they also profit politically from networked relations with the key departments of government: the municipality, commercial taxes and the police.

The great majority of livelihoods from waste consist of unregistered, informal, self-employed petty gatherers and traders. Their exchange relations, bound to commercial capital, are on terms that prevent their own assets – their tools and equipment – from expanding. The sector grows through the multiplication of many tiny “enterprises” rather than by the concentration and centralisation of capital. In a politics of ignorance and complicity, the state tolerates these livelihoods.

The wage labour force is starkly differentiated by work status. Formal municipal workers have fullest rights both in and out of work but these rights are nonetheless incomplete. Yet even unionised municipal workers are unable to strike to improve them. In privately owned companies, irrespective of whether they generate or dispose of waste, labour contracts are rarely other than verbal, discretionary, flexible and incomplete. Meanwhile the larger segment, casual labour, forms an informal precariat in the strict sense defined by Standing (2011): without rights at work and with few entitlements outside work.
Informality is more a political process than a binary state existing in opposition to formality, a process in which laws incentivising business are more likely to be enforced whereas laws adding to its costs are flouted. Formal contracts and behaviour are incompletely state-regulated and politicised. To cast “formalisation”, either of economic behaviour or of welfare, as a solution to informal activity is to ignore the deep penetration of informal practices into formal, state-regulated activity, traced in this empirical paper.

Exceptionalising waste – how the case of waste advances understanding of informality

In law, most of the stages of the waste economy, whether handling valueless material or engaged in its re-valuation, are heavily state regulated. In practice, the state’s capacity to enforce the law is severely compromised. The “boundary” of state regulation is policed by the relation between the dispersed sites of waste generation and the state’s lack of resources, lack of transport and other equipment needed for inspection and sanction, and lack of staff, together with strategic and selective collusion between its agencies and private business.

Commodity transactions are registered under limiting conditions: under active inspection regimes (most well-funded in the case of commercial taxes), when direct transactions with the state must be tracked; and for long-distance transactions in which zero value waste moves to positive value. Labour contracts are most likely to be written and “formal” when pertaining to state employment, despite the widespread shedding and casualization of permanent public-sector labour. Elsewhere, contracts are least incomplete when skilled and relatively scarce labour needs retaining. Both the state and the registered private sector deliberately connive to create and perpetuate informal activity wherever it reduces their costs or stabilises or increases profits (as e.g. in the municipality’s toleration of verge-side shacks and tents and the accommodation by the formal labour force of dawn rounds of informal gathering, which reduce the burden and costs of clearing consumption waste).

Unlike other sectors of the informal economy there are no business associations to compensate institutionally for the absence of state regulation. Collective action is strikingly absent and regulative power is in the hands of individual purchasers of gathered waste. Contracts show considerable variation and discretion; disputes – and there are many – are brokered unsystematically by caste association officials, social movement volunteers or locally respected patrons. Work in the informal economy of waste is regulated through caste, ethnicity and gender – disproportionately low status and considerably female. Caste power is a dynamic social force. The low-caste-specificity of waste is being dissolved fastest among the state-regulated municipal labour force where Backward castes have entered the sector. Although the lowest caste Dalits and tribal Adivasis are found widely outside the waste economy and are not confined to it, in the informal waste economy very few livelihoods are other than for individuals with lowest social status. And once working in waste, it is next to impossible to exit and move to work with higher economic status and returns.

The role played by the state in the waste economy for which it is formally responsible is both differentiated and ambivalent. On the one hand, municipal sanitation workers, even from the lowest castes, have a social status derived from their “respectable” work for the state. In being the provider of food of last resort through the public distribution system, it is the state that rescues the poorest informal waste-gathering families from begging. On the other hand, the capture of power points in the bureaucracy and judiciary by upper castes de-secularises the state and imbues it with socially oppressive practices. Liberalisation has increased the pace of private subcontracting of public services. This on-going process has dealt severe shocks to the incomes of waste workers who are re-employed and more or less formally registered in private companies. They experience the informal supplementation of their working day and their takings as coercive. The latter approach the levels of informal self-employed workers and are far below poverty lines/minimum wages for families.
The informal economy of waste generates a special perspective on informality. India’s productive economy could not function without its waste-disposing economy. The latter in turn has two type of legal status. Its resource-deprived, formal, registered waste-disposing economy is utterly dependent on the informal economy of waste and its considerable workforce, a dependence that is underpinned and policed by a wide range of forms of social coercion. There is no sign of any improvements in the foreseeable future.

Acknowledgement
Fieldwork was funded by the ESRC-EU through the London School of Economics’ project on Inequality and Poverty www.lse.ac.uk/anthropology/research/Inequality-and-Poverty/Home.aspx. All views expressed here are personal. The author is grateful to Alpa Shah, the Project Director, and to the Funders, to Gilbert Rodrigo with whom the author carried out the field research on waste in 2015 and 2016, to the participants at the 2015 Sheffield Conference on “The Informal Economy: Global and Local” and to two anonymous reviewers.

Notes
1. Informants: two members of local government.
2. Waste from sugar cane crushing.
3. The term Dalit connotes oppression and ex-untouchability in circumstances where calling people by their ex-untouchable caste names is regarded as illegal under the Scheduled Caste and Scheduled Tribe (Prevention of Atrocities Act) of 1989 (amended in 2015). India-wide, in the latest published data for 2001, Scheduled Castes comprise 16.6 per cent of the population while Scheduled Tribes are 8.6 per cent.
4. In 2015-2016 Rs 100 hovered around £1 sterling. A month is taken as 26 days though many waste workers take no leave. The average wage for low-skilled workers is from www.tradingeconomics.com/india/wages while the minimum wage for 2015 is taken from www.delhi.gov.in/wps/wcm/connect/doit_labour/Labour/Home/Minimum+Wages/
5. Informants: two millers and a mill engineer.
8. Informants: informal leader of wholesale market; two meals hotels owners, two stall-fed cattle rearers; four pigmen.
9. An army of domestic servants, which we could not study, is used for this work. The three Thotti ("scavenger" caste) women we met said they earn Rs3,000 per month plus food.
10. Informants: 11 MSWs.
11. Informants: local citizens plus one company supervisor (labourers have no mutual language in common).
12. Informants: four wholesalers.
14. Local property and professional tax were reported to us to raise only Rs 4 cr. The municipality therefore relies on party-politicised intra-state transfers.
16. Some 10 per cent are from the Thotti (manual scavenging) caste; of the 80 per cent about half are "Arundathiers" from AP – renamed and legitimated as scheduled tribe and Kattu Naickers; while
about half are scheduled caste paraiyans. The remainder are downwardly mobile Naickers and Mudaliars – backward castes.

17. Irulars are tribal people, about 100,000 among Tamil Nadu’s 70 m population, originally – and still – semi-nomadic ethno-medically skilled forest dwellers and snake-catchers, whose language has no script. www.thehindu.com/news/cities/chennai/not-a-charmed-life-for-snake-catchers-at-work/article16004.ece; www.thehindu.com/todays-paper/tp-features/tp-metroplus/voices-from-the-forest/article2657724.ece “They are perhaps the poorest and most miserable community in the district”. www.frontline.in/static/html/fl2826/stories/20111230282611700.htm and after multiple evictions and encroachments work in rice mills (with paddy still protected by its husk) and brick kilns, often as bonded labour and in waste.

18. Contrast this with the depiction of coercive and criminalised relations of destitution in Harriss-White (2005).


20. Informants: the two company proprietors and their families.

21. Informants: one director of health and medical doctor at the state hospital, five “housekeepers” in state and private hospitals, one supervisor.

22. Informants: many drinkers, one lawyer and two state retail outlet employees.

23. Notation: PHF (M) HK = public hospital female (male) housekeeper; Pv = private.

24. A breakdown for one Tasmark (government) shop is 1,550 quarter bottles of brandy; 500 half bottles and 750 beer bottles. Demand for half bottles is on a rapid increase.

25. A “full bottle” is 750 millilitres. A quarter bottle is 190 ml. At 40 per cent proof this is 309 calories.

26. Liquor consumption also generates cardboard waste from cartons and plastic waste cups.

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Gender and informal livelihoods
Coping strategies and perceptions of waste pickers in Sub-Saharan Africa and Latin America

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Abstract

Purpose – This paper explores the perceptions and experiences of women and men who work as informal waste collectors in four different cities. The purpose of this paper is to map out how and to what extent occupational, political-legal, economic and social dynamics are experienced differently by gender in a highly vulnerable segment of the urban informal economy, and explore gender differences in these workers’ coping strategies and the levels of action they develop to protect their livelihoods.

Design/methodology/approach – The analysis is based on a mixed methods study which combined a quantitative survey of informal workers with a qualitative participatory methodology. Study participants were drawn from a purposive sample of informal workers who belong to, or are affiliated with, membership-based workers’ organisations. The sample consists of waste pickers (n = 614) from Belo Horizonte, Brazil; Bogotá, Colombia; Durban, South Africa; and Nakuru, Kenya.

Findings – The data show that despite significant differences between women and men upon entry into (informal) employment, their perceptions of key drivers and impacts are largely similar, with the exception of concerns around various types of physical security among women. They also indicate that levels of action among men and women waste pickers are only moderately influenced by gender, but are strongly influenced by the degree of organisation in the sector and the symbolic assets held by workers. The findings also illustrate the way in which gendered power dynamics operate within the informal recycling sector and how different levels of sector organisation and development often contribute to opportunities for collective action and, in turn, a reduction in gendered vulnerabilities.

Originality/value – The study offers a new policy angle which connects the level of sector organisation and development with the levels of action taken by informal workers in adapting to different types of shocks, as well as what this means in terms of gender empowerment.

Keywords Gender, Livelihoods, Informal economy, Collective action, Claim-making, Symbolic assets

Paper type Research paper
Introduction

In most Latin American and Sub-Saharan African countries, a larger share of women than men are in informal employment (ILO, 2013b). Despite the greater share of the female workforce in informal employment in these two regions, gender inequalities in this sector are rife. Indeed, many of the disadvantages that women face within the informal economy in terms of earnings, working conditions, safety and security are now well-documented in the literature. Analyses of the source of these gender inequalities commonly focus on specific social constraints impacting women’s entrepreneurship potential, including, though not limited to: gender differences in access to education, patriarchal and cultural practices that limit women’s mobility, an unequal division of unpaid domestic labour, access to different social networks, greater exposure to occupational health and safety risks and less access to credit and start-up capital (Aterido et al., 2011; Folbre, 2006; Kabeer, 2003; Mahmud et al., 2012; Mayoux, 2001; Razavi, 2007; Wrigley-Asante, 2013).

While these factors may help predict modes of entry into livelihood activities, they do not account for gendered differences in perceptions of the key drivers of working conditions, nor are they necessarily strong predictors of livelihood-related coping strategies. Moreover, because many studies (see Dodlova et al., 2014; Grimm et al., 2012) focus on entrepreneurship as an outcome, little is known about the intersection of gender and livelihoods in segments of the informal economy where there is limited or less scope for extending lines of credit or promoting entrepreneurship. This study shifts the focus towards one such segment, the informal recycling sector, and analyses men and women’s perceptions of their key livelihood challenges and the strategies they use to overcome them.

This paper examines the perceptions and experiences of women and men who work as informal waste collectors or “pickers” in four cities in Sub-Saharan Africa and Latin America. The paper is motivated by two objectives. The first is to map out how and to what extent occupational, political-legal, economic and social factors are experienced differently by gender in a highly vulnerable segment of the urban informal economy. Second, the paper explores the coping strategies and, more importantly, the levels of action developed by workers to deal with the impacts from the factors listed above. The findings illustrate how gendered power dynamics operate within the sector, and how different levels of sector organisation and development contribute both to gendered vulnerabilities and to opportunities for collective action.

The paper is organised as follows. The first section reviews the literature on gender inequalities and constraints in the informal economy. Against this backdrop, an overview of the conceptual framework adopted for analysing vulnerabilities and strategies is presented. The following section outlines the data and methods used for the analysis. The third section presents the findings in two parts. In the first part, summary statistics detailing some of the key structural differences between men and women in the waste sector in terms of household organisation, income sources and earnings are identified. The second part examines the gender differences regarding enterprise characteristics and workers’ perceptions of key challenges or “drivers” in the waste sector, their impacts, and coping strategies. Reflecting on how workers adapt to a variety of drivers, the analysis considers a broad spectrum of levels of action, ranging from the individual and household levels to the community level to city-wide collective action. The concluding section discusses the implications of these findings for other vulnerable groups of urban informal workers.

Informal waste collection

Informal waste picking is one of the most diverse yet least understood types of informal employment. Waste pickers are identified as those who undertake the primary collection or sorting of waste materials which have been “cast aside” (Dias, 2016; ILO, 2013a,b;
Samson, 2009a, b). These workers typically collect unwanted materials directly from households, various types of public places (e.g. streets, waterways or public parks), industrial or commercial buildings, or municipal landfills. A number of waste pickers, and particularly those who have formed workers cooperatives, even work in warehouses as waste sorters.

More broadly, however, relatively little is known about informal waste picking since national statistics (i.e. through labour force surveys) are often not effective at identifying and measuring employment in this sector. In the handful of countries for which at least some data are available, the contribution of the sector to total urban employment is less than 1 per cent (ILO, 2013b). The limited data available to measure the extent of waste picking in various countries also suggest that there is no clear gender dimension to the sector (ILO, 2013b). In other words, the gender composition seems to differ from one context to another and it is not clear whether this is due to data constraints or to the importance of local context in determining whether waste picking is more concentrated among women or men.

Gender inequalities and constraints in the informal economy

Causal theories on the informal economy from the past few decades have focussed on explaining why individuals enter informal employment as opposed to formal employment. The dominant schools of thought identify four main causes of entry into informal employment: exclusion of the urban poor from formal employment due to structural barriers; exploitation on the part of formal firms that create informal employment arrangements in order to avoid costs; voluntary choice or exit from formal employment by enterprise operators who seek to avoid state regulations; and strategic choice (Chen, 2012).

Though each of these may explain the entry of some workers and entrepreneurs into informal employment, they focus little on gender disparities once in informal employment. A more recent body of research examines the gender-related constraints on women’s labour force participation (Abramo and Valenzuela, 2005), female entrepreneurship (Bushell, 2008) and women’s economic empowerment (Mahmud et al., 2012). This literature identifies several policy-relevant individual- and enterprise-level constraints including access to formal education, skills training, credit and markets. Yet beyond these factors are more systemic challenges around translating women’s economic empowerment to more far-reaching transformation towards just and inclusive cities (Moser, 2016). Moreover, while the bias in the economic empowerment literature is towards enterprise operators, many informal workers are sub-contracted, unpaid family contributors, members of cooperatives or work in more ambiguous employment arrangements that mask relations of power and subordination.

The waste sector is one segment of the informal employment pyramid where constraints on individual entrepreneurship such as access to credit are less relevant, and where the social dynamics of power more clearly intersect with gender dynamics. Examining the constraints and inequalities in waste picking through a gender perspective highlights the varying forms and degrees to which waste pickers experience exploitation and marginalisation. Some of these constraints may also be underpinned by the naturalization of hierarchical gender roles that also cut across status-based identities such as race and class.

Studies highlighting gender inequalities in the waste-picking sector reveal at least three forms of oppression women waste pickers face impacting their earnings, physical dignity and opportunities for political participation. On one level and related to working conditions, women waste pickers might not be allowed access to recyclables with the highest values, often receive less for the same recyclables collected by men, and face greater health risks as a result of handling waste and/or of working in insalubrious environments (Dias and Fernandez, 2013; Furedy, 1990; Muller and Scheinberg, 2003). On another level, women also do not find opportunities for occupying positions of authority within their work groups or
when they do occupy those positions they may not be as respected as their male counterparts. As Muller and Scheinberg (2003) note, women’s participation seems to be higher at the community and local level, with stronger gender gaps appearing as the distance from the community and the formality of the setting increases.

Broadly speaking, gender dynamics in the waste-picking sector refer to the ways in which the sexual division of labour manifests itself; gender-based violence emerges in relations with waste pickers, intermediaries and/or authorities; occupational and safety hazards impact men and women differently given specific biological needs; and gender stereotypes are impediments towards the economic and political empowerment of women workers. These expressions of marginalisation not only involve matters of distributive justice, but also entail the “deprivation of cultural, practical, and institutionalized conditions for exercising capacities in a context of recognition and interaction” (Young, 1990, p. 55). The following analysis builds on this emergent literature on gender and waste by examining men and women waste pickers’ perceptions of key drivers in the sector and their strategies for overcoming the most serious challenges.

**Conceptual framework**

The analysis of livelihood strategies in this paper is disaggregated into two general categories: self-provisioning and claim-making (see Kabeer et al., 2013). The former refers to more individual-based strategies or problem solving among one or two waste pickers. A second feature of self-provisioning strategies is that it is physically restricted to the waste pickers’ work environments. In contrast, group claim-making strategies involve a broader scope of interaction, including demands on relatives, neighbours, community, NGOs or different levels of government (Chambers and Conway, 1992). More recent debates on claim-making regarding gender equality have emphasised either institutional responsiveness to claims (Htun and Weldon, 2010) or how claim-making by women workers can be aligned with a politics of recognition, redistribution and representation (Kabeer, 2015). The paper seeks to contribute with a reflection on the processes leading to claim-making prior to the ability to more formally direct claims at institutions or to have them supported by local and global actors as discussed in the work of Kabeer (2015). Hence, the analysis of claim-making strategies here considers the ways in which waste pickers engage with or have access to different actors[1] in order to minimise the threats to their livelihoods. This strategy also allows us to trace group claim-making based on the formation of a collective identity associated with level of sector development and organisation.

Due to the level of vulnerability experienced by informal workers, and specifically by women waste pickers, the idea of claim-making here reflects an initial process of relying on collective action as a coping strategy. In other words, it includes making demands on informal and formal institutions or groups, not necessarily just directing demands at different levels of the state. In this sense, collective action should be understood as a fundamental symbolic asset that paves the path for making claims on more formal and institutionalized levels. In other words, it can promote workers’ better understanding of how claim-making cannot be disassociated from economic, social and political injustices. As a symbolic and intangible asset, collective action fosters a stronger worker identity and self-dignity (Hill, 2001) that activates voice and agency.

The analysis in this paper also rests on a structured comparison of waste-picking sectors in four cities, two Latin American and two African. The participatory component of the research offers the advantage of “hearing local people’s voices and priorities”, while the application of the same data collection tools in cities from two regions draws out important variations in the regional context that impact specific livelihood conditions and strategies (Moser and Stein, 2011). In particular,
the paper introduces the idea of the “level of sector development”, meaning the extent to which the value chain in recycling has consolidated around a set of major, organised actors. In the Latin American cities, the legal framework, waste cooperatives, intermediaries and formal sector players are well defined, whereas in the African cities all of those remain in early stages of formation.

Study design and data sources
The data analysed in the paper were collected as part of a ten-city study, the Informal Economy Monitoring Study (IEMS), which investigated the working conditions of urban informal workers on three continents and in three occupational sectors (street vending, home-based work and waste picking). The ten cities were chosen through their participation in an ongoing collaboration between organisations of the working poor, international alliances of membership-based workers’ organisations (MBOs) and support organisations that are concerned with improving the livelihoods of informal workers. Given the well-documented challenges with collecting representative data on informal workers, the IEMS was designed to conduct detailed research on a small sample of workers over time. In order to collect this longitudinal data, it was important to identify informal workers from a database which contained a priori information on the key demographic and work-related characteristics of the workers’ organisations. The data analysed in this paper come from the baseline wave of the IEMS (in 2012[2]).

The IEMS is a mixed methods study which combines a quantitative survey of informal workers with a qualitative urban participatory methodology. The fieldwork was conducted by local researchers in each city after attending an intensive, week-long training course in South Africa. The survey questionnaire was piloted extensively and then translated into a number of local languages. The surveys were conducted with workers on site with the assistance of handheld electronic devices or “personal digital assistants”. Once each interview was completed and logged, the data were uploaded to a central database which was managed by the research team. As a result, the survey data from all ten cities were processed, captured and checked for quality in real time. About half (n = 75) of the survey respondents in each city were then selected to take part in a series of focus groups. The design of the focus groups was adapted from a participatory methodology developed by Moser and McIlwaine (1999, 2004). The focus groups consisted of a number of ranking, listing and mapping exercises which have been shown to be useful in collecting data on urban livelihoods (see Moser and Stein, 2011). Building on previous experiences with this methodology, the compositions of the focus groups were designed to promote different dynamics (e.g. the research team organised single-sex as well as mixed groups) and, at all times, the focus group facilitator aimed to encourage “visual rather than written or verbal accounts of situations or issues” (Moser and Stein, 2011, p. 468).

Study participants were drawn from a purposive sample of informal workers who belong to MBOs. As such, the data are not representative of all workers in these sectors or cities[3], though they are designed to be as representative as possible of workers who are MBO members or affiliates. Detailed information on the characteristics of each organisation’s members was made available through the organisations themselves. Based on the administrative records of the organisations, we selected the participants based on a purposive quota design in order to ensure that the characteristics of our sample resembled the characteristics of the organisations in each respective city. Therefore, while not representative, the sample reflects the memberships of these organisations in terms of key characteristics such as gender, type of activity and location of work. Consultations with members of the organisations helped the research team identify the criteria with which to stratify the sample in each city. The results presented in this paper are drawn from a sample of waste pickers (n = 614) from Belo Horizonte, Brazil; Bogota, Colombia;
Durban, South Africa; and Nakuru, Kenya. The criteria for the design of the quota sample in all four cities were gender and place of work (e.g. a fixed source of waste vs itinerant collectors) (Table I).

**Context**

The characteristics of the waste-picking sector across the four cities in which fieldwork was conducted are vastly different. Perhaps most importantly, waste pickers are considerably more organised in Latin American cities (and particularly in Brazil – see ILO, 2013a; Dias, 2011) than in other regions. Indeed, the respondents from Belo Horizonte and Bogotá were largely members or affiliates of workers cooperatives or associations which are well established in the local recycling value chains. The data presented in Table II show that nearly all study participants from Belo Horizonte and just under a quarter from Bogotá are the organised members of cooperatives (though all are affiliated with workers’ associations). At the same time, the waste-picking sectors in the two African cities are relatively underdeveloped and the workers in these cities are only beginning to organise into associations or collectives.

**Household structure, income sources and earnings**

The data presented in Table III show that, as expected, women live in households which are structurally different from the households in which men live. In particular, female waste pickers live in larger households, live with a greater number of children and have far higher dependency ratios[4] than male waste pickers. This is particularly the case for the sample from the two African cities where women live in households with a dependency ratio two times larger than the households of their male counterparts (0.76 and 0.35, respectively).

Since household structures differ between women and men, it is not surprising that there are differences in household employment characteristics and in access to the labour market.
While, on average, the women waste pickers who participated in the IEMS live in households with a larger number of workers (1.85 in the African cities and 2.28 in Belo Horizonte and Bogotá) relative to their male counterparts, the employment ratios in the households of female waste pickers are lower than in the households of male waste pickers (largely due to higher dependency ratios). This means that, even though many women live with other informal workers (particularly in the African cities), their earnings are spread more thinly over a larger number of household members, and particularly children.

The data suggest several interesting differences in the way that women’s earnings from waste picking contribute to the income of their households (Table IV). In the two African cities, women’s earnings are significantly less likely to be the main source of household income (58 per cent of women and 82 per cent of men from the sample provided the single largest source of income to their household). When female waste pickers are not the primary breadwinners, the earnings of another informal worker in the household is often the main income source in the African sample (i.e. 17 per cent of women). In the two Latin American cities, on the other hand, the earnings of women are only marginally less likely to be the household’s main income source. In fact, the structure of household income and the contribution of women’s and men’s earnings to their households are very similar in the Belo Horizonte and Bogotá sample.

Table V now looks specifically at the earnings from waste-picking activities, by gender, in the two regions. The main finding is that gender differences in earnings are considerably larger in the two African cities. Both mean and median earnings are far higher for male waste pickers in Durban and Nakuru (e.g. median monthly earnings for women are USD45 and USD70 for men). However, the most appropriate comparison category is median hourly earnings (since men work considerably more hours than women and because the earnings distribution is somewhat skewed). After adjusting for hours worked, men still earn more

### Table III.
Dependency ratios by region and gender

<table>
<thead>
<tr>
<th>Sub-Saharan Africa</th>
<th>Latin America</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean household size</td>
<td>3.89 (0.15) 2.92 (0.14) 4.50 (0.15) 3.97 (0.21) 3.83 (0.08)</td>
</tr>
<tr>
<td>Mean number of children (under 16)</td>
<td>1.42 (0.11) 0.76 (0.08) 1.62 (0.11) 1.13 (0.13) 1.25 (0.06)</td>
</tr>
<tr>
<td>Mean dependency ratio (no. of children: total household size)</td>
<td>0.31 (0.02) 0.17 (0.02) 0.31 (0.02) 0.22 (0.02) 0.26 (0.01)</td>
</tr>
<tr>
<td>Mean dependency ratio (no. of children: adults aged 16-64 years)</td>
<td>0.76 (0.07) 0.35 (0.04) 0.73 (0.06) 0.50 (0.07) 0.59 (0.03)</td>
</tr>
</tbody>
</table>

Note: Standard errors are shown in parenthesis

Source: IEMS (2012) Survey

### Table IV.
Main source of income, by region and gender (percent)

<table>
<thead>
<tr>
<th>Sub-Saharan Africa</th>
<th>Latin America</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own informal work</td>
<td>57.82 81.71 48.11 53.51 60.49</td>
</tr>
<tr>
<td>Informal work of others</td>
<td>17.01 3.05 23.24 23.68 16.39</td>
</tr>
<tr>
<td>Formal wage employment</td>
<td>7.48 8.54 8.64 10.52 8.70</td>
</tr>
<tr>
<td>Other</td>
<td>17.69 6.71 20.00 12.28 14.42</td>
</tr>
<tr>
<td>Total</td>
<td>100.00 100.00 100.00 100.00 100.00</td>
</tr>
</tbody>
</table>

Source: IEMS (2012) Survey
than women in both regions (e.g. USD2/hour for women and USD2.31 for men in the Latin American cities), confirming the income gender gap identified in the broader literature on informal employment. The last row of the table shows that female earnings from waste picking are about 71 per cent of male earnings (controlling for hours worked) in the African cities and 89 per cent in the Latin American cities. Men therefore earn more than women in our sample but the differences are considerably largely in the two African cities.

One of the explanations (Glick and Sahn, 1997; Kucera and Xenogiani, 2009) for gender inequalities in informal employment from the broader literature is that women, in this sector, have far lower levels of education relative to men. The IEMS data provide clear evidence (Table VI) that in both regions, there is a large gender disadvantage in access to education. In the two Latin American cities women are twice as likely as men to report not having any schooling or education at all (12 per cent and 6 per cent, respectively). In Durban and Nakuru, men are also significantly more likely to have attained at least some secondary education or to have completed secondary schooling.

Assessing perceptions on vulnerabilities
Against the backdrop of some of the expected (and measureable) gender differences outlined in the previous section, assessing the qualitative perceptions of waste pickers reveals the ways in which certain drivers sustain gender vulnerabilities. The findings identify some of these vulnerabilities by tracing the workers’ exposure to shocks and risks and explores how they experience occupational, political-legal, economic and social factors differently. Despite the fact that vulnerabilities, in general, create a sense of powerlessness, the central argument here is that specific forms of vulnerability can undermine a workers’ sense of dignity, limiting the levels of actions taken. From a

<table>
<thead>
<tr>
<th>Sub-Saharan Africa</th>
<th>Latin America</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Women</td>
<td>Men</td>
</tr>
<tr>
<td>Mean monthly earnings (USD)</td>
<td>68.17 (8.04)</td>
<td>110.39 (10.73)</td>
</tr>
<tr>
<td>Median monthly earnings (USD)</td>
<td>45.34</td>
<td>70.20</td>
</tr>
<tr>
<td>Median hourly earnings (USD)</td>
<td>0.52</td>
<td>0.73</td>
</tr>
<tr>
<td>Ratio of median hourly female-to-male earnings</td>
<td>0.71</td>
<td>0.89</td>
</tr>
</tbody>
</table>

**Table V.**
Monthly earnings (USD) in the waste picker sector, by gender

<table>
<thead>
<tr>
<th>Sub-Saharan Africa</th>
<th>Latin America</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Women</td>
<td>Men</td>
</tr>
<tr>
<td>No schooling</td>
<td>9.40</td>
<td>5.49</td>
</tr>
<tr>
<td>Some primary</td>
<td>27.52</td>
<td>25.61</td>
</tr>
<tr>
<td>Completed primary</td>
<td>22.82</td>
<td>15.24</td>
</tr>
<tr>
<td>Some secondary</td>
<td>25.50</td>
<td>35.98</td>
</tr>
<tr>
<td>Completed secondary</td>
<td>12.08</td>
<td>15.24</td>
</tr>
<tr>
<td>Some tertiary</td>
<td>1.34</td>
<td>1.22</td>
</tr>
<tr>
<td>Completed tertiary</td>
<td>1.34</td>
<td>1.22</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

**Table VI.**
Education by region and gender (percent)

Note: Standard errors are shown in parenthesis

Source: IEMS (2012) Survey
gender perspective, these vulnerabilities establish further barriers for women to expand their coping strategies beyond an individual level.

The analysis in this section draws from qualitative data from 40 focus groups which were conducted across the four cities[5]. During the focus groups, workers were asked to engage in a listing and ranking exercise to identify the factors that most hinder their work and livelihoods. Notwithstanding the gender differences presented in the first section of the findings, the focus groups did not reveal any clear gender or regional contrasts with regard to the perceptions of negative drivers. The perceptions of both women and men highlight how economic and occupational drivers are the forces that primarily underlie social exclusion (Table VII).

Value chain drivers appear as the predominant negative driver in both regions. The majority of the participants referred to low selling prices as the main problem linked to value chain dynamics, though they also mentioned being cheated by middlemen, the scarcity of materials and competition from other waste pickers. Waste pickers also discussed precarious working conditions, such as the lack of proper infrastructure and/or storage facilities and health and safety risks, as the second most important negative driver.

Another commonality across the cities is related to the ways in which city and government practices create challenges for workers, including but not limited to the confiscation of materials. The participants in Nakuru, Durban and Bogotá made more references to verbal and physical harassment from local officials. As a male respondent from Bogotá explained: “The district government wants to take the recyclable materials from us; they deny us the right to work; they want to get rid of us”. In Durban, South Africa, a female waste picker similarly identified how such harassment prevents her from accessing resources. “Police bring their dogs when we are getting the goods from the cars and they chase us away with these dogs” (Durban FG 1). The perception was more nuanced in Belo Horizonte, where the participants viewed their relations with city officials as both negative and positive. Of the four cities, Belo Horizonte has the longest history in terms of efforts to include waste pickers in its municipal solid waste system, dating back to the 1990s (Dias, 2011). Admittedly, workers in this city still expressed concerns about threats made by the local authorities to incinerate waste before it can be sorted or the lack of opportunities available for strengthening ties with the municipality.

Both men and women across the cities emphasised the discrimination experienced in their interactions with the community. As one male waste picker claimed in Durban: “People undermine us because of the way we make our living, picking waste” (Durban FG 10).

<table>
<thead>
<tr>
<th>Key driver</th>
<th>Sub-Saharan Africa</th>
<th>Latin America</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Men Reference</td>
<td>Women Reference</td>
</tr>
<tr>
<td></td>
<td>totals</td>
<td>%</td>
</tr>
<tr>
<td>Workplace conditions</td>
<td>31</td>
<td>27.44</td>
</tr>
<tr>
<td>Value chain</td>
<td>29</td>
<td>25.66</td>
</tr>
<tr>
<td>City/government practices</td>
<td>21</td>
<td>18.58</td>
</tr>
<tr>
<td>Relations with community</td>
<td>24</td>
<td>21.24</td>
</tr>
<tr>
<td>Physical security</td>
<td>8</td>
<td>7.08</td>
</tr>
<tr>
<td>Totals</td>
<td>113</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Data from listings and rankings exercise in 40 focus groups in four cities, IEMS (2012)

Table VII. Perceptions of the most “negative drivers” for waste pickers, by region and gender
The participants in all four cities repeatedly claimed they are mistaken as thieves or homeless persons. A female waste picker in Nakuru expressed her concern by explaining that: “We cannot be differentiated [by the community] from criminals who occasionally sneak to the dumpsite” (Nakuru FG 1). Others claimed that “some people look at the homeless people and then look at us, and they get the same image” (Bogotá, FG 7).

Men made almost double the amount of references related to the problems with the community in comparison to women in both regions. For example, in Durban and Belo Horizonte it was noted that men are more commonly itinerant collectors and women are either working at fixed collection sites or in sorting warehouses. In this sense, given that men are circulating in public spaces, they may be facing harassment from both local authorities and the community more so than women. Despite the fact there are relatively few cultural restrictions on the women’s mobility in both regions (Kabeer et al., 2013), this difference may point to a gendered division of labour within the sector, where the activities designated to men and women mirror the public-private divide and reinforce stereotypical gender roles.

**Impacts of drivers and gender-specific vulnerabilities**

During the focus groups, the participants were asked to identify the two most important negative drivers through a listing and ranking exercise. In a follow-up exercise, the participants were then probed to discuss the causes and impacts of these drivers. Table VIII classifies the answers into three broader categories of impacts: earnings, productivity and dignity.

References to earnings include impacts on physical assets, a decrease in income and consequent reduction in household consumption and difficulty in gaining access to materials. Impacts on productivity refer to the responses highlighting the ability to work efficiently, such as exclusionary laws in the city that lead to harassment and arrests from authorities and precarious workplace conditions. Impacts on personal security and dignity refer to mentions of threats to workers’ well-being. The data in Table VIII therefore illustrate the workers’ perceptions of how they are impacted by the negative drivers identified in Table VII or, in other words, how workers perceive the connections between drivers and impacts. With the exception of women in Sub-Saharan Africa, waste pickers from both regions made more references to impacts on earnings and productivity. These references reveal how workers understand their status in the value chain hierarchy and lack of proper infrastructure for handling waste are directly linked to these impacts.

While workers generally referred to the impacts in a similar fashion in all cities, the qualitative findings indicate an observable gender difference with regard to personal security and dignity in Nakuru and Durban. These references to personal security and dignity can be divided into three broader dimensions: occupational health and safety, harassment and violence and dignity and respect. Occupational health and safety is the most referenced problem, appearing in 19 of the 40 focus groups. In addition, these problems were mentioned almost three times more by women in the African Saharan cities than in the Latin American ones.

<table>
<thead>
<tr>
<th>Type of impact</th>
<th>Sub-Saharan Africa</th>
<th>Latin America</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Men</td>
<td>Women</td>
</tr>
<tr>
<td>Impact on earnings</td>
<td>74</td>
<td>81</td>
</tr>
<tr>
<td>Impact on productivity</td>
<td>44</td>
<td>45</td>
</tr>
<tr>
<td>Impact on personal security/dignity</td>
<td>41</td>
<td>67</td>
</tr>
<tr>
<td>Total mentions</td>
<td>159</td>
<td>193</td>
</tr>
</tbody>
</table>

**Source:** Data from causal flow diagrams in 40 focus groups in four cities, IEMS (2012). Each reference is an instance in which the focus group discussed how a driver impacted workers.
Broadly speaking, the impacts on personal security and dignity reinforce the assumptions that different forms of gender-based vulnerabilities are exacerbated in the contexts of inadequate basic infrastructure and access to services (Tacoli, 2012).

**Gender-based biological needs and violence**

In all of the focus groups, both women and men highlighted a number of occupational risks they encounter. However, when women made references to occupational health and safety, there was often a clear relation to their specific biological needs. In Durban, for example, there were several mentions to problems related to the lack of sanitary toilets. In several instances, these discussions also evidenced women’s fear of sexual violence. Out of the seven individual mentions on the impacts of not having toilets, three were directly emphasising the fear of being raped. Women also mentioned the consequent health impacts of such workplace conditions: “We are afraid that this is going to cause us to get a lot of diseases, as we are already getting rashes because of these men when they are spraying the dust it does affect us” (Durban FG 1).

While the qualitative data show that workers are susceptible to such forms of harassment, it also suggests women, particularly in the African cities, are dealing with institutionalized and economic forms of gender-based harassment and violence in their interactions with city officials, middlemen and male waste pickers. In Nakuru and Durban, women’s focus groups revealed how gendered power relations among workers are played out along the lines of “territorial or gender-based ‘turf’ violence” (see also Moser, 2004; Moser and McIlwaine, 2006). In addition to fear of thieves, women mentioned being intimated by male waste pickers. As a woman noted in Nakuru: “When the dumpsite is full, the vehicles don’t bring waste. Sometimes when those vehicles come, the boys/men refuse women from getting on the vehicles to get the materials, so the boys get the best of the materials” (Nakuru FG 1). Similarly, in Durban, a female participant claimed that “the boys just push us and they go and get better things than us” (Durban FG1).

These narratives provide further insights into some of the reasons that male waste pickers’ mean and median earnings are higher in both Durban and Nakuru. Thus gender here serves as a way of establishing hierarchies within the value chain, revealing a clear economic and social dimension to personal security. Part of the reason for this may be that, in contrast to Belo Horizonte and Bogotá where workers are organised to different degrees, waste pickers in Nakuru and Durban seem to be operating on a more individual level. The fragility of women’s livelihoods in these cities is intensified in light of physical competition with men, which may further diminish the possibilities for collective action or result in women engaging in less profitable work (see also Chant and Pedwell, 2008).

**How women and men cope in the waste sector**

Turning now to an analysis of strategies for coping, Table IX shows that men and women in both regions are overwhelmingly resorting to self-provisioning strategies. Many of the

<table>
<thead>
<tr>
<th>Sub-Saharan Africa</th>
<th>Latin America</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Self-provisioning</strong></td>
<td><strong>Claim-making</strong></td>
</tr>
<tr>
<td>M</td>
<td>W</td>
</tr>
<tr>
<td>39.08</td>
<td>49.58</td>
</tr>
<tr>
<td>93</td>
<td>118</td>
</tr>
</tbody>
</table>

| n | 238 | 248 |

**Table IX.**

References to strategies (percent) adopted by waste pickers, by region and gender
self-provisioning strategies result from attempts at individually mitigating the impacts of value chain forces, workplace conditions and city or government policies. The data also highlight how women in the sample from the two African cities are almost four times less likely to resort to claim-making strategies when compared to men in both samples and women in the two Latin American cities. Ultimately, women in Nakuru and Durban cities are mainly adapting to or enduring hardships.

The qualitative data (Table X) also illustrate the most frequently mentioned types of self-provisioning strategies. Among these strategies, the workers claimed they diversify their work activity, adapt to their work environment, endure hardships and reduce household expenditures. In the Latin American focus groups, some self-provisioning strategies included joining with other workers to strengthen their organisations. These strategies were categorised as self-provisioning strategies because they were utilised prior to the ability of the workers to make a demand based on a collective identity. In these cases, workers handled a problem within the confines of the workplace.

When referring to adapting to hardships as a strategy for dealing primarily with workplace conditions and value chain forces, the workers reported that they wear protective equipment, take over-the-counter medication for pains or bandage wounds themselves or even choose not to work for a short period of time. In situations involving some form of physical threat, particularly in Nakuru and Durban, women claimed that they hide from authorities or find a safer place to store materials. The differences being reported by men are that their strategies for adapting to circumstances seem to work towards diminishing the economic impact of problems. For example, men in Bogotá try to “dress up” and “wear identity cards” when picking up materials in order to avoid harassment. These examples point to the importance of how belonging to an organisation fosters a sense of a professional identity, which is a basis for workers to make claims.

Another gender difference noted in terms of self-provisioning strategies relates to the option of diversifying activities to supplement income. Both men and women waste pickers looked for stereotypically “masculine” or “feminine” jobs, which in the case of the latter, reinforces women’s roles as caretakers. For example, men in Nakuru find jobs working at construction sites, mending or repairing shoes or cleaning drains, while women wash clothes and plait hair. Similarly, men in Belo Horizonte commented on the fact they pick up debris at construction sites, whereas women often mentioned they try to look for a cleaning services job. Furthermore, both men and women mentioned reducing expenditures within the household as a coping strategy but there were far more mentions among women in Latin America. All-women focus groups mentioned cutting back on expenses 20 times with half referring to food rationing. Men in these cities only mentioned reducing household budgets four times.

More than comparing the number of individual mentions to claims being made on distinct levels, the findings above help draw out how the level of sector development and

<table>
<thead>
<tr>
<th>Claim-making level</th>
<th>Number of individual references to strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sub-Saharan Africa</td>
</tr>
<tr>
<td></td>
<td>Durban M W</td>
</tr>
<tr>
<td>Community – local social networks/public services</td>
<td>5 5 9 0 17 5 14 9 1 0 15 10</td>
</tr>
<tr>
<td>Political – local, state or federal government</td>
<td>0 0 2 1 2 1 5 11 0 5 5 15</td>
</tr>
<tr>
<td>Economic – formal or informal economic institution/network</td>
<td>3 0 3 0 3 0 2 2 0 2 2 4</td>
</tr>
<tr>
<td>Total</td>
<td>8 5 14 1 22 6 21 22 1 7 22 29</td>
</tr>
</tbody>
</table>

**Table X.**
Level of claim-making strategies, by city and gender

**Source:** IEMS (2012) Focus Groups, 40 focus groups
organisation are linked to workers’ claim-making strategies. Overall, there are stark regional differences within the sample. The group of waste pickers from the two Latin American cities reported making almost double the amount of claims (51 mentions) compared with waste pickers in the African sample (28 mentions). Furthermore, 78 per cent of the claims in Nakuru and Durban are made at the local, community level, while in Belo Horizonte and Bogotá the claims are almost evenly split between the community and political levels (49 and 45 per cent, respectively).

Another facet to consider is how regional differences are even more pronounced when considering women’s coping strategies in our sample. Women in Belo Horizonte and Bogotá were five times more likely to make demands than women in Nakuru and Durban. Nevertheless, both men and women reported making more claims in Bogotá than in Belo Horizonte, which may be attributed to the strengthening of dialogue in the former between workers and different levels and branches of government. Participants in Belo Horizonte, on the other hand, expressed greater dissatisfaction with the current possibilities for dialoguing with the local government than in the past (Dias and Samson, 2016). Thus, the ability to make claims, particularly at the political level, may be associated with a favourable political environment or with areas where the state is active and can deliver or meet the demands (see Houtzager et al., 2002).

It is also important to consider what kinds of demands are being made at each level in order to establish connections between the type of claim and sector organisation. In the African cities, most of the demands made by women (five mentions) and men (ten mentions) at the community level are related to seeking some kind of medical assistance due to precarious work conditions. As a participant from Durban declared: “We have to go to the clinics when we are sick, at the clinic they will refer you to the hospital” (Durban FG 1). However, men reported attempts to mobilise the community or building administrations to facilitate the process of collecting materials (three mentions), indicating they may have stronger social networks to leverage.

In a similar fashion, community-level demands in Bogotá indicated that workers prioritise their relations with the community in almost an entrepreneurial fashion. “We learn to be friendlier with the residents to persuade them to leave material for us” (Bogota FG 9), claimed a participant. Another worker stated this is a part of the process of “making yourself known in the sectors so that people will set aside material for you, and they even sometimes give you a bit of money. It’s marketing, if they have a good opinion of you, they will call you” (Bogotá FG 8).

In total, 83 per cent of the demands at the community level in Bogotá referred to negotiations with building administrators to gain access to recyclables. As one participant noted: “[we] speak to the administrators of fixed sources, because some administrators allow you to collect if they see that you are organized and there is an organization that can answer for us if need be” (Bogotá FG 2). Belonging to an organisation creates a shared identity that helps these workers build on their financial and social assets.

In addition to the aforementioned assets, organisations can also work towards changing society’s negative perception of workers. What should be emphasised here is the possibility for diminishing social stigma and effectively building workers’ symbolic assets. As one participant explained: “We must participate actively with [our MBO]. They help us expand our sources by using photographs and videos to develop a good image for the organization” (Bogotá FG 10).

The establishment of a worker identity is fundamental for claim-making at the political level as well. In Latin American cities where women belong to MBOs, the demands made at political level include participating in marches, protests, signing petitions and negotiating with key political actors. The scope of women’s actions in Bogotá, for example, include “open[ing] dialogue with police” (Bogota FG 4), “speak[ing] with the local mayor to ask for permission to work” (Bogota FG 4), as well as being represented at “all levels of government” (Bogotá FG 5).
Such demands are nonetheless tied to another role the organisations play in terms of disseminating information and providing capacity building courses. Knowledge on workers’ rights may feed into the strategies for making claims on both a political and economic level. In these cases, workers in Bogotá were more prone to negotiating with middlemen to “establish the price” (Bogotá FG 6) or understand “why they lower the prices” (Bogotá FG 3). Nevertheless, none of the waste pickers across the four cities mentioned making claims to formal financial institutions. This reinforces the difficulties these informal workers have in gaining access to credit.

Conclusions and implications
This paper has explored gender and livelihoods across four different cities through the lens of a particularly vulnerable segment of the urban informal economy. Its contribution to the literature is twofold: first in identifying gender similarities and differences in entry, perceptions of key drivers and coping strategies; and second in identifying the regional differences that intersect with gender gaps through a structured comparison of qualitative and quantitative data.

In terms of the first contribution, by focussing specifically on the workers’ perceptions of the key drivers of their livelihoods and work places, it has identified several important differences in the way in which women and men respond to negative drivers. This is particularly important since the analysis has shown that, in line with the existing literature, a number of well-documented sources of gendered vulnerability are present in the informal recycling sector. However, the findings also show that, despite the structural differences in the way that women and men enter into informal work, their perceptions of the factors which influence their livelihoods, both positively and negatively, are remarkably similar.

Yet in terms of the second contribution, the regional comparison shows that in cities where value chains are less developed and workers less extensively organised, gender differences regarding safety and dignity are far more pervasive and levels of action more confined to the individual and household levels. The study thus presents a new policy angle which connects the level of sector organisation and development with the levels of action taken by waste pickers in adapting to different types of shocks, as well as what this means in terms of gender empowerment. In less developed sectors, women are not only more subject to physical safety concerns, but also to institutions and actors that not only erode tangible assets, but intangible ones as well.

The analysis also suggests that, in less developed sectors, women in particular are not only denied recognition of the work they do, but also struggle to protect themselves from different forms of harassment and violence, as well as particular health and safety issues. Their even more marginalised position within the value chain may reinforce patriarchal norms and gendered power relations that naturalise their subordinated status. This is in contrast to what happens in more developed sectors where some level of collective identity has been established, even if not on a gender basis.

In cities with more developed sectors, women waste pickers seem to be coping through a broader range of levels of action because they envisage room for making negotiations and claims either on a community level or political one. In these cases, their symbolic resources serve as the catalysts for making claims to remedy the numerous economic and political injustices they face. This is also associated with the fact that they can rely on the support of their MBOs and NGOs that encourage collective action and help strengthen their demands through institutional channels.

Put differently, the qualitative findings provide insights as to how organising workers can provide opportunities for accumulating both tangible and intangible assets. This is particularly true for women who tend to limit their coping strategies to an individual level. Since many of these women are located at the most invisible margins of the informal...
economy and cultural practices have undervalued women’s productive and reproductive labour (Kabeer et al., 2013), it is only natural that many are not compelled to make demands in a more collective manner. This became clear in cities such as Nakuru and Durban where women were finding ways to endure hardships on various levels.

On the other hand, organising workers seems part of the path towards diminishing these negative impacts on livelihoods and forging demands on a collective level. In this case, symbolic assets are important because they are foundations for workers, especially women, to envision other ways of protecting their livelihoods, including through the expansion of social networks and negotiating channels. While the findings do not diminish the importance of building upon other assets, they shift attention to how symbolic assets are important in light of the gender vulnerabilities related to physical security and dignity women waste pickers experience. This particular conclusion resonates fairly closely with what Kabeer et al. (2013, p. 260) identify as the “politics of recognition” where the most marginalised of workers are concerned as “much about dignity as daily bread”.

In sum, from a policy perspective the key implications of these findings are that access to credit and other financial barriers are far less important in some occupational sectors than others, and that value chain integrations and basic protections of physical safety and human dignity would have a more transformative impact on livelihoods in the most vulnerable segments of the informal economy than financial sector interventions. Such protections would not only benefit these workers, but also the households that depend on their earnings.

Notes

1. For studies that use a similar categorisation to understand the efforts of local popular organisations in making demands, see Houtzager et al. (2002). Our objective in this paper is to capture any strategies that point in the direction of more group-based actions and to understand what may be the potential factors that influence this type of coping strategy. The paper will not cover the ways in which organising workers influences the process of making demands on the state and the levels of government at which the demands are directed.

2. A follow-up round of data collection is planned for 2017.

3. Detailed and representative data on the key characteristics (e.g. gender, status in employment, location, main working activities) of workers at the city-wide level are not available.

4. The household dependency ratio can be interpreted as a proxy ratio of household members typically not in the labour force (dependents, e.g. children) to those typically in the labour force (“productive” householders). A higher household dependency ratio therefore denotes a larger number of dependents being supported by each economically active household member.

5. Each city team conducted a total of 15 focus groups: five with only women, five with only men and five with a mix of women and men. This analysis considers only those focus groups that are exclusively made up of women and those exclusively made up of men – hence ten focus groups per city in each of four cities.

6. The survey data, for example, show that about 44 per cent of men and only about 20 per cent of women from the two Latin American samples collect waste from street sites (as opposed to fixed sources such as landfills).

References


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Inheritance tax compliance – earmarking with normative value principles

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Abstract

Purpose – The purpose of this paper is to investigate the relationship of inheritance tax behavior with normative value principles and factors found relevant for income tax compliance. Also, it examines the influence of affectedness and earmarking on inheritance tax compliance. Furthermore, it compares two countries similar in tax morale, tax culture as well as dominant normative value principles, Austria and Germany, of which one – Germany – levies inheritance taxes and the other – Austria – is debating its reintroduction.

Design/methodology/approach – A two (affected vs nonaffected) by two (Austria vs Germany) by two (inheritance tax vs stock profit tax) by three (no earmarking vs social justice earmarking vs equality of opportunity earmarking) experimental online questionnaire was conducted with 296 Austrians and 230 Germans.

Findings – Normative value principles and other socio-psychological variables play an important role concerning inheritance tax behavior. Affectedness does not influence inheritance tax compliance. Earmarking inheritance tax to projects corresponding to these value principles increases inheritance tax compliance in the Austrian sample and could represent a measure to increase inheritance tax compliance in countries implementing inheritance tax or increasing inheritance tax.

Originality/value – This study draws a comprehensive picture of the socio-psychological variables relevant to inheritance tax behavior and tests the effect of earmarking as a policy measure to increase inheritance tax compliance.

Keywords Social justice, Equality of opportunity, Earmarking, Inheritance tax, Inheritance tax compliance, Normative value principles

Paper type Research paper

Introduction

In light of the ever increasing skewedness of the distribution of private wealth, with 1 percent of the world’s population owning 48 percent of all private wealth (Hardoon, 2015), discussions about policy measures to reduce this inequality are of high sociopolitical relevance. In this discussion the taxation of intergenerational transfers of wealth represents a core topic, as inheritances play a pivotal economic and societal role in relation to the concentration of wealth within countries, accounting for 40 percent of the wealth inequality in Austria and Germany (Arbeiterkammer, 2015). To counteract this inequality, most western countries are contemplating changes in existing inheritance tax laws or the introduction (or reintroduction) of inheritance taxes where they do not currently exist. The taxation of inheritances represents a highly progressive form of redistribution, given that it only affects the wealthiest 2 percent of taxpayers (Bartels, 2005; Graetz, 2002) and most inheritance tax revenue is generated by a relatively small percentage of large...
inheritances (Beckert, 2008b; Bischoff and Kusa, 2015). Even so, inheritance taxes seem to be highly unpopular (Prabhakar, 2008, 2012) and controversially debated (Beckert, 2008b). Opinion polls regularly show a strong disapproval of existing inheritance taxes or opposition toward reinstating inheritance taxes (Bartels, 2005; OGM, 2012, 2013) by the general public, even though 98 percent of taxpayers would benefit from such a tax. Although the introduction of new taxes is likely to be rejected by taxpayers, as it represents a loss of freedom in disposing of one’s money (Kirchler, 1997), the strong opposition to the taxation of inheritances is puzzling. While the factors guiding income tax compliance and acceptance have been comprehensively researched, little is known about inheritance tax acceptance and compliance. Prior research into this puzzling opposition toward inheritance taxes has identified citizens’ concerns about being affected by such a tax, i.e., having to pay it, and resulting self-interest (Bartels, 2005; Graetz, 2002; Page et al., 2013) as a possible cause. Also, normative value principles, such as the family, social justice, equality of opportunity, and the community, which are used to legitimize or contest the taxation of inheritances and reflect conflicting views about how modern societies should regulate property rights, have been identified as causes of controversy and opposition (Beckert, 2008b), and need to be considered when changing or introducing taxation of inheritance (Beckert, 2008a). Since inheritance taxes can easily be avoided and evaded, further research into the reasons for their unpopularity and measures to raise acceptance and consequentially tax compliance is needed. Research has suggested that “earmarking,” the dedication of tax revenue from one tax to a specific public service or program, could represent a measure to improve compliance as it raises acceptance of unpopular taxes (Kallbekken and Aasen, 2010; Saelen and Kallbekken, 2011) and can increase the willingness to contribute (Hundsdoerfer et al., 2011). Although earmarking of taxes has only been researched in relation to existing taxes, it could also represent a measure to increase acceptance of and compliance with new taxes. Furthermore, earmarking inheritance tax to a program or project that conforms to a dominant normative value principle could possibly enhance acceptance of and compliance with inheritance taxes.

The current study aims to investigate the relationship of inheritance tax behavior with normative value principles and factors found relevant for income tax compliance. Also, it aims to examine the effects of “affectedness” (i.e. actually having had to pay or having to pay such a tax in the future) on inheritance tax compliance. Furthermore, it aims to investigate the effects of earmarking on inheritance tax compliance by comparing Austria and Germany, two countries that are similar regarding tax morale (Halla, 2012), tax culture, dominant normative value principles (Beckert, 2008a) and the percentage of wealth inequality explained by inheritances (Arbeiterkammer, 2015). Only Germany levies inheritance taxes, but the reintroduction of inheritance taxes is intensely debated in Austria. Drawing on data gathered through an experimental questionnaire design, the paper presents comprehensive insights into the factors that guide inheritance tax behavior. The remainder of this section is organized as follows: first, inheritance tax and the situation in Austria and Germany are elaborated. Second, an overview of determinants of tax compliance is given. Third, prior research findings on inheritance taxes, in particular affectedness and normative value principles, are presented and fourth, earmarking is introduced as a policy measure.

Due to the unprecedented accumulation of private wealth in western countries since the end of Second World War, intergenerational transfers play an important role in the distribution of wealth. Estimates suggest that intergenerational transfers of private wealth will amount to 20 trillion dollars over the next 50 years (Wiktor, 2010). This amount represents a tax base that is hard to ignore. Generally speaking, inheritance tax denotes the intergenerational transfer of private wealth mortis causa (Beckert, 2008a). Inheritances can be taxed in two ways: either as inheritance tax, which is levied on the private wealth
inherited by the heir, or as estate tax, which is levied on the complete bequest transferred by
the testator upon his or her death. While inheritance tax is common to most European
countries, estate tax is particular to Anglo-Saxon countries (e.g. USA, UK; Bischoff and
Kusa, 2015). The taxation of intergenerational transfers of wealth dates back to the ancient
Roman Empire (Moser, 2013) and has since then been utilized by different countries
and cultures as a tax-policy mechanism (Howe and Reeb, 1997; Rathbone, 1993; Scheve and
Stasavage, 2011).

Two options to tax inheritances exist, namely, as a progressive tax or a flat rate tax. Both
options have advantages. A progressive inheritance tax would increase the
progressivity of tax systems, and thereby enhance economic efficiency and social justice
(Koller, 2013). A flat rate tax would reduce administration costs and facilitate planning of
bequests (Graetz, 1983, 2002). Currently, the majority of European Union member countries,
among them Germany, imposes taxes on intergenerational transfers of wealth. Only nine
member countries, among them Austria, do not (Merati-Kashani and Titlius, 2009).
In Austria, inheritance tax was levied from 1759 to 2008 (Ministry of Finance, 2008;
Slawicek, 1905). Due to a lawsuit, the Constitutional Court ruled the implemented inheritance
tax as unconstitutional and as inheritance tax law was not revised, it expired. Since the 2013
national elections and the preceding electoral campaign the reintroduction of inheritance tax
has been a topic of political debate. In Germany, inheritance tax has been levied since 1906.
About 88 percent of German inheritances are free of tax (Statistisches Bundesamt, 2016).
Of the 925,200 deaths and ensuing bequests registered in Germany in 2015, only 110,546
(12 percent) resulted in taxable inheritances (Statistisches Bundesamt, 2016, 2017).
The estimated tax base for the coming decade amounts to 4.6 billion euro (Sieweck, 2011).
Even though the estimated amount of intergenerational wealth transfers reaches such
numbers, the tax exemptions are high and, therefore, the taxable inheritances make up a
negligible percentage of all inheritances.

Implementations of inheritance taxation are unpopular and it is important to consider
the controversial nature of the tax as well as the socio-psychological factors that underlie this
controversy (Beckert, 2008b) if inheritance tax compliance is to be increased. While research
on income tax compliance is comprehensive, little is known about inheritance tax compliance.
Given the emotional (Graetz, 1983) and controversial nature of inheritance tax (Beckert,
2008a), factors influencing income tax compliance may only apply to inheritance tax
compliance to a limited extent and unique determinants may be at work. Nevertheless,
findings on income tax compliance are likely to be important to inheritance tax compliance
and an investigation into their relation to inheritance tax compliance is essential for a more
comprehensive understanding of inheritance tax acceptance and behavior.

Variables determining income tax compliance can be classified into three categories:
first, economic determinants; second, socio-demographic determinants; and, third, socio-
psychological determinants (Kirchler, 2007). Economic determinants include the amount of
income, the tax rate, the fines for evasion, and the audit probability (Allingham and Sandmo,
1972; Srinivasan, 1973). Socio-demographic determinants include age, gender, education,
and mode of employment (i.e. being employed or self-employed). Findings suggest that tax
compliance is higher among older people (Andreoni et al., 1998; Hofmann et al., 2017;
Kirchler and Gangl, 2013), women (Kastlunger et al., 2010; Hofmann et al., 2017; Wahl et al.,
2010) and employees, since the self-employed have more possibilities to evade taxes
(Hofmann et al., 2017; Kirchler, 2007; Kirchler and Gangl, 2013).

As paying taxes is a social phenomenon, economic and individual-psychological
determinants do not suffice to explain tax behavior. Socio-psychological determinants are
highly relevant. They include social norms and values, knowledge about taxes, a positive
attitude toward taxes, and fairness as well as justice perceptions (Kirchler, 2007; Kirchler
and Gangl, 2013). Taxpayers’ trust in the state and in tax authorities is also positively
associated with tax compliance (Kirchler et al., 2008; Hofmann et al., 2014) as is taxpayers’
general tax morale (Feld and Frey, 2002; Torgler, 2003, 2005). Furthermore, providing
taxpayers with comprehensive information about taxes increases tax compliance (Clotfelter,
1983; Kirchler et al., 2008; Park and Hyun, 2003). In addition, taxpayers’ attitudes toward
taxes determine their tax compliance. The more positive taxpayers’ attitudes toward taxes
are, the more tax compliance they show (Kirchler, 1998; Kirchler et al., 2008; Torgler and
Schneider, 2005).

While inheritance tax represents a highly progressive tax policy that affects a minimal
percentage of large transfers of intergenerational of wealth, its opposition by the general
public is at the same time puzzling and comprehensible, due to the socio-psychological
determinants that seem to underlie its acceptance. Two adverse perspectives juxtapose
each other. On the one hand, preserving private wealth accumulated for future
generations, on the other hand, providing distributional justice of chances and resources
in society. These interests lead to different views on who has the right to benefit from
the transferred private wealth and who has the right to decide about its provision
(Gaisbauer et al., 2013). Hence, interest group- conflicts (Beckert, 2008b), material
self-interest (Page et al., 2013), as well as affectedness (i.e. actually belonging to the
two percent of citizens that inherit a taxable amount) and affectedness perceptions
(i.e. believing that one will inherit a taxable amount even through one will not) (Bartels, 2005;
Birney et al., 2008) have been said to be crucial.

Unlike other taxes, inheritance taxes comprise a highly emotional component, namely,
the association of inheritances with loss and mourning (Graetz, 1983; Kirchler and Gangl, 2013;
Levav and McGraw, 2009; Schürz, 2013; White, 2008). Not only does one grieve the loss of a
beloved person, but at the same time one must pay taxes on the wealth this person accumulated
during his or her lifetime (Beckert, 2008a).

Furthermore, normative value principles that are deeply rooted in views of how modern
societies should function and how property and wealth should be disposed of seem to play
an important role. Beckert (2008a) identifies four distinct normative value principles used to
legitimize or contest the topic of inheritance taxation, namely, the family principle,
the community principle, the social justice principle, and the equality of opportunity
principle, as driving factors in the debate on inheritance tax. While the family principle
proposes that the testator’s private wealth at the same time represents the private wealth of
his or her family, which survives the testator, and the theoretical shares should be
distributed among family members upon death, without the state interfering by collecting
taxes, the community principle stands for the responsibility of the testator to ensure that his
or her private wealth is transferred to charitable institutions or foundations that promote
the common good and serve the community (Beckert, 2008a). The family principle, as well as
the community principle, oppose the taxation of inheritances. The principle of social justice
is output-oriented and aims at correcting the unequal success of members of society by
imposing the responsibility of carrying the tax burden on the most financially capable
members of society, who thereby not only contribute to improving the living conditions of
the less successful members of society but also to a more just distribution of private wealth
within society. The equality of opportunity principle is input-oriented and aims at creating
equal material starting points, chances, and resources for all members of society by
redistributing private wealth through inheritance taxation (Beckert, 2008a). The dominant
value principles in a country need to be considered in reforming and introducing inheritance
taxes, because they serve as legitimization (Beckert, 2008b). In Austria as well as in
Germany, the family principle and the social justice principle represent the dominant value
principles (Beckert, 2008a).

Given the afore mentioned skewed distribution of private wealth and the potential of
inheritance tax to counteract this distribution (Aaron and Munnell, 1992; Beckert, 2008a;
Piketty, 2014), it is imperative to investigate policy measures to induce a more positive attitude toward inheritance tax, raise its acceptance, and consequentially increase inheritance tax compliance.

Earmarking represents a policy measure that could raise the acceptance of an unpopular tax such as inheritance tax, as it has been found to change negative attitudes toward a tax and to lead to more tax compliance (Hundsdoerfer et al., 2011).

Earmarking denotes the dedication of specific tax revenues to financing specific public services or programs (Marsiliani and Renstrom, 2000), meaning that the revenues of a tax (e.g. inheritance tax) must be used to finance specific public services or projects (Michael, 2008). Earmarking can take the form of “soft” earmarking, where parts of the revenue are used to finance specific services or projects, or “hard” earmarking, where the total amount of revenue is used to finance the services or projects that they have been dedicated to. Hard earmarking implies that the revenue generated by the earmarked tax cannot be mixed with other general tax revenues. It must be used solely to finance the specific services or projects (Carling, 2007; Jackson, 2013), obliging the state to use the revenues as dedicated by law. While transparency of the use of tax revenue is thereby increased (Kallbekken et al., 2011), this practice can lead to unbalanced budgets and budget constraints due to the dependence on the amount of tax revenue generated by the earmarked tax. Nevertheless, it provides taxpayers with the possibility to demand accountability from the authorities (Dhillon and Perroni, 2001), and hence increases taxpayers’ perception of control over the use of taxes.

While transparency represents an important determinant of tax compliance (Alm et al., 2010; Kirchler et al., 2008), the relevance of the correspondence of the earmarked tax with the financed public good should not be neglected (Brennan and Buchanan, 1978). Furthermore, any tax on private wealth, or in the case of inheritance tax, the intergenerational transfer of private wealth, will only be perceived as coherent and acceptable if the earmarked purpose serves society (Schürz, 2013). Thus, the dedication and design of services and projects financed by earmarked taxes, in particular such an emotionally charged tax as inheritance tax, is highly relevant. Since research has identified normative value principles as determinant in inheritance tax acceptance and legitimization (Beckert, 2008a) and earmarking has been found to increase the willingness to contribute and lessen the perceived tax burden (Hundsdoerfer et al., 2011), earmarking inheritance tax to a cause promoting social justice or equality of opportunity may increase inheritance tax acceptance and compliance. In addition, a differentiated investigation into the effects of earmarking on an existing tax and a tax in debate of being reintroduced should provide valuable insights in its effectiveness as a policy measure.

Method

Participants
The Austrian sample consisted of 296 participants (33.2 percent women) of which 138 (47 percent) described themselves as affected by an inheritance tax. Age ranged from 17 years to 90 years with a median of 35 years ($M = 36.9; SD = 12.2$). The German sample consisted of 230 participants (48.7 percent women) of which 119 (52 percent) described themselves as affected by an inheritance tax. Age ranged from 17 years to 85 years with a median of 36 years ($M = 37, 1; SD = 12.1$). For a detailed description of the samples see Table I.

Design and procedure
In order to comprehensively investigate the research questions at hand, an experimental questionnaire study was applied, allowing the gathering of behavioral as well as questionnaire data and facilitating insights into cause and effect and relationships between relevant variables. A two (affected vs nonaffected) by two (Austria vs Germany) by two
(inheritance tax vs stock profit tax) by three (no earmarking vs social justice earmarking vs equality of opportunity earmarking) experimental online questionnaire simulating a taxpaying situation was developed and programmed with Soscisurvey. Austria and Germany were chosen as sample countries to investigate possible differences in inheritance tax behavior between countries that are similar regarding their tax morale (Halla, 2012), dominant normative value principles (Beckert, 2008a), tax culture and systems, except for inheritance tax. While Germany levies inheritance tax, Austria does not, although its reintroduction is debated. Stock profit tax was chosen as a control to investigate the effects of earmarking on inheritance tax behavior because it is comparable as a tax rate, but lacks the emotional and controversial aspects of inheritance tax. The social justice principle and the equality of opportunity principle were chosen as bases for the earmarking projects since they are redistribution oriented. Affectedness by inheritance tax served as a variable to investigate differences in inheritance tax behavior due to self-interest. It was measured by three items. If two were answered with “Yes,” participants were categorized as affected.

The online experimental questionnaire was run until all six conditions were filled with equal amounts of affected and nonaffected participants.

Participants were recruited via postings of the link to the experimental online questionnaire in five Austrian and German online-newspapers (e.g. faz.net, krone.at, standard.at), in ten topic-related Austrian and German websites and boards (e.g. aktien-online.at, recht.de, steuernetz.de), the six most frequently used Austrian and German online discussion websites (e.g. frauenzimmer.de, Ioff.de, seniorenforumplus50.de), social media (e.g. Facebook, LinkedIn, Xing), as well as via e-mail and through the support of the intermediation platform Competence Center Europe, the Highschool Aichach, and the EDP training institute.

<table>
<thead>
<tr>
<th></th>
<th>Austria</th>
<th>Germany</th>
<th>Total</th>
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<tbody>
<tr>
<td>N</td>
<td>296</td>
<td>230</td>
<td>539</td>
</tr>
<tr>
<td>Age</td>
<td>36.74 (12.18)</td>
<td>37.10 (12.07)</td>
<td>36.86 (12.20)</td>
</tr>
<tr>
<td>Sex</td>
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<td>Men</td>
<td>66.1%</td>
<td>51.3%</td>
<td>59.7%</td>
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<td>33.2%</td>
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<td>9.1%</td>
<td>10%</td>
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<td>6%</td>
<td>6.5%</td>
<td>6.5%</td>
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<td>Secondary school</td>
<td>35.2%</td>
<td>24.8%</td>
<td>30.8%</td>
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<td>57.8%</td>
<td>49%</td>
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<td></td>
<td></td>
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<td>16.5%</td>
<td>16%</td>
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<td>3%</td>
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<td>White collar worker</td>
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<td>49.5%</td>
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<td>7%</td>
<td>3.5%</td>
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<td>15.4%</td>
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<td>0.4%</td>
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<tr>
<td>Income</td>
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<td>No income</td>
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<td>4.3%</td>
<td>3%</td>
</tr>
<tr>
<td>Income (median; Euros)</td>
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<td>&lt; 2,000</td>
<td>&lt; 2,000</td>
</tr>
<tr>
<td>Missing data</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Table I. Sample demographics by country
ALGE-EDV Consulting. The newspapers, websites, boards, discussion forums, and social media used for recruitment were chosen to reach a wide array of participants with regard to age, political attitude, income, and education, and to reach balanced samples regarding affectedness by inheritance tax.

The experimental online questionnaire consisted of five sections and was accessible from 5 April 2014 to 31 May 2014 under www.soscisurvey.de/da_wirtschaft. When clicking on the link participants were introduced to the study, informed about their anonymity and the institution conducting the study, as well as randomly assigned to one of six experimental groups. First, they were asked to indicate their agreement to 12 items about normative value principles. Second, they were asked to perform a cognitive attention test, which served as a distractor. This was followed by the experimental manipulation, where participants were asked to imagine that they received €200,000, either by inheriting or on the stock market, and had to pay taxes for the received amount. The tax rate of 25 percent (€50,000) was applied in all six conditions. The tax was either earmarked or not. If it was earmarked, it was dedicated to either a project supporting social justice, or one that supports equality of opportunity. Then participants were asked to decide on the amount of taxes they were willing pay to pay by moving a slider in the range of 0 percent (€0) to 100 percent (€50,000).

After the tax payment, participants were asked to indicate their agreement to statements on their trust in the state, their attitude toward inheritance tax, their tax morale, their attitude toward participation and earmarking of taxes. Then, participants were asked to answer socio-demographic questions and questions about their interest in/knowledge of inheritance tax, their political orientation and their affectedness by inheritance tax. Last, they were asked to answer questions about the experimental manipulation, which served as a manipulation check. The questionnaire took approximately 15 minutes to complete.

**Material**

The Normative Value Principles Scale served to assess participants’ adherence to the normative value principles proposed by Beckert (2008a, b) and was self-developed. It consists of four subscales – the family principle scale, the community principle scale, the social justice principle, and the equality of opportunity principle scale- each comprising four items. Participants were asked to indicate their agreement with 16 statements on a six-point scale ranging from 1 = I strongly disagree to 6 = I strongly agree (e.g. family principle: “The family of the testator should have the right to decide about the asset without the interference of third parties,” community principle: “In order to prevent that the family or the state receives the asset, the testator should give it to a useful purpose,” social justice principle: “In my opinion, the state has the responsibility to help all those citizens in our country, who are not doing so well” and equality of opportunity principle: “The state should ensure that all citizens have equal chances in their lives”).

The attitudes toward inheritance tax scale served to assess participants’ evaluation of inheritance tax and was self-developed. It consists of two subscales. The first subscale comprises five statements and the second subscale comprises 12 bipolar adjective pairs. Participants were asked to indicate their agreement with the 17 items on a six-point scale ranging from 1 = I strongly disagree to 6 = I strongly agree (e.g. “In my opinion, inheritances should principally be taxed”; “In my opinion, inheritance tax is: unfair/fair; unnecessary/necessary”).

Trust in the state was assessed with five items self-developed. Participants were asked to indicate their agreement with five statements on a six-point scale ranging from 1 = I strongly disagree to 6 = I strongly agree (e.g. “In my opinion, you can trust our state”).

General tax morale and compliance were assessed with four items, of which one was self-developed, one was taken from Torgler (2003), and two stem from Kirchler and Wahl (2010). Participants were asked to indicate their agreement with four statements on a six-point scale
ranging from 1 = I strongly disagree to 6 = I strongly agree (e.g. “If I had the possibility, I would evade taxes”; “You could intentionally declare restaurant bills for meals you had with your friends as business meals. How likely would you be to declare those restaurant bills as business meals?”).

Participants’ attitude toward earmarking was assessed with three self-developed items. Participants were asked to indicate their agreement with three statements on a six-point scale ranging from 1 = I strongly disagree to 6 = I strongly agree (e.g. “I think it makes sense if revenues of specific taxes, for example, a highway tax, are solely used to support specific projects like investment in transport”).

The participation scale served to assess participants’ attitude toward taxpayers’ codetermination in the use of taxes. It was self-developed. Participants were asked to indicate their agreement with two statements on a six-point scale ranging from 1 = I strongly disagree to 6 = I strongly agree (e.g. “I would like to have a greater voice in what my tax is used for”).

Participants’ affectedness by inheritance tax was assessed with three self-developed items. Participants were asked to answer three questions with yes or no (e.g.; “I will inherit/bequeath more than 200,000€”).

All self-developed items were constructed by the authors and two master students in psychology, and were pretested. The means, standard deviations, and reliability measures of all scales can be seen in Table II.

The projects which the taxes were dedicated to in the earmarked conditions were described as follows: Helping Hands – Poverty Reduction: this project is a governmental initiative to strengthen social justice, which is fully financed by the revenue from the inheritance tax (tax on stock profits). The aim is to support people who are impoverished due to diverse circumstances. Because any person in our society should have the right to have a roof over their heads, the state provides housing opportunities for poor people thus providing them with safety and protection. Moreover, the poor are supplied with free and healthy food and beverages and their clothes are cleaned. Hygiene facilities are built and the needy get free clothes. The aim of the project is to reduce poverty in the society and to enable poor people a life worth living, to return to working life and participate in society.

Bildungsfonds (BIFO) – Education Fund: this project is a government initiative to strengthen equal opportunities, which is fully financed by the revenue from the inheritance tax/tax on stock profits. Education should be accessible to all citizens, so the project BIFO has set the goal to support the children in our country and thus ensure equal opportunities in the labor market. The amounts of financial resources made available by the revenues of the inheritance tax are used economically and educationally meaningful. Specifically, this

<table>
<thead>
<tr>
<th>Scale</th>
<th>N</th>
<th>M</th>
<th>SD</th>
<th>α</th>
</tr>
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<tbody>
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<td>Family principle</td>
<td>531</td>
<td>4.31</td>
<td>1.27</td>
<td>0.82</td>
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<tr>
<td>Community principle</td>
<td>533</td>
<td>2.53</td>
<td>1.10</td>
<td>0.77</td>
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<tr>
<td>Social justice principle</td>
<td>537</td>
<td>4.25</td>
<td>1.23</td>
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<td>Equal opportunity principle</td>
<td>532</td>
<td>4.68</td>
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<td>0.79</td>
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<tr>
<td>Attitude toward inheritance tax</td>
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<td>2.87</td>
<td>1.64</td>
<td>0.90</td>
</tr>
<tr>
<td>Trust in the state</td>
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<td>2.85</td>
<td>1.11</td>
<td>0.90</td>
</tr>
<tr>
<td>General tax compliance/morale</td>
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<td>1.15</td>
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</tr>
<tr>
<td>Participation</td>
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</tr>
<tr>
<td>Attitude earmarking</td>
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<tr>
<td>Interest and knowledge</td>
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<td>3.28</td>
<td>1.53</td>
<td></td>
</tr>
<tr>
<td>Political orientation</td>
<td>459</td>
<td>2.86</td>
<td>1.10</td>
<td></td>
</tr>
</tbody>
</table>

Table II. Means, standard deviations, and Cronbach αs of all scales.
program is about promoting early childhood learning, improving language skills of the children and funding scholarships. Furthermore, parents can take part in counseling services and are supported in the financing of school supply.

Results

Regarding the relationship of inheritance tax behavior with normative value principles, attitude toward inheritance tax, trust in the state, general tax morale/compliance, participation, attitude toward earmarking, interest in and knowledge of inheritance tax, and political orientation, the results in the Austrian sample show significant negative correlations of inheritance tax behavior with the family principle ($r = -0.38, p < 0.01$) and political orientation ($r = -0.42, p < 0.01$), meaning that participants affiliating with the family principle and participants with a right-wing political orientation paid less inheritance tax. Significant positive correlations were found for the community principle ($r = 0.27, p < 0.01$), the social justice principle ($r = 0.49, p < 0.01$), the equality of opportunity principle ($r = 0.38, p < 0.01$), the attitude toward inheritance tax ($r = 0.60, p < 0.01$), trust in the state ($r = 0.39, p < 0.01$), and general tax morale/compliance ($r = 0.43, p < 0.01$). Participation ($r = -0.04, ns$), attitude toward earmarking ($r = -0.05, ns$), interest in and knowledge of inheritance tax ($r = 0.03, ns$) showed no significant relationship with inheritance tax behavior. In the German sample the results show significant positive correlations of inheritance tax behavior with the social justice principle ($r = 0.33, p < 0.01$), the equality of opportunity principle ($r = 0.28, p < 0.01$), the attitude toward inheritance tax ($r = 0.33, p < 0.01$), and general tax morale/compliance ($r = 0.29, p < 0.01$). No significant correlations between the family principle ($r = -0.02, ns$), the community principle ($r = 0.03, ns$), trust in the state ($r = 0.17, ns$), participation ($r = -0.02, ns$), attitudes toward earmarking ($r = -0.03, ns$), interest in and knowledge of inheritance tax ($r = 0.04, ns$), and political orientation ($r = -0.12, ns$) were found. An overview of all correlations by country can be found in Table III.

To calculate the effects of country (Austria vs Germany), tax (inheritance tax vs stock profit tax), earmarking (no earmarking vs social justice earmarking vs equality of opportunity earmarking), and affectedness (affected by inheritance tax vs non-affected by inheritance tax) on tax compliance, an ANOVA on all conditions and samples was conducted. The results show that country has a main effect on tax behavior ($F(1, 495) = 8.98, p = 0.003, \eta_p^2 = 0.02$), Germans paid more taxes than Austrians, as well as tax ($F(1, 495) = 6.89, p = 0.009, \eta_p^2 = 0.01$), more taxes were paid in the stock profit tax conditions than in the inheritance tax conditions, and earmarking ($F(2, 495) = 4.55, p = 0.01, \eta_p^2 = 0.02$), more taxes were paid in the earmarked conditions. Affectedness did not influence tax behavior ($F(1, 481) = 0.02, p = 0.89, \eta_p^2 = 0.00$).

Analyses by country revealed the main effects of tax behavior regarding tax ($F(1, 281) = 4.63, p = 0.03, \eta_p^2 = 0.02$), more taxes were paid in the stock profit tax conditions, and earmarking ($F(2, 281) = 6.10, p = 0.003, \eta_p^2 = 0.04$) more taxes were paid in the earmarked conditions, but not regarding affectedness ($F(1, 247) = 0.14, p = 0.71, \eta_p^2 = 0.00$) in the Austrian sample. In the German sample no main effects of tax ($F(1, 214) = 2.67, p = 0.10, \eta_p^2 = 0.01$), earmarking ($F(2, 214) = 0.05, p = 0.95, \eta_p^2 = 0.00$), or affectedness ($F(1, 214) = 1.91, p = 0.17, \eta_p^2 = 0.01$) were found.

Analyses by tax showed main effects of country ($F(1, 247) = 4.88, p = 0.03, \eta_p^2 = 0.02$), Germans paid more taxes than Austrians, and earmarking ($F(2, 247) = 5.04, p = 0.007, \eta_p^2 = 0.04$), Austrians paid more taxes in earmarked conditions than Germans, but not concerning affectedness ($F(1, 248) = 1.91, p = 0.17, \eta_p^2 = 0.01$) in the inheritance tax conditions. In the stock profit tax conditions, country had a main effect on tax behavior ($F(1, 248) = 4.11, p = 0.04, \eta_p^2 = 0.02$), with Germans paying more taxes than Austrians, but earmarking ($F(2, 248) = 0.42, p = 0.66, \eta_p^2 = 0.00$) and affectedness ($F(1, 248) = 1.91, p = 0.17, \eta_p^2 = 0.01$) had no effect on tax behavior.
<table>
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<tr>
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<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<td>0.30**</td>
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<td>0.01</td>
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<td>-0.09</td>
<td>-0.27**</td>
<td>0.03</td>
<td>0.21**</td>
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<tr>
<td>Community principle</td>
<td>0.46**</td>
<td>0.22**</td>
<td>0.38**</td>
<td>0.41**</td>
<td>0.15</td>
<td>0.06</td>
<td>0.31**</td>
<td>0.12</td>
<td>-0.20**</td>
<td>-0.47**</td>
<td>0.33**</td>
<td>0.12</td>
</tr>
<tr>
<td>Social justice principle</td>
<td>-0.25**</td>
<td>0.16*</td>
<td>0.067**</td>
<td>0.18*</td>
<td>0.01</td>
<td>0.09</td>
<td>0.30**</td>
<td>0.10</td>
<td>0.20**</td>
<td>-0.19*</td>
<td>0.28**</td>
<td>0.33**</td>
</tr>
<tr>
<td>Equality of opportunity principle</td>
<td>-0.38**</td>
<td>0.22**</td>
<td>0.38**</td>
<td>0.41**</td>
<td>0.12</td>
<td>-0.09</td>
<td>-0.05</td>
<td>0.12</td>
<td>-0.34**</td>
<td>0.33**</td>
<td>0.17</td>
<td>0.15</td>
</tr>
<tr>
<td>Attitude inheritance tax</td>
<td>-0.24**</td>
<td>0.28**</td>
<td>0.31**</td>
<td>0.22**</td>
<td>0.41**</td>
<td>0.29**</td>
<td>-0.29**</td>
<td>-0.19**</td>
<td>0.04</td>
<td>0.03</td>
<td>1.17</td>
<td>0.17</td>
</tr>
<tr>
<td>Trust in the state</td>
<td>-0.19*</td>
<td>0.01</td>
<td>0.18**</td>
<td>0.20**</td>
<td>0.30**</td>
<td>0.26**</td>
<td>-0.10</td>
<td>-0.13</td>
<td>0.21**</td>
<td>0.14</td>
<td>0.29**</td>
<td>0.17</td>
</tr>
<tr>
<td>General tax compliance/morale</td>
<td>0.09</td>
<td>0.10</td>
<td>-0.04</td>
<td>-0.02</td>
<td>-0.21**</td>
<td>-0.29**</td>
<td>-0.18*</td>
<td>0.56**</td>
<td>-0.16</td>
<td>-0.16</td>
<td>-0.02</td>
<td>-0.03</td>
</tr>
<tr>
<td>Participation</td>
<td>0.19*</td>
<td>0.11</td>
<td>-0.14</td>
<td>-0.13</td>
<td>-0.15</td>
<td>-0.05</td>
<td>-0.18*</td>
<td>0.35**</td>
<td>-0.06</td>
<td>-0.17</td>
<td>-0.03</td>
<td>-0.03</td>
</tr>
<tr>
<td>Attitude earmarking</td>
<td>-0.07</td>
<td>-0.16</td>
<td>-0.01</td>
<td>-0.02</td>
<td>0.13</td>
<td>-0.01</td>
<td>0.06</td>
<td>-0.12</td>
<td>-0.19*</td>
<td>0.21**</td>
<td>0.04</td>
<td>-0.12</td>
</tr>
<tr>
<td>Interest and knowledge</td>
<td>0.44**</td>
<td>-0.21**</td>
<td>-0.38**</td>
<td>-0.46**</td>
<td>-0.41**</td>
<td>-0.24**</td>
<td>-0.36**</td>
<td>0.17</td>
<td>0.06</td>
<td>0.12</td>
<td>-0.12</td>
<td>-0.12</td>
</tr>
<tr>
<td>Political orientation</td>
<td>-0.38**</td>
<td>0.27**</td>
<td>0.49**</td>
<td>0.38**</td>
<td>0.60**</td>
<td>0.39**</td>
<td>0.43**</td>
<td>-0.04</td>
<td>-0.05</td>
<td>0.03</td>
<td>-0.42**</td>
<td>-0.42**</td>
</tr>
<tr>
<td>Inheritance tax behavior</td>
<td>-0.12</td>
<td>-0.17</td>
<td>-0.21**</td>
<td>-0.38**</td>
<td>-0.46**</td>
<td>-0.41**</td>
<td>-0.24**</td>
<td>-0.36**</td>
<td>0.17</td>
<td>0.06</td>
<td>0.12</td>
<td>-0.12</td>
</tr>
</tbody>
</table>

Notes: *p < 0.05; **p < 0.01

Table III. Correlations of inheritance tax compliance with all scales by country
In sum, Germans were more tax compliant than Austrians, regardless of the tax due. Earmarking solely affected Austrians’ tax behavior in the inheritance tax conditions, and affectedness did not influence tax behavior at all. The means and standard deviations of all conditions by country can be seen in Table IV.

**Discussion**

This study has investigated the relationship between inheritance tax compliance and the normative value principles proposed by Beckert (2008a) and socio-psychological variables that were found relevant for tax compliance in previous tax compliance research. Furthermore, it has investigated the influence of affectedness by inheritance tax on inheritance tax compliance and earmarking, the dedication of tax revenue to a specific program, as a policy measure to increase inheritance tax compliance. It has also compared two countries (Austria and Germany) of which one (Germany) levies inheritance tax and in the other (Austria) the reintroduction of inheritance tax is debated. On the basis of a two (affected vs nonaffected) by two (Austria vs Germany) by two (inheritance tax vs stock profit tax) by three (no earmarking vs social justice earmarking vs equal opportunities earmarking) experimental online questionnaire simulating a taxpaying situation, the study has revealed key insights into the factors that drive inheritance tax behavior.

The results suggest that normative value principles play an important role in inheritance tax compliance. The direction of the relationships of inheritance tax behavior with the four value principles and attitude toward inheritance tax go in the direction proposed by Beckert (2008a) in legitimization, except for the community principle. While Beckert (2008a) suggested that people adhering to this principle oppose inheritance tax, the results show a positive relationship of the community principle with inheritance tax behavior and attitude toward inheritance tax. This result could be due to the samples investigated. Installing trusts or foundations is a practice commonly applied in Anglo-Saxon countries, in particular in the USA, but is less common in Austria and Germany. Hence, giving to the community in Austria and Germany could be associated with redistribution through taxes. In sum, these results extend Beckert’s findings from discourse to a relation with actual behavior.

Attitudes toward inheritance tax play a pronounced role in inheritance tax behavior. The more positive the attitude toward this tax is, the more compliant the tax behavior is. This finding presents a possibility to increase the acceptance of inheritance tax and hence compliant tax behavior. Attitudes and normative value principles are part of peoples’ social representations. While attitudes are evaluations and peripheral elements, hence can undergo change, normative value principles are deeper rooted, core elements and highly resistant to change (Stark et al., 2017). Trust in the state and general tax morale/compliance also seem to be important for inheritance tax compliance. High levels of trust and general tax morale/compliance go in hand with high levels of inheritance tax compliance. Furthermore, people adhering to the family principle trust the state less and show lower levels of general tax morale/compliance and a greater need for participation.

<table>
<thead>
<tr>
<th>Condition</th>
<th>N</th>
<th>Austria M</th>
<th>SD</th>
<th>N</th>
<th>Germany M</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inheritance tax no earmarking</td>
<td>49</td>
<td>59.51</td>
<td>41.56</td>
<td>43</td>
<td>79.33</td>
<td>33.57</td>
</tr>
<tr>
<td>Inheritance tax social justice earmarking</td>
<td>44</td>
<td>77.80</td>
<td>32.64</td>
<td>39</td>
<td>83.87</td>
<td>28.04</td>
</tr>
<tr>
<td>Inheritance tax equality of opportunity earmarking</td>
<td>50</td>
<td>82.48</td>
<td>28.73</td>
<td>34</td>
<td>84.97</td>
<td>24.58</td>
</tr>
<tr>
<td>Stock profit tax no earmarking</td>
<td>54</td>
<td>77.28</td>
<td>31.90</td>
<td>39</td>
<td>88.62</td>
<td>23.59</td>
</tr>
<tr>
<td>Stock profit tax social justice earmarking</td>
<td>48</td>
<td>85.94</td>
<td>25.50</td>
<td>35</td>
<td>86.09</td>
<td>25.59</td>
</tr>
<tr>
<td>Stock profit tax equality of opportunity earmarking</td>
<td>48</td>
<td>81.77</td>
<td>26.45</td>
<td>36</td>
<td>90.56</td>
<td>20.62</td>
</tr>
</tbody>
</table>

**Table IV.** Means and standard deviations by condition and country.
Political orientation also plays a determining role in inheritance tax compliance. A rather right-wing orientation is associated with less inheritance tax compliance, a negative attitude toward inheritance tax, less trust in the state, and lower general tax morale. These findings correspond to findings on income tax behavior.

Comparing the Austrian and the German sample, the relationships of inheritance tax compliance and the socio-psychological variables are more pronounced in Austria. This result could stem from the fact that Austria levies no inheritance tax, but the reintroduction of this tax is hotly debated. Hence, inheritance tax represents an important and novel topic for Austrians that is present in public discourse. Individuals’ social representations of the topic are still in development and consist to a great part of emotions and attitudes based on these emotions (Stark et al., 2016, 2017). Inheritance tax represents the status quo in Germany and the German sample has therefore had time to gather knowledge of and experience with the topic, and develop differentiated representations. The Austrian sample’s social representation of inheritance tax, by contrast, is still in early stages of development. It consists of emotions and evaluations that are not based on knowledge or experience. It is less differentiated and hence involves higher emotional and attitudinal reactions, and also opposition as inheritance tax represents a loss in the Austrian sample (Kirchler, 1997; Stark et al., 2017).

Being affected by an inheritance tax in real life did not influence inheritance tax behavior in this study, neither in the Austrian nor the German sample. This finding contradicts the proposed importance of material self-interest of prior research on inheritance taxes (e.g. Bartels, 2005; Beckert, 2008b; Page et al., 2013) as well as other taxes (Kirchler, 1997), and gives further evidence for the unique character of inheritance taxes.

Concerning the type of tax, differences in tax compliance were only found in the Austrian sample. Austrian participants were less compliant in paying inheritance tax than paying stock profit tax, while German participants’ tax compliance was not influenced by the tax they were asked to pay. These results could also be explained by a status quo perspective in the case of Germany, as both taxes are levied there. In Austria only stock profit taxes are levied, and taxes on inheritance represent the levying of new taxes, which is perceived as a loss and provokes reactance (Kirchler, 1997).

In respect to earmarking, the results show that it did not influence tax compliance in the stock profit conditions of the Austrian as well as the German sample. This result corroborates the findings of prior research that inheritance tax is emotionally charged (Graetz, 1983; Stark et al., 2016) and earmarking as a policy measure works with unpopular taxes. Regarding inheritance tax behavior, earmarking only played a role in the Austrian sample. German participants were not influenced by earmarking significantly, but the results show a trend in the proposed direction. Given the different situations regarding inheritance tax in the two sample countries, the inheritance tax levied in the study could have, as previously mentioned, represented the most extreme form of increase in taxes, namely, a new tax, and hence a loss of freedom and control for the Austrian sample, leading to opposition and tax evading behavior. In line with prior research, which indicates that earmarking increases citizens’ perception of control over the use of taxes (Dhillon and Perroni, 2001), the results suggest that earmarking was able to counteract opposition and tax evading behavior by inducing a sense of control and reducing the sense of loss of freedom. For the German sample the inheritance tax levied in the study seems to have represented the status quo and subsequently tax compliant behavior occurred.

In sum, our findings show that normative value principles and other socio-psychological variables play an important role concerning inheritance tax behavior. Earmarking inheritance tax to projects corresponding to these value principles could represent a measure to increase inheritance tax compliance when introducing inheritance tax or increasing inheritance tax. Further research is needed into the effects of earmarking on inheritance tax behavior and the character of programs that would prove effective.
References


**Further reading**


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Economic crisis and “white informal economy” – a slippery slope

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Abstract
Purpose – The purpose of this paper is to demonstrate the importance of studying the quasi-legal forms of informal economic behaviour that we know as the white informal economy. The paper also sheds light on the role of the informal economy in the financial crisis that started in 2008. Finally, the aim of the paper is also to encourage empirical research about these concepts.

Design/methodology/approach – The paper is theoretical and based on a literature review.

Findings – The paper implies that when discussing about informal economy, different sub-categories should continue to be used in order to distinguish the various forms of informal economic practices. There is a particular need for research on practices of economic activities that are legal but not always moral, yet severely damaging. For such activities, the authors propose the term/categorisation the “white informal economy”. Additionally, the authors argue that in the causal links of events that brought about the financial crisis the role of the white informal economy was significant.

Practical implications – The paper wishes to encourage further research on the topic of (white) informal economy that in turn would also create the scenario for proper policy development for tackling tax avoidance, tax evasion and future financial crises.

Originality/value – The paper adds to scholarship that takes a critical standpoint towards the financial crisis and to scholarship on the informal economy. It presents an attempt to stimulate further discussion about the connectivity of the informal economy and the financial crisis.

Keywords Economic crisis, Informal economy, Tax avoidance, White informal economy

Paper type Literature review

Defining the concepts
In order to stimulate recovery from the recent economic crisis, States began to search for funds that would end the liquidity crisis. In this, they turned to austerity policies and started tackling informal economy even more strongly (Schneider and Buehn, 2012; see also Keeler, 2009). Taking “a step backwards”, the issue that we wish to address in this paper is whether the informal economy actually played any part in the events that caused the crisis itself and whether it is prolonging it.

Two main terms are key to our argument. These are the (white) informal economy and economic crises, the latter of which is almost interchangeably used with the term financial crisis. The latter Aizenman (2009, p. 424) defined as “a rapid financial disintermediation due to financial panic. In practice, this involves a ‘flight to quality’, where savers attempt to liquidate assets in financial institutions due to a sudden increase in their perceived risk, moving their savings to safer assets, such as foreign currency and foreign bonds in open economies, or currency, gold, and government bonds in closed economies. The ultimate
manifestation of financial crises includes bank failures, stock market crashes, and currency crises, occasionally leading to deep recessions”. This came true in the post-2008 era where the world was plunged into recession especially due to lack of trust in the banking sector. The public discourse in some States showed that informal practices (such as keeping funds “hidden in a drawer of socks”) are seen as better than risky formal institutions (“keeping funds in banks, which play with our money”).

The recession and austerity also stimulated the perception that the informal economy would increase in these times (see Colombo et al., 2014). The research conducted by Schneider and Buehn (2012) shows that in some countries the shadow economy actually did increase in times of crisis, but in others it has fallen. This is logical, as the driving forces that they discovered (such as unemployment, taxes, etc.) that have a positive effect on the informal economy usually strengthen in such times (Schneider and Buehn, 2012). Yet on the other hand, due to austerity, less commodities and services can be afforded even if purchased “off the record”. A variety of terms have been used for the informal economy, e.g. hidden economy, grey economy, black economy, unreported economy, shadow economy, etc. (Gërxhani and Feige, 1999; Henry and Sills, 2006; Schneider, 2011). This in a way indicates the ambiguity of the concept. Some authors see the informal economy as comprised of otherwise legal activities and profits from these activities, but which are hidden from State authorities and so are unregulated (see Gërxhani and Feige, 1999; Cross, 2001; Rutherford, 2007). Other authors also include illegal activities and profits from such activities. That is, they include the so-called “criminal economy” (see Ruggiero (2000) on the criminal economy). We share such views, since funds always travel from one sphere of the economy to the other. Its logical that criminals would use part of the profit to buy legal goods such as food, cars, pay rents, etc., just as it is logical that average working people would buy counterfeit goods or pay for sexual services with money that they have earned in their legitimate jobs (see van Duyne, 1996; Selinšek, 2006).

The informal economy is nowadays often (but wrongly) seen as a place where only low-skilled work is done, where payment is made with cash, etc., and which in general presents a safety net for the poorest. However, several scholars (e.g. Gërxhani and Feige, 1999; Schneider, 2008) have shown that the informal economy appears in both less-developed and highly developed countries and that it is a tactic for enriching (or hiding) funds and not merely a method for earning funds for survival[2]. The lack of consensus and perceived complexity of the spheres of the (in)formal economy motivates us to provide a model that will categorise these different views. After some analyses (Dobovšek and Slak, 2016b), we propose a model of the informal economy which consists of white, grey and black segments. The comparison and differences between the segments can be seen in Table I.

The table is for illustrative purposes only and it should be kept in mind that the boundaries among categories are extremely blurred, especially because there are further questions about the informal economy that need to be addressed in the future[3]. Since black and grey segments are fairly common in the discussions about the (in)formal economic spheres, the white segment deserves some more attention. As argued in Dobovšek and Slak (2016b), the white segment of the informal economy is similar to Henry and Sills’s (2006, p. 264) “informal unofficial economic activity”[4]. The crucial point is that activities or profits derived from these activities are legitimate in all ways, yet the latter are protected from taxes, confiscation or just further enriched with various questionable yet not illegal creative financial (accounting) measures (Dobovšek and Slak, 2016b). Examples range from cases of simple methods of hiding funds against confiscation (by e.g. transferring them to close relatives) to complex but legal schemes used for tax avoidance. The latter is a particularly pertinent example as to why the white informal economy deserves special attention since the funds involved are usually not that small.
The Tax Justice network (2015) has shown that the losses due to tax avoidance are up to three-digit billions.

The grey sub-category of the informal economy is undoubtedly the broadest category and activities that fall in this category are the most frequently occurring. They range from off the record (with cash-in-hand payment) of house or car repairs, or personal tutoring, to off-the-record production of goods or services (Losby et al., 2002). Yet it is the white sub-category of the informal economy where losses to the state budget are biggest. Besides the considerable financial losses, the fact that there is an even stronger lack of political interest in these issues, lack of investigative knowledge and lack of proper legislation in regard to dealing with these issues of the white informal economy can present a motivational factor for perpetration of these acts that are financially very rewarding for the perpetrators. The debate we wish to encourage is somewhat similar to that started by Keen et al. (2010) or Palan et al. (2010) on the role of taxes in crisis. Keen et al. (2010) writes that tax distortions have had an impact on the financial crisis as taxes were a strong background factor influencing the behaviour of financial institutions and actors. The similar discussion by Palan et al. (2010) also showed that tax havens and offshore funds (and experts employed there) have significantly helped in the whole questionable securitisation process as their flexibility has speeded up legislation or actually enabled the processes. There are even some politicians who have voiced their “concerns” that shadow banking and tax havens have played a part in the course of events that brought about the financial crisis (Keeler, 2009).

**Table I.** Comparison of the segments of the informal economy

<table>
<thead>
<tr>
<th>Segment of informal economy</th>
<th>Examples</th>
<th>Legality of activities from which funds originate</th>
<th>Regulation</th>
<th>Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Black&lt;sup&gt;a&lt;/sup&gt;</td>
<td>Profits from drug trafficking; or prostitution and other crimes</td>
<td>Illegal</td>
<td>Non-regulative</td>
<td>Unreported</td>
</tr>
<tr>
<td>Grey</td>
<td>Off-the-record car repairs; tax evasion</td>
<td>Legal</td>
<td>Striving towards regulation</td>
<td>Unreported</td>
</tr>
<tr>
<td>White</td>
<td>Tax avoidance&lt;sup&gt;b&lt;/sup&gt;; funds concealment</td>
<td>Legal</td>
<td>Week regulation</td>
<td>Semi-reported (as includes tax cases and creative accounting)</td>
</tr>
</tbody>
</table>

**Notes:** “In the literature this would often be labelled as within the criminal economy; <sup>b</sup>we agree with the definition of tax avoidance given by Richardson et al. (2015, p. 44) who see tax avoidance as “tax planning activities that are considered to be aggressive in that they are designed to actively reduce taxable income by exploiting uncertainties or variability in the interpretation of the tax law, taking advantage of areas of the tax law that may fall into the gray area, undertaking arrangements or schemes designed to actively reduce corporate tax liabilities in addition to activities that are illegal”

The role of the white informal economy in the crisis

Several factors have been seen as responsible for the crisis that started in 2008. From the irresponsible financial behaviour of US households, or the thrift of exporting countries, “the bankers who took the upside and left the downside to the taxpayer; the politicians who tried to expand their vote banks by extending homeownership to even those who could not afford it; the markets that tolerated high leverage in the boom only to become risk averse in the bust […] The list goes on.” (Rajan, 2009, p. 400). However the lack of regulation has more recently been found to be the most crucial cause (Ferguson, 2010; Fisher et al., 2011; Keeler, 2009; Mitchell, 2011; Pontell, 2005; Tomasic, 2011; Willett, 2010)[5].
In the post-1930s depression in the USA, the Keynesian economic policies and the Glass-Steagall legislation presented a solid framework to safeguard society from the irresponsible behaviour of financial power players. Regulation guarded against moral hazard which, unstopped, often leads to financial crisis (Aizenman, 2009). When economies returned to a somewhat stable state after they collapsed in 1929, the framework was again being slowly demoted, most strongly with the emergence of neoliberalism.

We – and here we agree with Plehwe et al. (2006) – see neoliberalism as a set of ideas (perhaps even philosophies) that state that self-regulating competitive markets and a rational *homo economicus* who strives to serve his/her own interest are also best for the whole society itself (see also Golob *et al.*, 2009; Harvey, 2007 for discussion on neoliberalism). The role of the state is to enable free markets or even to create markets where there are as yet none "such as land, water, education, health care, social security, or environmental pollution" (Harvey, 2007, p. 2) and to liberate the economic and financial sectors from the “shackles of regulation”. And though the economic crisis showed that regulation must be present, the neoliberal ideology continues to dominate as an economic policy. Regulation is therefore the first connection of informal economy with the crisis. The neoliberal view that regulation is a hindrance to financialisation (securitisation) and economic development (Hetzer, 2012; Sikka, 2015) motivated the desire to repeal regulation and this action eventually led to the financial crisis of 2008. Similarly regulation is seen as one of the reasons why actors engage in the informal economy (Jones *et al.*, 2006; Schneider, 2008). The similarities do not stop there. For instance, both with the informal economy and for actors that caused the financial crisis, there is a frequent usage of "subsidaries" or legal missing trades/straw firms that are located in tax havens. One scheme for tax avoidance is selling patent rights using subsidiaries of which some are located in tax havens (Bowers, 2014; Fisher, 2014). And so prominent banks and financial institutions used “subsidaries”, hedge funds and other business entries located in tax havens for their trading in Collateralized Debt Obligations “products” (Keeler, 2009; Palan *et al.*, 2010), the products that were at the heart of the problem that caused the crisis. Using derivatives and other methods for masking risk and debt that occurred prior to the 2008 crisis (Sikka, 2015) is also similar to creative accounting techniques used in the informal economy, indicating that (white) informal economy techniques were used. And at the end, if not earlier, informal economy mechanisms came into play after the events, when funds that during the crisis involved actors had earned needed to be enriched or protected against confiscation[6]. Funds were moved to tax havens where they remained safely in waiting for the re-use by perpetrators (or their families) (see Palan *et al.*, 2010). We see the existence of such tax havens jointly with other complex financial methods of doing business as a form of incentive, as facilitating factors (or decreasing deterrence) as discussed in various criminological theories.

Moreover, to what degree would funds from the informal economy (e.g. funds hidden in tax havens) loosen austerity measures? It is logical that they might do so, and what Saraç and Başar (2014) have shown is that the countries with a larger extent of the informal economy have suffered the greatest damage through the crisis. The evidence shows that the financial crisis has stimulated tax avoidance to an even greater extent, because the financial crisis has had a negative impact on firms as well, so firms have become even more motivated to engage in tax avoidance (Richardson *et al.*, 2015), and so damaged state budgets. In this circle, due to austerity, buyers buy less of products/services of some firms that engaged in tax avoidance, causing a further loss of profit exactly because in the first place firms did not pay their share of taxes. Given this loss, States are forced to recalculate their budgets and raise taxes, leading to further austerity, cutbacks, etc., and this again motivates people and institutions to engage in informal economic practices.
We then can see that the informal economy had dual roles when it came to the crisis. First, informal economy schemes (e.g. those including tax havens and offshore centres) were used to acquire actual funds and second in some cases were later on used for laundering or hiding money gained in deviant, delinquent or even criminal acts (Hudson, 2013).

This can be somewhat attributed to the consensus that the informal economy provides a hidden funds reserve which has (at least politically and at a first glance) motivated the global fight against the informal economy, tax havens, etc. That such big funds really are hidden in tax havens is evidenced in research and from investigative journalism. For instance the International Consortium of Investigative Journalists (2015) has developed an interesting database in regard to world money trails that showed how the biggest companies avoided taxes[7]. These sources indicate that funds are so extensive that in some cases taxation of these funds would end austerity altogether. Admittedly, the secrecy around these centres and actors makes it very difficult to have an accurate assessment of these funds.

The question here of course is if corporations actually have any social responsibilities, rather than just having business-oriented (profit maximisation) goals (see Fisher, 2014). Views about the role of the economy and social effects on the economy (see Golob et al., 2009 for an interesting discussion of the social economy) are usually a reflection of the economic theory that one believes is applicable. In our opinion, corporations should be held accountable for some social responsibilities. They use state infrastructure, gain employees with know-how obtained in state colleges, use medical services in case of accidents or if their employees have (health) problems due to the nature of the work. They exploit the environment even though perhaps they own a part of the land this exploitation pollutes the nearby air, waters and lands, etc. Several other products and services built and funded from the state’s budget are also used in the course of private firm production. And though the presence of a strong business enables employment and has certain financial benefits to the region, the question is always whether these businesses give back enough to the region? Here a common idea is to lower taxes to attract more business, yet the mere presence of strong businesses in a country with low corporate taxes does not always positively reflect on the well-being of the population, as the cases of Ireland and Cyprus have shown.

Epilogue
We can conclude that the white informal economy is continually escaping control. So tackling the white informal economy would also mean tackling tax havens, tax avoidance and even tax evasion. And these are all possible because of weak regulation, lack of transparency and control. Yet we must be careful with regard to exercising control. If one invests only in repressive measures (fiscal and regulatory policies in a formal economy), the greater is the incentive for companies to relocate their assets to the informal economy and to use corruption to grease the development of legislation in their favour. Proper post-crisis responses (e.g. proper taxation of the richest, proper bank legislation, etc. (see George, 2015) or shaming of tax avoiding companies (Fisher, 2014)) are measures equally possible for tackling the white informal economy, yet these measures sound radical in the ears of most economists and politicians. Nevertheless, they seem to be common sense and a guarantee against exploitation of loopholes by too-big-to-fail or other power structures[8]. We therefore propose that more light needs to be shed on the issue(s) of the white segment of informal economy. Financial, accounting and other economically themed schemes from this segment are connected to financial crises, tax evasion, tax avoidance, etc. and proper knowledge and understanding could help to develop preventive measures or to show why proper policy development is lacking. If nothing else it would give investigative journalists some more tools to use in their investigations. We do however know that such research will be difficult since even the grey and black segments of informal economy lack global consensus, and
even a proper agreed definition. In our discussion, we have left out the issues of classical
crimes done by those that were involved in the events that caused the financial crisis. These
crimes ranged from crimes perpetrated to earn capital for entry into the securitisation
market, predatory lending, Ponzi schemes, bribes, etc. We have also omitted discussion in
relation to how funds that were earned were used in the black informal economy (for
instance to buy high-end escort or prostitution services, cocaine, etc.), all of which are issues
that also need research attention.

Notes

1. The work of Gërxhani and Feige (1999), Frey and Schneider (2000), Schneider (2008, 2011) and
Schneider and Buehn (2009) are very informative on the informal economy. For a short summary
see also Saraç and Başar (2014).

2. Kuehn’s (2014) work shows that in high-income countries, tax evasion is a significant motivator for
engaging in the informal economy.

3. Some questions that need prompt attention are, first, how to characterise the profits that occur in
the “twilight zone between licit and illicit. For example, illicit white cigarettes, which are legally
produced in one country and illegally smuggled to other/ … or firearm replicas which, when
manipulated, can become illicit firearms” (Savona and Riccardi, 2015, p. 10). Second, there is the
situation where cases of formal businesses employing homeworkers or sole proprietorship
businesses fall into the informal economy in order to cut operational costs (see Cross, 2001).
Should help among neighbours that beneficially contribute to social ties among people be
considered a part of the informal economy? If so, to which segment do they belong? We agree
that some of these questions were at least partly answered in discussions on the grey and black
informal economies (see Gërxhani and Feige, 1999 or Schneider and Enste, 2000) yet there is still
a need for more consensus.

4. Aimed as “to get around rules and processes typically not using money but favours, privileges and
perks as a means of exchange. They are not parasitic, nor illegal, but not a formal part of policy or
practices of an organization” (Henry and Sills, 2006, p. 264).

5. Risky behaviours of top (too-big-to-fail) economic players have occurred (and been encouraged)
under the presumption that the state will cover the loss (Aizenman, 2009). As it was discovered
after the crisis of 2008 began, economic behaviour in the crisis involved actors and their business
practices that presented a factor in a causative chain of events that as it moved into the crisis
showed signs of typical white-collar criminality and corruption (Geis, 2011). But also present was
conflict of interests (Ferguson, 2010; Federal Bureau of Investigation, 2011), irresponsibility
(Brown et al., 2010) and other various types of damaging behaviours (see Dobovšek et al., 2015;
Dobovšek and Slak, 2016a). Some even go so far as to characterise the whole mortgage bubble and
securitisation market as a Ponzi-scheme (Mah-Hui, 2008; Patterson and Koller, 2011;
United States Senate, 2011).

6. Bernie Madoff, one of the most successful Ponzi-schemers, was exposed due to the crisis as the
liquidity shortage and run on funds of his “investors” caused the scheme to collapse. According to
Hudson (2013), financial institutions turned a blind eye towards Madoff’s questionable business
practices, some of which were connected to tax havens. Madoff was not the only one who has been
prosecuted for financial crimes that were revealed due to liquidity problems (see Freeman, 2010;
Tomasic, 2011 for some additional information).

7. See also Bowers (2014) and Palan et al. (2010).

8. As Sikka (2015) noticed, the lack of regulation enabled the development of such too-big-to-fail
institutions. Due to light touch regulation banks and other institutions dealing with financial
products accumulated extensive capital, and became centres of country stability since they gained
ownership of many important firms and by that, also gained informal influence, etc.
References


Further reading


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Abstract

Purpose – The purpose of this paper is to map anti-money laundering policy and its impact on money laundering. The AML system is discussed from the perspective of the compliance officer, who is responsible for translating AML law into practice in Belgian banks.

Design/methodology/approach – Literature review, based largely on a PhD study (2009) that involved a survey and interviews. Additionally, 12 compliance officers were interviewed in 2015.

Findings – The global AML system impacts significantly on issues of privacy and due process but has not yet been evaluated. The system’s preventive effect is difficult to measure because of a lack of (cross-border) information. The way in which Risks are currently managed in diverse ways.

Research limitations/implications – Results from the first study in 2009 (based on interviews in 2007-2008) were potentially outdated. This recent update (2015) confirms that compliance officers are still dealing with the same issues.

Practical implications – The study clarifies the ways in which compliance and AML is dealt with and mapped, providing insights into an often closed setting.

Social implications – The battle against money laundering is very costly and intrusive, making the need for stringent evaluation more pressing.

Originality/value – The study is both original and valuable because compliance officers have rarely been the subject of research. The study discloses useful information about their role.

Keywords AML, Policing, Compliance, Money laundering, Financial crime, Criminology

1. Introduction

In most European countries, including Belgium, money laundering was inserted in the penal code more than 25 years ago. Since then, an impressive apparatus of anti-money laundering (AML) and compliance initiatives has been established, based in large degree on European regulations. Through their reporting function, financial institutions were positioned as important gatekeepers to this AML system. This paper begins by positioning money laundering within the context of financial crime before exploring the problems encountered in pursuing insights into the phenomenon. The AML system will be discussed, focusing on the perspective of the compliance officers who are responsible for translating AML law into practice in Belgian banks. This perspective is adopted in an attempt to show that the policing of money laundering is less straightforward than it may seem. In combination with the recent FATF evaluation (2015), a small-scale study of compliance officers (2015) places the results in contemporary perspective and addresses the recent evolution of the compliance sector, as well as touching upon issues such as uniformity, level playing field and, ultimately, effectiveness.
2. Money laundering as financial crime

Financial crime is a broad concept encompassing different types of crime (Gottschalk, 2010). Authors continue to struggle with questions of definition, such as how white collar crime relates to financial crime (Piquero and Clipper, 2014). While “fraud” is often used as an overarching term (De Bie and Verhage, 2010), some authors adopt a perpetrator-centered definition of white collar crime as including both corporate and employee crime (Geis, 1993). However, financial crime may not always be about the perpetrator so much as about the method (concealment, misleading) and the goal (financial, profit-making). To date, no comprehensive or unequivocal definition has been developed (Gottschalk, 2010).

In Belgium, financial-economic crime is not a hot topic, either in criminology or in crime-fighting practice, despite social developments that work in favor of financial crime. The increased possibilities of online payments, online banking and digital money have also boosted the opportunities for committing financial crime (Croall, 2001; Moore, 2013), suggesting that the phenomenon therefore deserves greater attention. It is also known that victims of financial crime can perceive it as very intrusive, and its impact can be felt on a large scale (Gottschalk, 2010). The last ten years have seen a significant number of such crimes, in Belgium and elsewhere, which have been the subject of extensive media coverage[1].

The financial crisis has clearly demonstrated the importance of a healthy financial system, especially in a society that emphasizes and prioritizes the influence of corporations and the corporate world more generally (Braithwaite, 2000).

Empirical criminological research into financial crime remains relatively marginal. Slapper and Tombs (1999) referred to this phenomenon over 15 years ago in relation to corporate crime as the “self-perpetuating cycle of omission and ignorance.” In failing to recognize the increased opportunities for financial crime, or to take a more active approach to the study of financial crime, criminology seems to have missed the boat with regard to what remains a niche in criminological research. This conclusion was reached ten years ago in a review of criminological education and publications (Lynch et al., 2004) but remains the case today. A more recent review of publications in criminology[2] shows that little has changed; white collar crime is still largely overlooked by criminology, with only 6.3 percent of all articles addressing this area (McGurrin et al., 2013), and the first Handbook of White-Collar and Corporate Crime in Europe was published only very recently (van Erp, Huisman and Vande Walle, 2015). This lack of academic and policy attention is also reflected in the limited statistics on financial crime at both international (McGurrin et al., 2013) and national level. This leads to a vicious circle: poor access and availability of data presents hurdles and difficulties for researchers who try to study the phenomenon, leading in turn to a loss of priority on the research agenda.

3. Limited visibility

The following paragraphs will review existing insights into financial crime (specifically, money laundering) to illustrate how limited this information actually is. Turning first to the numerous sources of data on money laundering, these are characterized by differing backgrounds, contexts and approaches to measurement.

Among these[3], traditional sources (to which most criminologists would turn) largely comprise information from the judicial chain, such as police and other statistics relating to prosecution and convictions. A second category, research sources, consist of self-report studies and victim surveys (e.g. ESS or the Survey on White Collar Crime). Third, policy-related sources – reports by the authorities – can provide additional information for research purposes (e.g. studies by the European Commission such as that preceding the 4th AML Directive). A fourth source is information from supervisory authorities such as the FIU or inspection agencies, who publish annual reports on cases reported to them. Finally, private sector reports from commercial organizations involved in the investigation of
financial crime (e.g. Big 4 accounting firms, insurance companies and complaint services) can be a valuable source of information.

Each of these sources has its own measuring problems. For instance, traditional sources are deficient in that the dark figure of financial crime is usually relatively high, resulting in a very limited view (Shoham et al., 2010). This implies that many infractions will never be disclosed. Victim surveys, such as the ICVS (International Crime Business Survey (Frate, 2004)) and the Dutch “Monitor Criminaliteit Bedrijfsleven,” do give us some insights, even though they are limited, as these relate to victimization by corporations (WODC, 2011)[4]. Self-reports also reveal a limited picture, although there is some research that attempts to map the causes of financial crime (Blickle et al., 2006; Collins and Schmidt, 1993; Kabki, 2014). Other types of academic study, such as file analyses, are very rare; these can be valuable but shed light only on what is detected by the judicial chain or by inspections.

Policy-related sources, such as reports by the European Commission or Eurostat[5], seek to provide an overarching picture of crime or crime phenomena by questioning member states about specific types of crime. Here, researchers are largely dependent on the quality of data in each member state. While noting the limitations of these reports, they can nevertheless provide insights into relative incidence across countries, as in the recent EU Anti-Corruption Report (European Commission, 2014).

Supervisory authorities can add important value to research, as their databases provide an overview of types of financial crime that may never reach the judicial chain. As one important example, the FIU reports annually (at least in Belgium) on their files. These annual reports (see www.ctif-cfi.be) provide important insights into detected cases of financial crime. Other such examples include annual reports by inspection agencies.

Private information can provide additional perspectives on another piece of the puzzle: the extent to which companies encounter certain types of financial crime. This category includes reports by private organizations such as KPMG, Deloitte or Price Waterhouse Coopers, who publish regularly on trends relating to types of financial crime or to enforcement issues such as compliance (Verhage, 2008; Deloitte, 2011; KPMG, 2007; Price Waterhouse Coopers, 2005).

In short, there are difficulties in assessing the epidemiology of financial crime, and of money laundering in particular; information is scattered, fragmented, or missing. The authors of one European study seeking to make an impact assessment of money laundering could only conclude that the currently available information does not even enable a baseline measurement (European Commission, 2013). In addition, those sources that are available should be used with care, as some lack detail, referring to “white collar crime” in general or failing to clarify what is included in the recorded cases.

4. Studying AML measures in Belgium: the AML complex

4.1 Background to the fight against money laundering

Money laundering has been considered a crime since the late 1980s, and has been an issue for European member states since that time. Across Europe, the fight against money laundering typically involves a dual approach, combining preventive and repressive measures (Reuter and Truman, 2005) and including both public and private partners. From the 1990s onward, three European Directives have governed how money laundering is tackled[6]. These Directives have all been implemented in Belgian law, with several consequences. First, the Directives asserted that a preventive approach was needed to combat money laundering; the repressive approach, characterized by criminal investigations centered on “following the money,” was not considered sufficient. Second, this preventive approach is built on the detection and reporting of suspicious transactions. The fourth European Directive, which came into force on 25 June 2015, reinforces the preventive approach with an intensified risk-based approach that involves risk assessment
and client identification, striving for a level playing field and imposing the development of a central register of beneficial ownership[7].

Today, multiple international actors are united in the battle against money laundering by preventing, detecting, investigating and reporting potential cases. It is precisely this all-inclusive approach that characterizes AML, uniting actors in what has been called an AML complex (Verhage, 2009, 2011), comprising diverse services, individuals and organizations. The goal of this complex (Bisschop and Verhage, 2012), is to deploy national and international regulation and legislation to fight the laundering of money. In Belgium, this endeavor includes both public and private organizations, cooperating to prevent and investigate the laundering of crime-related money; actors include the (federal) police and public prosecutors, the FIU, the Central Office for Seizure and Confiscation and supervisory authorities for the financial sector.

Beyond these public organizations at national level, private organizations constitute an essential part of the AML complex, as they are obliged to report suspicious transactions to the FIU. This reporting system makes the fight against money laundering unique as a coalition of public and private partners involved in all-inclusive surveillance. Organizations that are expected to cooperate in this system are listed in the Belgian AML legislation; these include both financial organizations such as banks, insurance companies and investment companies, along with non-financial groups such as lawyers, notaries, security companies, casinos and dealers in high-value goods. In 2011, more than 58,000 individuals and organizations were involved in this reporting system. The implementation of this preventive approach can be understood as an AML chain (Figure 1).

These reporting duties represent a significant investment on the part of the organizations concerned, requiring them to be able to distinguish between suspicious and non-suspicious transactions. Additionally, the participating organizations need to develop the requisite skills, instruments and competences to detect potential money launderers and those involved in terrorist activities. In the case of banks, this has led to the assignment of specific employees to the AML role: the compliance officers.

In Belgium and elsewhere, the AML complex is based on a risk-based approach (FATF, 2007). Rather than depending solely on rule-following or the application of objective indicators, the system offers scope for interpretation and discretion, focusing on the investigation of transactions and clients that represent a higher risk of money laundering. The approach is based on “intelligent reporting” (as opposed to automatic reporting, which is based on specific objective criteria). This implies that banks are granted room for discretion in reporting transactions to the FIU. Intelligent reporting also means that the bank functions as a first filter before cases are forwarded to the FIU, potentially resulting in more efficient functioning of the system.
4.2 The compliance function: complex-industry relations

During the period 2006-2009, the compliance officer became the focal point of study. As a bank employee required to implement legislation that is not always in the bank’s commercial interest, the difficulty of the compliance officer’s role was seen to be an important issue.

The present study sought to gain some insight into the compliance function within financial institutions, based on the central hypothesis that the AML complex and the compliance industry are parallel constructions – both operating in the same domain but based on different objectives and motivations. These differences in motivation might be expected to result in differing attitudes and working methods, revealing the dilemmas faced by actors within AML (Figure 2).

The AML complex consists of the activities of private and public actors, carrying out regulatory, monitoring, reporting, investigative and judicial tasks; its objectives are prevention, crime fighting and law enforcement. The AML complex is based on legislation and regulation. Although it is a global rather than a regional system (Buzan et al., 1998), it can be seen as heterogeneous, comprising a multiplicity of actors who surround, support or actively engage in the battle against money laundering.

The compliance industry is an entrepreneurial market, providing services and tools in support of the fight against money laundering. This industry stimulates investment in compliance and AML by supplying monitoring systems, blacklists, training and advice to corporations that are obliged to implement AML legislation. The compliance industry provides a service that is additional to AML regulation, in which AML compliance is marketed as a product for sale.

Financial institutions play a central role in the space between these constructions, augmenting and interacting with both the complex and the industry. As the employee of a financial institution, the compliance officer highlights this paradox. As a go-between, they must strive continuously for a balance between the interests deriving from the two structures: a commercial orientation within an entrepreneurial environment as against crime-fighting and prevention. The complex and the industry were studied from exactly this viewpoint of a dual role.

5. Methodology

The present article draws on the results of two studies, from 2006-2009 and 2015.

5.1 Study 1

The first study employed a multi-methodological approach (Ponsaers and Pauwels, 2002; Bijleveld, 2005), combining quantitative and qualitative measures. The first phase of empirical data gathering used a web survey as quantitative instrument, followed by a qualitative phase that included semi-structured interviews, open source and literature research and observations. The web survey was accessed by compliance officers in Belgium through an

![Figure 2. AML complex-compliance industry relations](image-url)
intermediary (the umbrella organization Febelfin) and attracted 74 respondents. The survey was carried out in accordance with the Dillman method (Dillman and Bowker, 2001) and provided the necessary basic information for subsequent phases. The 32 interviews that followed enabled more in-depth dialogue with respondents and added more context to the earlier results. Compliance officers are not easily found; contact was made by means of calls to general information telephone numbers and messages to general e-mail addresses. Use was also made of the snowball method; following an interview, respondents were asked who else they might recommend for interview. The interviews were recorded and then coded and analyzed using MAXQDA. As a field test, the analysis was subsequently sent to a number of respondents, with a follow-up visit to the banks at the end of the study to review the latest developments, as the credit crisis had occurred during the course of the study.

5.2 Study 2
In the Spring of 2015, a small-scale explorative study was undertaken to test and update the results of the first study (2006-2009). In total, 12 compliance officers were interviewed, using a topic list that included questions on the position of the compliance officer, the functioning of AML in the bank and how compliance officers assessed the evolution of their role. Compliance officers were randomly selected from both small and larger banks. The interviews were coded and analyzed by the author in NVivo. This small-scale study largely confirmed the conclusions of six years previously.

Rather than discussing all the research results, the present paper will review the main general conclusions related to the fight against money laundering. Other publications (Verhage, 2011, 2012) discuss the results of the first study in greater detail.

6. Functioning of the AML complex
In general, compliance and AML provisions were found to have permeated Belgian banks. Occasionally, a compliance officer noted that battles had to be fought in balancing commercial interests and rule abidance. This is probably an inherent feature of the AML task and does not conflict with the general view that, without compliance, banks could no longer function.

6.1 Lack of feedback
One of the most remarkable and recurrent findings of this study was the lack of feedback within the AML chain. Information provision goes mainly in one direction: from banks to law enforcers. However, information provision is confined to what the banks want law enforcers to know and what the reporting duty obliges them to report. The mutual sharing of information is in practice quite limited, and there is little will to change this:

There are no definitions. What a 'shell company' is, is not defined. Or what is an offshore area, or a financial haven? There are absolutely no definitions. We have asked the FIU, as they have prepared these indicators, but they say: we have written the indicators on the basis of your reports. So […] we are actually doing the job of the judicial police? (Cpl 15).

This lack of information sharing and transparency – in terms of providing feedback as well as non-reported atypical constructions – may not be entirely positive in its effect on the system’s functioning. Additionally, the AML complex does not seem to develop the knowledge that it might in theory be expected to develop; in practice, knowledge accumulation seems very restricted:

In fact, we try to put together the information of the branch office, the information we have here, based on the overviews of accounts and information found on the Internet; we see if this adds up and, if necessary, we look for complementary information (Cpl 5).
6.2 Formal and informal cooperation

Cooperation between public and private actors in the chain cannot be described as smooth. Unlike their French colleagues, Belgian compliance officers cannot fall back on their former colleagues in law enforcement, which may partly explain the lack of cooperation (Favarel-Garrigues et al., 2008). A minority of respondents stated that they exchanged some information on an informal basis, but this was based mainly on personal contacts or years of cooperation.

Among banks, a high level of informal cooperation was noted. Compliance officers knew each other (a small world) and are now also allowed to exchange information on investigations. More formal possibilities for cooperation and information exchange were welcomed by respondents. It might allow for pooling of information by different banks (knowledge accumulation), enabling identification of suspect clients and clusters of clients and transactions at an earlier stage.

Compliance officers also pleaded for the development of a blacklist of clients, which could help to prevent “bank shopping,” as clients looking for the least strict bank would quickly be discovered. Police respondents further stated that they lacked information about the monitoring systems and criteria used within banks. Tools used by banks might very well provide the police with useful information – relating for example to criteria, scenarios or volumes of transactions – but information exchange on this issue remains very limited. Police services are not informed about how these mechanisms are applied, whether checks are run manually or by use of software, and so on. On the other hand, compliance officers stated that they would be very interested to know which patterns are detected by police services as a means of enhancing their own monitoring systems:

We have to be able to prove that we have done our job. But how will a judge react in case of a problem? You may never know. Maybe, for a judge, simply the fact that the money comes from Luxembourg is sufficient to be suspicious. But that’s for the judge to decide, and we will not know this for another few years, when something goes wrong (Cpl 15).

Of course, guarantees must necessarily be built into any such exchange of information, both in interbank communication and between public and private actors.

6.3 Limited view

One important finding related to the limited view of impact and effect within the AML chain. As explained earlier, measurement problems arose at every level of the AML chain, and better statistics are badly needed as a basis for evaluation (Verhage, 2014).

6.4 Dilemmas

It was also concluded that responsibility in the AML complex is concentrated at the base, with the reporting institutions. It remains in question how this system can effectively prevent and fight crime when this base is not provided with sufficient information. This lack of information forces banks either to depend on (outdated) stereotyping criteria or to develop their own criteria, with the result that banks determine the threshold for reporting and there is a tendency to utilize the services of the compliance industry. In making the compliance industry responsible for determining these criteria and for providing information such as blacklists, application by the authorities of quality standards to their services and instruments is undoubtedly encouraged, arguably leading to a false feeling of security:

The problem is that we have to build scenarios, and we get a lot of alerts, and we have to check all of them to see if these are legitimate alerts. And people who really want to launder money still can: they know that kind of software, they know how […] We need to have this software […] but really […] it’s ok to have it, but as for the time it consumes […] (Cpl 13).
I can say to our IT department: ‘Make sure that the system gives us 20 alerts per day’. You can do that! You can set your parameters so high that nothing will come out. And at the end of the day we can say we have processed 100% of our rules. Good job! But what kind of risk are you taking? (Cpl 12a).

Finally, it was noted that the non-transparency of the norms and concepts surrounding “risk” that are used throughout the battle against money laundering can have an important impact on fundamental rights:

The only thing you can do is write a sound policy, communicate it and try to prevent as much as possible; monitor, but you can never be 100% certain that you will not be sanctioned for laundering money – that is impossible. You can only try to prevent it to the largest extent possible, make reports of high quality and prove to the court that we are actually doing our job. That’s the risk of working in a compliance function (Cpl 12b).

The study questioned the extent to which the costs of this system are proportionate to the benefits. As the AML system is currently characterized by a reactive approach, based on information from the past (Crawford, 2009) that is also limited in scope and sources (Gelmerova, 2009), the danger exists that this may be a static system that is predestined to identify the same “usual suspects” again and again.

7. AML today: new developments, same challenges

On studying the apparatus for the fight against money laundering, it becomes clear that a new form of policing has emerged. This is sometimes referred to as “new policing” (Levi, 1997), “banking detectives” (Kochan, 2006), “the transnationalisation of policing” (Sheptycki, 2000) or “policing the money.” By implication, the compliance officer has become one of the new actors in the policing landscape, adding to the multilateralisation of policing (Favarel-Garrigues et al., 2008). The introduction of the term “AML complex” is therefore useful, as it highlights the multitude of actors active in this field, from different backgrounds and with diverse motives. It also illustrates the differences in power position of each actor involved in this battle.

In the small-scale study conducted in 2015, the above conclusions still stand. Although there is clearly a lot of movement in AML policy, as in the (future) implementation of the 4th European Directive, a number of initiatives by national legislators (e.g. the introduction in 2011 of a licensing system for compliance officers in Belgium), many of the same problems remain. The next section examines a number of these issues.

7.1 The need for empirical data

The domains of compliance and AML evolve quickly, making it essential for research to keep up with these developments. Furthermore, given the risk-based approach, more insight is needed into the practices of the system in order to understand how the actors in the AML system employ their discretion and how they fulfill their AML tasks.

Respondents pointed to the importance of the compliance function in preserving the reputation of the bank:

They want to launder more and more money because there is a lot of it that is still circulating. Is it useful (the compliance function, AV)? One the one hand, yes, but I think that for those people who have black money, it is a disaster [...] you cannot do anything with it, you cannot go somewhere with it [...] I will not burn my fingers for someone else, I will not do that. No matter how well I know them, I will not do that (Cplb 1).

It seems that the dilemmas that compliance officers previously faced are now less prevalent. Most respondents stated that they believe rule-abidance takes precedence over commercial goals – a clear sign that the compliance function has evolved further as a professional sector. Some also referred to the BNP-Paribas-case[11], noting an ensuing new awareness of
the importance of a compliance department and the need to play by the rules. A majority of the respondents also stated that compliance budgets have increased in recent years, and the number of FTE working in compliance is on the rise in many of their departments. In short, the sector has evolved very rapidly and is now taken seriously:

INT: So you are more careful?

CPL1: Certainly. Because it all comes down to us […]. It used to be no problem, no one paid attention to it, but now […] you simply cannot do that. Because we are too much under […] big brother is watching you. And that is not worth it! (Cplb 1).

Another visible change is that, in contrast to the earlier interviews, compliance officers now talk openly about information exchange between banks. Although not (always) officially allowed, this is no longer a taboo:

When an agent receives a new prospect, and is in doubt whether or not to accept him or her, and we know that he/she used to be a client at X, what will we do? More than probable will we contact our colleagues at X, the AML department, to ask “Wait, why is this client no longer with you? Do you have a file on him?” (Cplb 3).

But, some things have not changed; the fact that compliance officers are often faced with difficult decisions in “gray areas,” or when they are uncertain if something suspicious is going on, continued to be mentioned regularly in interviews. More support and more feedback remain important issues, especially as the pressure on compliance has grown as a result of the greater importance of compliance departments in relation to controls and checks.

7.2 Uneven playing field

As illustrated by the introduction of the 4th European Directive[12], implementation of AML in Europe remains an uneven playing field (Verhage, 2015) as a consequence of diverse interpretations and implementations of the European Directives by Member States[13]. This is well illustrated by differences in reporting requirements, levels of enforcement, predicate crimes and counting rules in registration of AML cases. The uneven playing field is a crucial impediment in the AML battle, presenting opportunities for anyone looking for loopholes or the path of least resistance. The regime is also built around the assumption that it will become a global system (Levi and Reuter, 2006).

The European Commission’s (2013) Impact Assessment a study that preceded the current proposal for the 4th Directive, also refers to how financial institutions that are active at international level face several difficulties in implementing their AML policy at group level because of inconsistencies in AML legislation in different countries. Indeed, compliance officers acknowledged in the interviews that they are sometimes highly challenged in their AML tasks for this reason, with difficulties related to information exchange, approach, monitoring, analyzing and reporting. This is also why many banks have both a national and an international interpretation and policy for AML, aside from their global policy.

Awareness of the uneven playing field is not new; it has been discussed in the literature and was translated into attractiveness scores almost ten years ago (Unger, 2006). Although the 4th Directive seeks harmonization, a necessary first step is to map the diversity of systems, using sound and uniform registration methods at every level of the AML chain. This brings us to the second major issue: the current limitations of registrations and statistics.

7.3 Limited statistics and diversity of sources

The limited availability of statistics and sources related to money laundering remains problematic. The fact that results in a very fragmented picture, requiring researchers to
resort to a diversity of sources. In general terms, it remains the case that, because this type of crime involves multiple actors, cross-border information remains fragmented, and researchers must still resort to gathering bits and pieces of information from diverse sources (which are neither complementary nor comparable). This makes it very challenging to map the chain of AML, and we urgently need sources that are sufficiently detailed to facilitate analysis, comparison and data matching. This is a crucial research objective that has gained in importance, given the priority now assigned to financial crime at policy level. In seeking to develop evidence-based policy, this is a crucial step. It is scarcely credible that, after 20 years of AML, it remains impossible to make an impact assessment of the progress being made.

7.3.1 Other problems in AML. In the Spring of 2015, the FATF published its mutual evaluation report on the Belgian approach to countering money laundering. The report made a number of positive observations but was also very critical in some respects. The evaluation indicated that a risk-based approach is not well elaborated: “its understanding of these risks is fragmented and incomplete” (FATF, 2015). The FATF concluded that an overall AML approach that includes prioritization and resource allocation is still lacking today and noted the lack of detailed statistics in this regard, which also implies a lack of case management strategies. The FATF also criticized the lack of resources at police level in dealing with such crimes. This lack of resources is not only detrimental to detection, prosecution and sanctioning but also results in a very high level of policy dismissals (FATF, 2015).

8. Directions for further research
Offering insights into how the phenomenon of money laundering is tackled, how policing involves different actors and the unrealistic expectations around the AML system arising from a lack of clear criteria, ineffective feedback systems, and so on, these findings have several implications for further research. First of all, research in this domain should focus on gathering insights on the phenomenon and characteristics of money laundering. In line with earlier research (Kabki, 2014), it would be useful and relevant to analyze files on money laundering in order to relate criminological theories of offending to money launderers in closed cases. This presents numerous theoretical challenges.

Second, further research is needed to quantify the phenomenon of money laundering in a way that facilitates a baseline study. This should enable at least a first step toward a system of assessment in AML; any system that is this intrusive should at least be able to show its effectiveness. We should also find out more about the displacement effects of AML barriers—for instance, do these lead to increased use of hawala banking systems? Do they imply the invention of parallel banking systems, or are banking systems circumvented completely? And how should police and public prosecutors deal with these developments? One example of such a study is the work of Dotti et al. (2015), in which indirect measurement methods (i.e. the spatial mapping of deposits of large denomination banknotes in banks) were used to measure local variations in the shadow economy. Such measurements can use both quantitative and qualitative methods, and the latter could also be used to explore whether money laundering indeed results in higher levels of power at the level of the formal economy. This was, after all, part of the rhetoric at the outset of the fight against money laundering.

In relation to AML policy, it is noteworthy that, despite their central role in AML, there is no mention of compliance officers in the 4th European Directive, and they are not involved in official regulation at EU level—even though some countries (including Belgium) have assigned legal status to compliance officers. However, there is movement on another level; ISO 19600 is in preparation (See www.iso.org/iso/catalogue_detail.htm?csnumber=62342), containing standards for compliance management that can be used as guidelines to regulations and legislations that an organization must deal with. It remains to be seen to what extent this will also apply to AML.
Banks and compliance officers are (and will continue to be) the go-betweens in this system. In light of the BNP-Paribas-case and other similar cases, a lot of questions remain unanswered. Should we not think about ways to give the compliance officer more authority or power (and status within the bank)? How can we improve support for non-commercial decisions? How can we clarify their role as whistleblower? In conclusion, if we are to conduct an effective war against money laundering, we must strive for a level playing field and seek to avoid attraction pools for money launderers, as these impact both on competitive positions and on the overall effectiveness of AML.

Notes
1. Lernout and Hauspie, Enron (Huisman, 2009), the BCCI scandal, the HSBC scandal, [...].
2. This takes into account the review of 15 high-ranked journals, 13 handbooks and all US doctoral school programs between 2001 and 2010 related to white collar crime.
3. More information can be found in: Verhage (2014).
4. The latter includes only internal fraud; see WODC (2011).
8. In total, 32 interviews in total were conducted with 23 compliance officers, six police officers, three regulatory agents and six members of the compliance industry.
9. More information regarding the methodology can be found in Verhage (2009).
10. The interviews were conducted by students within the framework of an optional course (2014-2015). The participating students were Louise D’Eer, Sarah De Kinder, Elien Heyvaert, Kimberly Lossie, Jolien Touchant and Thea Vander Vennet. Many thanks to them for their enthusiasm and perseverance.
11. BNP Paribas made (recurring) transactions totaling $8,833,600,000 to countries considered no-go areas by the USA, including Sudan, Iran and Cuba. Despite repeated red flags and frequent alarms raised by compliance departments of different countries (red flags had been raised since 2004, first in Geneva, later also in Paris), transactions to those countries passed because they were seen as “historical opportunities” and concerned transactions for a “privileged partner.” This made commercial interests apparently more important than the risk they took. Additionally, the bank actively sought ways to disguise these transactions and to prevent disclosure of these countries’ involvement. They instructed employees to remove countries’ names from the transaction messages and instructed other organizations to do the same (US Justice Department, 2014). As such, huge amounts of dollars flowed to countries that the USA wanted no financial ties with because of their known support for international terrorism and human rights abuses.

13. The Directives do leave some discretionary scope for member states: art. 5 of the 3rd Directive allows member states to enact measures that go beyond the obligations in the directive (Tavares et al., 2010, p. 13).

References


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Further reading


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